South Lakeland District Council

2017/18 - 2021/22

Medium Term Financial Plan

South Lakeland the best place to **live**, **work** and **explore**

Approved July 2016

SOUTH LAKELAND DISTRICT COUNCIL

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MEDIUM TERM FINANCIAL PLAN

INCLUDING FINANCIAL STRATEGY AND BUDGET STRATEGY

2017/18 to 2021/22

Approved July 2016

Approved by Council	
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1. INTRODUCTION

1.1. The Council's Medium Term Financial Plan (MTFP) is a rolling 5-year plan that takes into account:

- The external financial environment
- The overall financial demands of services
- The Council's existing and projected financial resources
- The Council's political priorities and stated aims
- The Council Plan
- The major service strategies and plans

1.2. The MTFP was last approved in September 2015 and set the backdrop for the 2016/17 budget setting process.

1.3. In common with all the public sector, the medium term outlook for the Council is extremely challenging and in order to protect and improve services an ambitious and ongoing programme of savings is key to success. Following the result of the referendum on EU membership, the level of uncertainty around forecasts has increased significantly. However, the Council has a good track record for reacting promptly to changes in the financial situation and delivering a longer term approach to savings.

Financial Planning Horizons

1.4. Different techniques are used when considering the short, medium and long-term financial planning horizons since each makes a distinctive contribution to the financial health of an organisation:

- Long-term planning horizon is focused on enabling the transformation of the organisation with an emphasis on being strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas. This is seen in the Financial Strategy.
- Medium-term planning horizon is focused on supporting performance with an emphasis on responsiveness to customers, efficient and effective, and with a commitment to improving performance. This is seen in the Medium Term Financial Plan
- Short-term planning horizon is focused on securing stewardship with an emphasis on control, probity, meeting regularity requirements and accountability. This is seen in the annual budget process which shows the detail from the Medium Term Financial Plan for the following year to set the Council tax.

2. FINANCIAL STABILITY

2.1. The issue of financial stability is one that requires strong corporate governance supported by effective procedures, processes and controls with Council-wide involvement in supporting an integrated approach to the preparation of soundly based capital and revenue bids for resources. The Medium Term Financial Plan (MTFP) is based on sound financial assumptions that are based on robust assessments. The 'robustness' of the MTFP is highlighted in the **Appendices** to this strategy which show the key elements of the Council's financial management framework. The risks log at **Appendix 10** summaries the key financial risks facing the Council and the steps to be taken to mitigate these risks.

2.2. The medium-term financial planning process has been in place for a number of years and is an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources that are likely to be available to the Council over the period. It identifies any shortfalls and sets out how this will be managed. This document is reviewed regularly during the year; regular review and update is essential to ensure the MTFP takes full account of any changes in the Council's aspirations, strategic and service delivery priorities, changes in government legislation, financial regulation and funding streams.

2.3. The majority of this document was prepared before the referendum on EU membership in June 2016. Following the outcome of the referendum the financial situation has become more unpredictable, especially around interest rates, inflation projections and funding from government. The financial model and predictions have not been updated as it is too early to predict the probably changes.

3. FINANCIAL STRATEGY

3.1. The Council approved its financial strategy in the 2013/14 – 2017/18 Medium Term Financial Plan approved in July 2013. The following principles were approved:

a) **Balanced budgets**: Maintain a balanced budget position, and to set a medium term financial plan maintaining and strengthening that position

b) **Five year budgets**: the Council sets budgets for a five year period.

c) **Strong financial management:** The Council controls and monitors the actual position of the authority on a regular basis setting out actions to correct any emerging issues;

d) **Understanding of key cost-drivers:** The Council analyses and reviews the key elements of the service areas including the use of benchmarking;

e) **Asset maintenance**: the Capital Programme should ensure adequate programmes of maintenance to sustain values of key assets, especially income-generating assets.

f) **Legal transactions**: the approval and adoption of the Council's Constitution, particularly the Financial Procedure Framework and the Contract Procedure Rules set foundations for ensuring legal transactions alongside the whole system of internal control reviewed annually in the Annual Governance Statement.

g) **Affordable investment**; to undertake a prudent level of capital investment to meet the Council's strategic priorities and remain within prudential borrowing limits

h) **Maximise resource base;** the Council will ensure the best use of physical and other assets including staff time;

i) **Value for money**; Continuous review of budgets to ensure resources are targeted on key objectives and deliver value for money to local taxpayers.

j) **Working with others:** to ensure all services are delivered by the most appropriate body. This may require the Council to work in partnership or to facilitate provision by other bodies.

k) **Minimise financial risk** including holding reserves as appropriate and sustainable levels of debt

3.2. The rest of this paper uses these principles to construct the Medium Term Financial Plan for 2017/18 – 2021/22.

4. VISION FOR SOUTH LAKELAND & LOCAL CONTEXT

4.1. The MTFP aims to support the Council's overall vision for the District: "Making South Lakeland the best place to live, work and explore".

4.2. The Council Plan recognises that, to continually deliver on our vision, the Council will need a more community focused strategy to deliver sustainable and cost effective services. As the Council makes further significant efficiencies it will increasingly look to share work with its communities in addressing common issues. To achieve this will need a mixed approach to service delivery. The model chosen will be dependent upon a sound business case and the most efficient delivery method, retaining in-house or private sector delivery where appropriate to do so. The Council will look to develop a social enterprise type approach where possible.

4.3. The Council Plan sets out the strategic approach to how the Council will shape delivery of the outcomes. It will be done in a number of ways:

a) **More local** – embracing neighbourhood working, engaging communities and empowering them to deliver on things that matter

b) **Partnership working and collaboration** – including Health and Wellbeing Forum, shared Economic Growth Strategy

c) **Stewardship** - to continue to plan and manage its resources effectively and will enhance its role as an environmental steward

d) **Innovation –** through our Customer Contact Strategy we will reduce costs by using improved technology whilst at the same time improving customer service and access to our services.

e) **Our Members, Our Workforce –** our elected members act as advocates to ensure that the needs of the local communities are identified. We need a workforce that is in the right place, at the right time, with the skills and motivation, to deliver on the Council's priorities.

4.4. The Council plan details the Council's Corporate Priorities, which are

- **Economy**: "Enabling and delivering opportunities for sustainable economic growth".
- **Housing:** "Providing homes to meet need".
- **Environment**: "Protecting and enhancing our environment".
- **Health and Wellbeing**: "Improving health and reducing health inequalities".

The Council has a long term ambition for "1000 jobs and 1000 affordable homes for rent".

4.5. A number of major strategic reviews are currently underway including the Corporate Property Strategy and review of core corporate assets, review of housing alternative models for delivery, the Kendal Town Centre Masterplan and use of Community Infrastructure Levy, replacement of the Local Plan with a new framework and Objectively Assessed Need, the Leisure Facilities strategy and the Economic Development Strategy. These may require changes in current spending and funding plans.

5. FINANCIAL PLANNING PROCESS

5.1. The Council operates a medium term revenue and capital investment programme over a five year period. The programme is revised annually to roll forward so as to incorporate a new year, as well as to review and revise the old financial years. The Council constantly reviews the form and content of its MTFP to ensure it meets good practice

5.2. The future impact of all issues have been considered as part of the 2016/17 budget setting process, including those which we already know about which may not impinge on our budgets until after the first year (2017/18). **Appendix 1** shows the key stages involved in producing the budget.

6. GENERAL FUND REVENUE BUDGET

Financial Context

6.1. The development of this Medium Term Financial Plan has taken place during a challenging period for Local Government balancing an unsettled economic outlook, the national budget deficit and Government-imposed austerity measures which has reduced local authority funding in recent times.

6.2. The Budget Reports for 2016/17 included updates of the financial model and concluded that the Council's future financial outlook was likely to continue to be challenging over the next few years as reductions in overall public spending and changes in local government funding. Meeting new cost pressures requires a rigorous approach to identifying efficiencies, enhanced productivity, and reprioritisation of spending within services.

6.3. Local authorities are funded by grants from central government and locally raised revenues; either through taxation (Council tax and business rates) or from fees, charges or other revenue generating activities. Since 2010/11 local authorities have seen their funding from central government reduced by 37% in real terms and further reductions for the period 2016/17 to 2019/20 are likely.

6.4. Central Government has also changed the way it funds local authorities. Until 2013/14 all business rates income was paid to central government and redistributed to local authorities through a needs-based formula. Under the business rate retention scheme introduced in April 2013 local authorities now retain a share of locally raised business rates.

6.5. **From 2020 local authorities will see an extension of rate retention to replace Revenue Support Grant and other revenue grants. This will make local authorities much more reliant on the growth of business rates and the Council taxbase for increases in funding than at present. The New Homes Bonus is to be continued but probably for a shorter period, again encouraging local authorities to increase the supply of houses. Other functions will be transferred to local authorities to ensure, nationally, the new funding model is broadly equal to the current funding plans.**

Economic Outlook

6.6. The economic outlook has been uncertain during the weeks leading up to the EU referendum. This follows a weakening in the public finances during the second half of 2015/16 with falls in global stock markets and commodity prices while GDP growth has slowed. Forecasters have lowered their growth projections:

Year	**Growth Projection**	**Growth Projection**
	Jul-15	**Feb-16**
2015/16	2.40%	2.10%
2016/17	2.30%	2.00%
2017/18	2.40%	2.20%
2018/19	2.40%	2.20%
2019/20	2.40%	2.10%
2020/21	2.40%	2.10%

6.7. Inflation measured using the Consumer Price Index (CPI) was lower than expected during 2015/16. The forecasts for future years are shown below:

Year	CPI projection July 2015	CPI projection May 2016
2015	0.1	
2016	1.1	0.4
2017	1.6	1.5
2018	1.8	2.1
2019	1.9	2.2

6.8. In the short term, the CPI inflation will continue to be running well below the government target of 2%. The RPI measure is predicated to remain at a higher level compared to CPI. It is important to note that many of the Council's contracts are linked to either RPI or RPIX as an inflationary increase (although this is reviewed as part of each procurement process with the aim of moving to CPI on all contracts where appropriate).

6.9. The Bank of England base rate remains at a historical low level of 0.5%, this was unchanged since March 2009 and this has had a major impact on the Council's investment income. The base rate of interest is predicted to increase slightly from 2017:

Base Rate Predictions	Now	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19
Aug-15	0.50%	0.75%	1.00%	1.50%	1.50%	n/a	n/a
May-16	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	1.75%

Interest rates have been predicted to increase in 18 months for the last six years and have not. The financial model prudentially assumes base rate remains at 0.5% for the duration of the model. Following the result of the EU referendum in June 2016 the latest statement from the Bank of England suggests rates may fall. The uncertainty is still too high following the referendum to make any meaningful forecasts of future changes in interest rates.

Key Issues & Assumptions:

Inflation

6.10. The 2011 Autumn Statement capped public sector pay awards at an average of 1% for both 2013/14 and 2014/15 and this cap has been extended since. While government does not control pay awards within local government it is expected that the funding to local government will be adjusted on the assumption of comparable action being taken.

6.11. The MTFP financial model assumes pay inflation of 1% for 2016/17 and onwards. The financial impact of a 1% movement in pay inflation is around £120k change in the general fund employee budget. The Government has announced its intention to increase the National Living Wage. Employer national insurance contributions increased in April 2016 and are included in the financial projections.

6.12. In the MTFP financial model inflation on contract prices has been uplifted by appropriate indices as stated in the conditions of the contracts. No inflationary increase has been applied to the general services budget, except specific items such as utilities where inflation is unavoidable. We will continue to monitor the impact of this policy, including the impact at contract renewal. The financial impact on running costs of a 1% movement in inflation is around £100k.

Business Rates Retention

6.13. The government introduced fundamental changes to the way local government is financed from April 2013. In particular, non-domestic rates (also known as business rates) are no longer pooled and redistributed in full nationally; instead local authorities retain a proportion of business rates locally. The income partially replaces the formula grant that local authorities received to March 2013.

6.14. The Council currently collects around £40m of business rates; after the 50% national share is paid to Government and a 10% share is paid to Cumbria County Council a tariff is deducted and the Council estimates it will retain around £3.2m in2016/17. From April 2020 the national share will disappear and the whole of the income will be shared between this Council and Cumbria County Council.

6.15. The business rates retention scheme is intended to create incentives for local authorities to promote business growth over the long term, thereby strengthening the link between local authorities and local businesses without changing the way that businesses pay their business rates, nor increasing the level of business rates that they pay, and reduce local authorities' dependency upon central government.

6.16. Under the proposed 100% local retention plans the Valuation Office Agency (VOA) will continue to set rateable values (RVs) which will be reviewed every 5 years. The multiplier (pence paid for each £1 of RV) will continue to be set by Government but local authorities will have some discretion to set a lower multiplier. Only elected mayors will have the discretion to set a higher multiplier. Due to major differences between the ability to raise income from business rates and the level of income required by individual authorities the system of tariffs and top-ups will still be used. Discussions are being held between the DCLG and local authorities on how the new system will work in practice.

6.17. From the financial planning's perspective, how much income each local authority can retain is difficult to predict and can potentially fall or rise during a financial year. An additional complication will arise in April 2017 with the national revaluation of rateable values. The financial model assumes:

a) net nil growth in rateable values (with increases from new businesses offset by reductions through appeals and refunds)
b) the multiplier (pence paid in the pound), which is set by Government, increases by inflation
c) No changes in the calculations for reliefs, grants and levy.

These assumptions will be reviewed during the budget process as more information around the rate revaluation becomes available.

6.18. From April 2014 the Council has entered a business rates pool with Cumbria County Council and all the district councils in Cumbria except Copeland. The pool reduces the total amount of levy paid by authorities within the pool but would not be eligible for payment from the Government safety net if income fell substantially. The additional levy is shared between the pooling authorities based on the additional levy generated and the amount of business rate income retained after tariffs and top-ups. In 2015/16 the Cumbrian authorities within the pool benefitted from additional income of £2.3m as a result of the pool of which almost £500k was received by this Council.

6.19. Under the pooling agreement all additional income as a result of the pool must be earmarked for economic development. The MTFP assumes that this additional income will not be allocated until the pool accounts have been audited, is initially contributed to the Pooling Reserve and any additional expenditure is matched to the use of the reserve. Each authority in the pool has to review each year if it wishes to continue to remain in the pool.

6.20. The pool increases the risk of financial loss by effectively removing individual authority's protection from the safety net. The business rates revaluation in April 2017 will increase the likelihood of reductions in the initial years of the revaluation due to increased appeals. It seems likely that all participants in the current pool will remain in the pool for 2017/18 but any pooling beyond April 2018 is very uncertain. It is very unlikely the pool will remain beyond April 2020 when levy will be abolished.

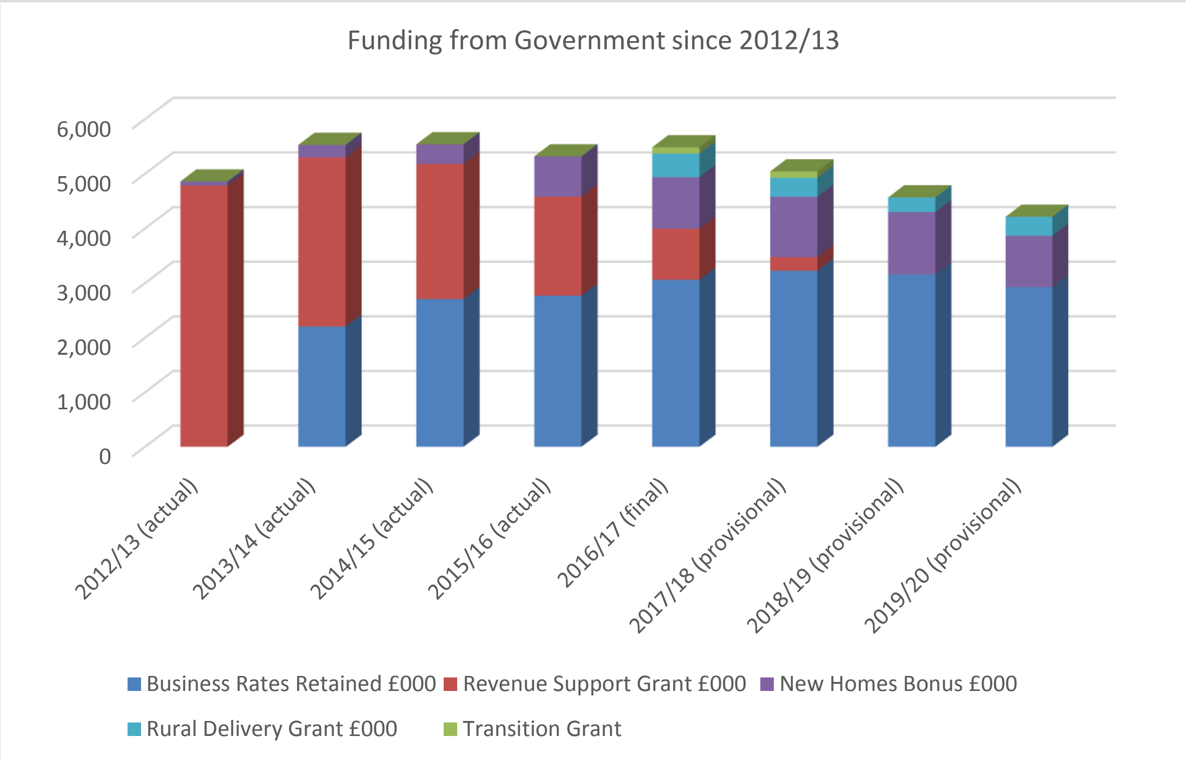
Revenue Support Grant

6.21. From April 2013 the Local Government Finance Settlement replaced formula grant with retained business rates and a recalculated Revenue Support Grant (RSG). RSG is the main general government grant received by local authorities. Under the new system the Council received £3.0m of grant in 2013/14 but this has dropped to £0.9m for 2016/17 and is due to fall to zero by April 2018. The percentage drop in RSG is greater than the overall reduction in local government funding as the funding from retained business rates rises by inflation

6.22. The figures in the financial model are based on Government the final settlement 2016/17 when a 4-year provisional settlement was announced. From 2020 the existing model of funding will be replaced with retained business rates.

Funding from Government since 2012/13

Year	Business Rates Retained £000	Revenue Support Grant £000	**Total Formula Support £000**	New Homes Bonus £000	Transition Grant £000	Rural Delivery Grant £000	**Total Grant £000**
2012/13 (actual)	0	4,786	**4,786**	74	0	0	**4,860**
2013/14 (actual)	2,206	3,095	**5,301**	228	0	0	**5,529**
2014/15 (actual)	2,709	2,472	**5,181**	358	0	0	**5,539**
2015/16 (actual)	2,769	1,813	**4,582**	737	0	0	**5,319**
2016/17 (final)	3,061	934	**3,995**	944	116	431	**5,486**
2017/18 (provisional)	3,226	249	**3,475**	*1,104*	116	348	***5,043***
2018/19 (provisional)	3,157	0	**3,157**	*1,143*	0	268	***4,568***
2019/20 (provisional)	2,925	0	**2,925**	*941*	0	348	***4,214***



The provisional local government finance settlement included faster than anticipated reductions to RSG. However the final settlement reversed some of the changes through increases in the Rural Services Delivery Grant and a new transition grant for 2016/17 and 2017/18 only.

6.23. The Government has offered a 4-year settlement to Councils. The settlement would only cover the RSG element of the overall settlement so would exclude business rate tariff adjustments, Rural Services Delivery Grant and transition grant. The Government would also have the discretion to re-open the settlement if there were significant changes in the overall funding available for local government. The Council's Medium Term Financial Plan, incorporating savings projections and the Value for Money Strategy should meet the requirements of an efficiency plan should the Council opt to accept the offer.

New Homes Bonus Scheme

6.24. The New Homes Bonus Scheme was introduced in 2011/12 as a way to encourage local authorities to facilitate housing growth. In essence, for every additional property built or brought back into use, the government match funds the additional Council tax, with an additional amount for affordable homes, for the following six years. The grant is top sliced from Revenue Support Grant and paid as a un-ring fenced revenue grant and it is split 80% to district councils and 20% to the relevant county council.

6.25. The Government has published consultation on reforms to the New Homes Bonus including changes to eligibility and reducing the length of payments from six to four years. The methodology of the calculation of the bonus is unchanged for 2016/17: for the Council the allocation of £943.7k is £59.3k greater than originally projected.

6.26. For the purpose of the MTFP, the income beyond 2016/17 is estimated to increase based on an initial additional 250 new homes per annum rising to 400 homes by 2018/19 and that payments will be made for four years.

6.27. The Council resolved to earmark the monies from the New Homes Bonus into an earmarked reserve to be split 60:40 between support for affordable housing and Locally Important Projects (LIPs), including community planning. The locally important projects element includes use of New Homes Bonus to fund a budget of £51,000, giving £1,000 for each member for community projects identified by each member in their wards. Any unspent grant at the end of the year returns to the main LIPs budget.

Year		Net Additional Properties	Total New Homes Bonus £000	40% allocated to Locally Important Projects £000	60% allocated to Affordable Housing £000
2011/12	actual	65	26		
2012/13	actual	47	74		
2013/14	actual	150	228		
2014/15	actual	104	358		
2015/16	actual	331	738	295	443
2016/17	actual	174	944	378	566
2017/18	projected	300	1,104	442	662
2018/19	projected	400	1,143	457	686
2019/20	projected	400	941	376	565
2020/21	projected	400	1,003	401	602
2021/22	projected	400	1,010	404	606

Council Tax

6.28. The Council is committed to do all it can to reduce the financial burdens placed upon its residents and the Council was able to freeze its average band D Council tax for the five consecutive years from 2010/11 to 2015/16. The Council has limited income generated from Council tax; for every 1% increase in the average Band D Council tax there is only an additional £44k of income.

6.29. The Localism Act gives local communities the power to approve or veto excessive Council tax rises. The Secretary of State will determine a limit for Council tax; if an authority proposes to raise taxes above this limit they will have to hold a referendum to approve or to veto the rise. For 2016/17 this level was the higher of 2% or £5. The previous Government policy, where Council tax freezes were off-set by Council Tax freeze grant funding, has changed. There is now an expectation from Government that annual increases in Council tax will form an integral part of the resources supporting local authorities. There is also an assumption, built into the Government's calculation of Spending Power, that Council's will increase Council Tax by the maximum permissible amount.

6.30. The MTFP assumes the Council's average band D Council tax will increase by £5 per annum from April 2016. Due to the uncertainty surrounding the level of future funding from government and the unpredictability of external income Council tax is the most stable of income sources for the Council. Therefore any decision to change levels of Council Tax must consider the medium and long-term implications on the Council's financial stability.

6.31. The decision on Council Tax is reviewed every year as part of the budget and Council tax setting process. The Council would prefer to retain lower levels of Council Tax increases, preferably no more than the level of inflation, but the change in Government funding may make this impossible to achieve.

Council Tax on Second Homes

6.32. The Council currently benefits from a Second Homes agreement which returns 50% of the additional Council Tax collectable on second homes within the district as a result of the reduction in the discount on second homes being reduced from 50% to 10% which otherwise would have been received by Cumbria County Council. This second homes agreement commenced from April 2009 for 10 years so will expire in March 2019. Work will commence to explore the options that might be available after this date.

6.33. Under the arrangement the Council receives an additional revenue income of £600k per year which is earmarked for affordable housing. The financial forecast assumes any reduction in income from the agreement is offset by a reduction in expenditure on affordable housing. The Council is in the process of reviewing this issue to ensure any reduction in spending does not have an impact on the delivery of affordable homes and is exploring ways to ensure the most disadvantaged in society are not impacted.

Taxbase for Council Tax Setting

6.34. The Local Government Finance Act 2012 included a number of 'technical changes' to Council tax that give Councils the opportunity to change existing discounts or exemptions and to introduce premiums. In order to offset the additional costs of the Council tax Reduction Scheme, the Council opted to remove the discount on second homes from (previously 10%) and amend the discounts for certain empty properties. Properties that are classified as empty for more than 2 years will pay a 50% premium.

6.35. The financial model assumes the taxbase will increase by around 250 properties in 2016/17, 300 in 2017/18 and 400 from 2018/19, in line with the projections for New

Home Bonus. It is assumed there will be no changes in the levels of discounts granted and levels of discounts are being closely monitored to see if this assumption is reasonable. 250 new properties will generate around £40k pa of additional Council Tax. It is assumed there will be no reduction for 2017/18 as a result of flood-affected empty properties.

Council Tax Reduction Scheme

6.36. As part of the Government's wider policy of decentralisation, the Government localised support for Council Tax from April 2013, reducing funding by 10%. The Council is has the discretion to decide who should pay less Council tax and how much less they should pay. Council approved South Lakeland's localised Council tax support scheme in its December 2012 meeting. The shortfall is funded through changes to the discounts on second homes and premiums on empty homes for Council tax.

6.37. Council Tax Benefit Subsidy was replaced by cash grant so the Council (and other major precepting authorities) bear any costs that may arise for any increases in the Council tax benefit take-up rate from April 2013 onwards. For 2013/14 the Council received grant of £565k (plus £92k relating to parish councils). From April 2014 the grant is not separately identified as it is rolled into Revenue Support Grant. The estimated cost to South Lakeland District Council of the reduction scheme is £600k and is reflected in the Council tax base.

6.38. Councils are required to review their schemes on a regular basis. The MTFP assumes no change to the existing scheme.

Universal Credits

6.39. Universal Credits were to be introduced between 2013 and 2017 through the Welfare Reform Act. Universal Credits is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work. For local authorities, this means the link between Housing Benefit and Council tax discounts will be broken and that universal credits will be administered by the Department of Work and Pensions. As Universal Credit only applies to new working age claim it is assumed the Council will continue to administer housing benefit for the duration of the MTFP.

External Income

6.40. The Council relies on a number of external income sources and over the last few years the economic downturn affected our income streams, in particular in service areas linked to building and housing e.g. la charges and building control income. A number of significant fees, including liquor licences and planning application fees are set by Government. The Local Government Association has campaigned for local freedom for authorities to set fees based on local circumstances.

6.41. All fees and charges for 2016/17 onwards should be set in accordance with the Council's Policy on Fees and Charges as set out in **Appendix 5**.

6.42. The Council has a good history of debt collection. The Council continues to build on this to maximise income received and minimise income written off. Monitoring information which is produced monthly has been enhanced to provide information on evaluating the effectiveness of debt recovery actions, associated costs, and the cost of not recovering debt promptly.

6.43. The financial model assumes income from external charges in general increases by 2% annually with the exception recycling credits (assume frozen) and car park income. Car parking has been excluded from this target for 2016/17 and 2017/18 to boost the economy of the area but individual charges will still be reviewed to ensure the balance of income generation is appropriate.

External Interest

6.44. Historically a key income stream for the Council has been the income generated from investment of cash balances. Every 1% of movement in interest rates is equivalent to approximately £100k in income; however the actual interest earned will also be affected by the level of cash balances available.

6.45. The financial model assumes interest rates remain constant at 0.5% until 2020/21. While commentators predict an increase from March 2017 history suggests the predicted increase will be later than expected. This assumption will be revisited if the base rate changes. The predicted income has been increased based on actual interest earned since the Council brought the management of core investments in-house during 2014/15. If interest rates increase on investments then there will be an off-setting increase on any new borrowing. Once again, the impact of the EU referendum has not been included in the modelling as the potential movements in interest rates are still too unpredictable.

Pensions

6.46. South Lakeland District Council employees are eligible to be members of the Local Government Pension scheme, of which the Government sets the terms and conditions nationally. This is a statutory condition of employment available to all local government employees.

6.47. The most recently published actuarial valuations (2013) for the whole fund show that the South Lakeland Council element of the fund continues to be in deficit. The Council pays employer contributions based on a set percentage contribution for future service accrual and a fixed monetary contribution each year for past service liability instead of a set percentage contribution covering both. This should avoid the reduction in recovery of past service liability as staffing levels decline following reduction or transfer of services. The deficit will be recovered over a 16-year period.

6.48. The fixed contribution for past service liability for the 3 years from April 2014 to March 2017 was paid as a single lump-sum payment to the pension fund in April 2014. The pension scheme can use a wider variety of investment to generate higher returns than those available to SLDC. As a result of this prepayment savings of around £230k will have been made over the three year period. It is assumed a similar pre-payment will be made in April 2017 and there is no increase in contribution rates from April 2017.

Service Demand and Other Budget Pressures

6.49. Central Government expects local authorities to take a major part to revitalise the local economy and at the same time bear a significant part of the governments overall austerity measures from reduced funding.

6.50. The Council has recognised that transformational change will be required to deliver the establishment savings required in future years. The Digital Innovation project, Customer Connect, will finance the up-front costs of implementing the IT and associated changes required, including the replacement of the Customer Relationship Management (CRM) system, creating a single customer account, and using digital channels via our website and mobile working. We are working with Eden council to identify a new systems provider for both authorities. The chosen systems will be implemented by March 2020.

6.51. The 2016/17 – 2021/22 financial model assumes levels of demand will remain constant. Increases in demand are addressed as a service growth bid within the annual budget setting process.

The SLDC Efficiency/Savings Plan

6.52. The Council, as part of its annual Budget Process, reviews the savings delivered and those still required to enable the following years' Budgets to balance. The delivery of the savings included in the February 2016 Budget is closely monitored through SMT initially followed by the Savings Working Group consisting of some Cabinet Members and SMT. Substitute savings are developed where initial plans are delayed or unlikely to be achieved. Additional savings are developed where the deficit projections increase.

6.53. The table below sets out the updated Efficiency and Savings Plan that takes account of the review of the existing plan and the increased deficit position which may occur from 2019/20. The detail list of these savings initiatives is set out in **Appendix 3.** The target is met in the first years, with significant steps towards producing a balanced position in future years. Work will continue to monitor the savings achieved and identify further savings needed as the forecast deficit position is verified.

2016/17 Savings Plan	2017/18	2018/19	2019/20
	£000	£000	£000
Savings identified	352	352	352
Additional savings identified	208	208	208
Total Cumulative Budget Reductions	560	560	560
Updated 2016 MTFP forecast deficits to be identified	**203**	**739**	**897**

2016/17 General Fund Budget

6.54. As part of the 2016/17 budget setting process, information was examined relating to the level of existing resources in each service areas, including the number of staff employed and comparisons have been drawn with historical expenditure data to identify savings areas. All budget options have been considered in the context of current service performance and priorities and all the growth bids went through a challenge process.

6.55. The details of the 2016/17 general fund revenue budget, including growth and savings can be found in the 2016/17 Budget report submitted to Council in February 2016.

The Projected Net Budget Position

6.56. As a result of the updates to assumptions the financial model (detailed in **Appendix 2)** shows modest surpluses and deficits over the future 4 year period. The table below shows the latest projected surpluses and deficits and the reasons for the changes:

6.57. These projections are based on the achievement of all savings proposals approved to date and that the underlying assumptions around income and expenditure changes are robust. First draft projections to 2021/22 suggest the deficit will increase in line with trends over the last 4 years mainly as a result in the reduction in government grant. Further work will be carried out to test the underlying assumptions: updates on the projected deficit for 2021/22 will be reported during the 2017 budget process.

6.58. The Council is focused on achieving savings, primarily through efficiencies. During the budget and planning process there is an emphasis on ensuring resources are directed in the appropriate areas with service efficiencies monitored and reviewed highlighting where further savings can be made.

7. SENSITIVITY ANALYSIS AND SCENARIO PLANNING

7.1. Risk Management is a key feature of the Council's financial planning process. The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has an adopted Risk Management Strategy in place, and the financial risks to the Council are assessed in the context of the Council's overall approach to risk management.

7.2. To mitigate risk the Council:

- regularly monitors its budgets,
- the corporate Risk Management Process is used by South Lakeland to identify, monitor and report on risks,
- Quarterly performance monitoring reports provides a platform for the Members to scrutinise the financial and non-financial performance (e.g. local and national indicators).

7.3. Details of the risks facing the Council were discussed in **section 7** and the table in **Appendix 6b** summarises the financial implications if assumptions made in the MTFP change in the future (the details of which are included in **section 7** also). This gives some indications to the kind of risks which need to be allowed for in considering the level of reserves in future years.

7.4. Some of the greatest risks are around the assumptions relating to income from non-domestic rates and from Government through RSG until 2020 when the current funding system is replaced with 100% rate retention. The MTFP assumes there is no underlying alteration in the fundamental local government funding levels from April 2020. There are also a number of variables that will have an impact on income from business rates. Depending on the assumptions made, income retained by the Council in 2017/18 could vary by around 10% or £200k.

7.5. All local authorities are required to ensure there are sufficient resources available to meet the expenditure in the year: the Council receives a formal report from the Chief Finance Officer (for SLDC the Assistant Director Resources) as part of the budget setting process. The Council continuously monitors factors that may push a local authority into tipping into unstainable expenditure, including intelligence from other bodies including Grant Thornton and the Local Government Association. Not all authorities share the same level of resilience or risk. Providing the assumptions in this MTFP are sound, the policies and recommendations are followed and the savings targets are met the Council is not expected to fall into deficit.

8. RESERVES

8.1. The Council will retain its approved minimum Working Balance level of £1.5m, reviewing this regularly in the light of changing financial risk assessment. Risks to the Council's financial position could derive potentially from budget overspend, loss of investment income, contractual/legislative failure or challenge and emergency events. Historically, the Council has a good record of outturn financial position being within budget, therefore this is not seen as a high risk to the Council and it is not necessary to make additional significant provision.

8.2. The Council also considers the impact of holding monies unnecessarily in reserves given the ongoing impact of the economic downturn to local residents and taxpayers. The Department for Communities and Local Government has been critical of councils holding significant reserves in these difficult economic times, encouraging them if at all possible to release some of them. The External Auditor closely examines the Council's actual and required reserves position each year to ensure the amounts held are sufficient but not excessive. It should be stressed that there is no theoretically “correct” level because the issues that affect an authority’s need for reserves will vary over time.

8.3. The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact. However, it is not appropriate to set aside large amounts of reserve against the possibility of this happening. **Appendix 6** assesses the main financial risks facing the General Fund revenue accounts and the suggested appropriate level of reserve required to offset this risk, were it to materialise.

8.4. In setting budgets and projections for individual years, it is important that the use of reserves is sustainable and not increasing and creating an unsustainable future problem. The fundamental principle within the Council’s Policy on Reserves and Balance governing the use of reserves is that they should not be used to fund recurring expenditure. If exceptional circumstances make this a necessity, the use of the reserve should be clearly stated and approved as an exception to the rule.

8.5. Actual levels of reserves are expected to be around £7.8m by 31/3/17 of which around £1.7m are earmarked. A summary of the expected levels of reserves at the start and end of 2016/17 are shown below. A copy of the policy for reserves and balances can be found in **Appendix 7** including details of the projected balance on each reserve. The balances beyond 2016/17 are less certain as expenditure from reserves and working balances to meet unexpected demands obviously cannot be predicted: use of around £1m of reserves will be required to reinstate flood damaged property not covered by insurance or government grant during 2016.

	Balance 31/3/16 £000	Projected Balance 31/3/17 £000
Revenue Reserve	9,980.6	5,900.3
Capital Reserves	285.0	205.0
Earmarked Reserves	2,299.1	1,715.7
Total Reserves	**12,564.7**	**7,821.0**

9. CAPITAL

Capital spend and funding

9.1. The Council’s Capital Strategy sets out how the Council will manage its capital investments in the future. It is agreed on an annual basis and serves the following purposes:

- It sets out how capital contributes to the achievement of the Council’s corporate objectives.
- It establishes the criteria for the allocation of capital resources.
- It provides a framework for the administration of capital projects and monitoring of outcomes

9.2. The Capital Strategy approved by the Council in September 2015 was the basis for the preparation of the current Capital Programme. **Appendix 8** updates the Capital Strategy to reflect the current financial situation. All capital investment and disposal decisions have been made with reference to the strategic objectives within the Council Plan.

9.3. 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 current five year capital programme is underpinned by capital receipts generated through the LSVT. Other capital income has declined significantly - capital grants have diminished and there are few non-earmarked capital receipts. The Council is able to use receipts from sales of General Fund assets and Council House sales to fund any type of capital expenditure.

9.4. The Capital Programme needs to reflect the capital expenditure necessary to maintain its key assets over the long-term, especially revenue generating assets such as multi-storey car parks. Ideally any new schemes would bring alternate external funds or new capital receipts from the sale of assets.

9.5. The Council is currently preparing or updating a number of strategic documents including the Economic Development Strategy, Corporate Property Strategy, a Kendal Town Centre Masterplan and Housing Strategy: alternative models for delivery and a Leisure Facilities Strategy. The results of these reviews may require a fundamental review of the capital programme and the use of capital resources.

9.6. The capital programme for 2015/16 to 2020/21 was approved by Council in February 2016. The programme shown at **Appendix 9** has been updated for requested carry-forwards from 2015/16 underspends and new requests.

Revenue implications of capital programme

9.7. One of the key drivers for the Council's approach to capital expenditure is revenue affordability. Most Capital Projects have financial implications on the annual Revenue Budget. The revenue implications can take a variety of forms and they include:

- Capital financing costs
- Loss of investment income
- Annual non-capital financing costs, e.g. salaries, rent, rates, energy costs, on-going maintenance costs and any income generated from the scheme or project

9.8. One of the largest revenue cost is the Minimum Revenue Provision (MRP). This is the statutory requirement to charge the revenue account with the principle cost of borrowing over the life of the asset created. For the purposes of this calculation, borrowing is treated as any expenditure not funded by capital receipts or contributions.

9.9. The Council's Capital Strategy has traditionally used leasing or borrowing to fund the purchase of vehicles and plant.

9.10. The table below shows how the MRP is projected to increase to reflect the additional costs arising from using borrowing to fund the vehicle and plant replacement programme. Once a full cycle of vehicle and plant renewal is reflected in the MRP the annual increases will reduce.

	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000
Capital programme funded from borrowing:	1,758	2,369	60	1,508	694
Projected MRP	347	423	686	692	905

These projections are marginally lower than those included in the General Fund financial model in **Appendix 2** and will be incorporated into the financial model and the General Fund deficit projections discussed above in **section 6 during the** budget preparation process**.** The decisions of how to fund capital expenditure, including the treasury management decision of whether to borrow externally, are taken at the end of the financial year by the Assistant Director (Resources) under delegated powers. The decisions are based on the Treasury Management framework for the relevant financial year and ensuring value for money.

10. **VALUE FOR MONEY AND EFFICIENCY**

10.1. Value for Money (VFM) is an assessment of whether or not we obtain the maximum benefit from the goods and services we both acquire and provide, within the resources available to achieve it. This assessment includes considerations about suitability, quality, whole life costs and the relationship between economy, efficiency and effectiveness.

10.2. Value for money remains an integral part of the external audit opinion. The general feedback was that the Council had consolidated previous improvements and demonstrates good value for money across our services.

10.3. The Council's Value for Money Strategy was last approved in July 2014 as part of the MTFP process and provides a framework on how the Council aims to maximise its resources.

11. **WORKING WITH PARTNERS**

11.1. The Council is committed to working with partners and other key stakeholders to deliver services within South Lakeland. This includes

- Formal arrangements, such as Cumbria LEP, Cumbria Business Rate Pool;
- Formal contractual arrangements as a result of competitive tendering
- Transfer of assets between organisations
- Sharing of premises
- Informal collaborations

11.2. The One South Lakeland strategic partnership exists to promote strong partnership working in areas where the Council is not the lead organisation. Some shared arrangements exist for providing services within the organisation: currently South Lakeland shares IT and Revenues and Benefits management with Eden District Council and provides support to them for procurement.

12. **CONSULTATION STRATEGY, APPROVAL AND COMMUNICATION PROCESS**

12.1. The Council carries out regular consultation with local people, customers, stakeholders, and partners organisations to establish current and future needs and priorities of the community. The MTFP is submitted to Cabinet annually for approval. It is subject to challenge and scrutiny through the Overview and Scrutiny Committee before final approval by Council.

12.2. Once approved the MTFP will be communicated to stakeholders. This will include using the internet and newsletters to staff and customers.

12.3. The MTFP is reviewed at least quarterly and forecasts are updated as necessary and reported as part of the Quarterly Corporate Financial Monitoring process and during the Budget process.

12.4. The Council consults on its budget proposals with business ratepayers in accordance with statutory requirements.

13. **EQUALITY IMPACT ASSESSMENTS (EIA)**

13.1. The Council is committed to ensuring equality and diversity issues are given proper consideration. Equality Impact Assessments are an important part of our decision making to enable us to assess the impact of decisions on our residents, stakeholders and customers. Where the impact is high mitigation plans can be developed to reduce the impact of decisions. These are completed in accordance with national guidance and best practice.

13.2. In developing individual budget proposals officers have undertaken equality impact assessments. An overall equality impact assessment was prepared for the 2016/17 budget process and proposals and this will be reviewed as part of each annual budget process.

14. **CONCLUSION AND WAY FORWARD**

14.1. The MTFP should be considered in the context of the following issues:

a) The Council is in a very positive financial position as shown by the adequate General Fund balances and reserves, robust financial management practices and excellent track record in achieving efficiency savings

b) Challenging decisions will still need to be made to deliver savings while safeguarding frontline services to maintain a balanced budget.

c) A number of major strategic reviews are currently underway including the Corporate Property Strategy and review of core corporate assets, review of housing alternative models for delivery, the Kendal Town Centre Masterplan and use of Community Infrastructure Levy, replacement of the Local Plan with a new framework and Objectively Assessed Need, the Leisure Facilities strategy and the Economic Development Strategy. These may require changes in current spending and funding plans.

d) Significant changes to the local government finance system from 202020 including the 100% retention of business rates replacing all other Government funding.

e) The outcome of the EU referendum in June 2016 has increased the level of uncertainty around many of the financial projections. The impact of the vote and any changes to the financial position will be closely monitored and updates to the financial projections will be reported during the 2017/18 budget process.

14.2. The financial position over the medium term is shown in **Appendix 2**. This shows a largely balanced position for the next three years. This is dependent upon the prompt and full delivery of savings approved and anticipated in the 2016/17 Budget. Work to implement these savings and ensure a balanced budget for 2017/18 and 2018/19, and to ensure an improved position for 2019/20 onwards will continue. Officers will continue to work on these figures to test the assumptions made and updates will be provided during the 2017/18 Budget Process.

Appendices

1	Key stages in 2017/18 – 2020/21 Budget Process
2	General Fund Revenue Account Forecast 2015/16 – 2019/20
3	SLDC Savings Programme
4	Budget Strategy
5	Corporate Charging Strategy
6a	Risk Assessment of the General Reserve & Working Balance
6b	Sensitivity Analysis
7	Policy on Reserves and forecast reserves 2017/18 – 2021/22
8	Capital Strategy
9	Capital Expenditure and Income Forecast
10	Risk and Opportunity Log & Matrices
11	Glossary

Appendix 1

HIGH LEVEL 2017/18 BUDGET & CORPORATE PLAN TIMETABLE

Task	**Who**	**Due Date**
Update the Medium Term Financial Plan & Budget Strategy	SMT and Cabinet Members / FS Manager	O&S 19 July (4/7 GK) Cabinet 20 July (4/7 GK) Council 26 July (6/7 GK)
Quarter 1 Monitoring	Chief Accountant/FSM/Finance PH & Cabinet Members	P Sub 27 July (GK 12/7) Cabinet and Council 24/8 & 22/9
Preparation of detailed base budgets	Budget Holders and Finance	September – 23 November Cabinet
Service Development Proposals & Review of Council Plan Complete Capital Bid Pro Forma Revenue Growth Bid Pro Forma Revenue Savings/Increased Income – V4 Update Vehicle and Plant budget proposals	Finance, Budget Holders and Assistant Directors in consultation with Portfolio Holders and appropriate Members Simon Rowley, Peter Notley	16 September Summary of the Budget process to date to be included in the 26 Oct Cabinet Reports (10/10 GK) as above
Draft Budget Report ie updated MTFP and Fees and Charges options.	SMT/FS Manager/Chief Accountant	Special SMT 29 Sept TBA for Budget Report and to consider Bids
Quarter 2 Monitoring	Chief Accountant/FSM/Finance PH & Cabinet Members	PSub 25 October (GK 10/10) Cabinet & Council 23/11 & 15/12
Informal Cabinet/SMT Meeting to score the Revenue and Capital bids – Budget Prioritisation Meeting	Assistant Directors, Cabinet Members and Finance	11 Oct TBA
Updated MTFP Fees and Charges Options	SMT/Cabinet Members Assistant Directors & Chief Accountant in consultation with Portfolio Holders	Cabinet 26 October (13/10 GK)
Draft Council Plan (inc. consultation with stakeholders)	O&S	22 November (7/11 GK)
Draft Budget Report including: 1) Updated MTFP 2) Draft 5 year Detailed Base Revenue and Capital Budgets 3) Draft 5 year Budget Options for Service Growth & Savings (including increases in income) 4) Draft Fees and Charges Options 1st Draft Council Plan	CFO and Assistant Directors Budget options aligned to corporate priorities and draft Council Plan Cabinet Members	Special SMT 03/11 for Budget Report Cabinet 23 November (7/11 GK)
Fees and Charges	Lake Admin.	07 October (16/9 GK)

1st Draft Budget (as above)	Licensing Cabinet (if needed) All councillor Budget Briefing Council (with Draft Council Plan) 4 weeks Statutory Consultation period commences	08 Nov (24/10 GK) 14 December (28/11 GK) 3.30 pm 14 December 15 December (28/11 GK) From 16 December
Quarter 3 Monitoring	Chief Accountant/FSM/Finance PH & Cabinet Members	PSub 31 Jan (GK 16/01) Cabinet and Council 25/1 & 22/2
1st Draft Budget Relevant Service Budget Report extracts inc Fees & Charges	O&S Planning Committee Licensing Committee Lake Admin Committee	12 January (23/12) 05 January (16/12 GK) 17 January (30/12 GK) 20 January (5/01 GK)
2nd Draft Budget inc. consideration of O&S and other consultees comments on the 14/12 Draft Budget proposals 2nd Draft Council plan (for approval incl. consultation feedback)	Cabinet if needed for the Budget	25 January (9/01 GK)
Formulation of Final Budget proposal Final Council Plan (if not approved in Jan)	Cabinet	8 February (23/01 GK)
Approval of Budget and Council Tax Adoption of Council Plan	Council	22 February (7/02 GK)

Shelagh McGregor, CFO, SLDC

13.06.2016

Appendix 2

Medium Term Financial Plan: Financial Model July 2016

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
Expenditure					
Capital Charges	4,757.7	4,881.4	4,135.0	3,912.2	3,695.5
Direct Employee Costs	10,218.3	10,784.7	10,540.3	10,562.4	10,695.0
National Insurance	651.9	904.6	915.1	942.9	961.0
Pension	2,242.6	2,367.9	2,533.3	2,540.5	2,534.3
Running Costs	11,466.1	11,146.6	10,130.6	9,548.7	9,641.5
Uncommitted Growth	0.0	0.0	500.0	500.0	500.0
	29,336.6	**30,085.2**	**28,754.3**	**28,006.7**	**28,027.3**
Income					
Car Parking Income	-4,143.8	-4,142.9	-4,247.6	-4,334.5	-4,423.2
Lake Income	-1,270.8	-1,308.4	-1,331.4	-1,354.9	-1,378.9
Recycling Credits	-1,113.0	-1,160.0	-1,160.0	-1,160.0	-1,160.0
New Homes Bonus*	-737.6	-943.7	-949.0	-596.2	-572.1
Other Government Grants	-578.7	-840.7	-613.7	-383.7	-383.7
Other Contributions	-1,126.9	-1,133.5	-1,128.4	-1,134.8	-1,140.4
General Income	-4,319.4	-4,312.3	-4,382.7	-4,455.9	-4,541.9
	-13,290.2	**-13,841.5**	**-13,812.8**	**-13,420.0**	**-13,600.2**
Net Service Expenditure (exlc V4 savings)	**16,046.4**	**16,243.7**	**14,941.5**	**14,586.7**	**14,427.1**
Corporate items					
Interest Payable	718.9	661.0	749.4	847.9	980.0
Interest Recievable	-89.9	-174.7	-131.7	-132.4	-132.4
Council Tax net of parish precepts	-7,763.3	-8,040.0	-8,309.0	-8,580.4	-8,854.4
Retained Business Rates (NNDR)	-2,769.0	-3,024.3	-3,226.1	-3,157.3	-2,925.1
Revenue Support Grant (RSG)	-1,813.3	-934.0	-249.4	0.0	0.0
Transition Grant	0.0	-115.8	-115.4	0.0	0.0
Rural Services Delivery Grant	0.0	-430.9	-347.9	-267.6	-347.9
Minimum Revenue Provision	232.8	405.6	439.6	664.2	670.2
Reversal of Capital Charges	-4,757.7	-4,881.4	-4,135.0	-3,912.1	-3,695.5
Support to Capital Programme	1,715.5	2,363.2	459.4	247.7	333.3
Surplus On Collection Fund	-59.1	-31.0	0.0	0.0	0.0
Parish Grant	92.0	92.0	92.0	92.0	92.0
Income from Cumbria Rates Pool	0.0	-357.6	0.0	0.0	0.0
Transfer from Reserves	-2,729.6	-3,447.9	-2,003.3	-1,336.2	-1,312.1
Transfer to Reserves	1,826.8	2,428.7	2,039.0	1,686.2	1,662.1
Use of general reserve to fund flood impact	-650.5	-756.6	0.0	0.0	0.0
Total Corporate Items	**-16,046.4**	**-16,243.7**	**-14,738.4**	**-13,848.0**	**-13,529.8**
Net general fund budget (V4 savings)	**0.0**	**0.0**	**203.1**	**738.7**	**897.3**

***including provisional impact of change to scheme in future years**

APPENDIX 3

SLDC SAVINGS PROGRAMME

The purpose of this appendix is to set out the details of identified savings to date

Savings Ref. No.	Option Title	2016/17 approved target	budget savings identified	2017/18 approved target	budget savings identified	2018/19 approved target	budget savings identified	2019/20 approved target	budget savings identified
		£	£	£	£	£	£	£	£
1	16/17 Central Service Efficiencies	66,290		142,290		142,290		142,290	
1a	Corporate Training Budget		20,000		20,000		20,000		20,000
1b	Dept Training Budget		15,200		15,200		15,200		15,200
1c	Mobiles and Line Rental		20,000		20,000		20,000		20,000
1d	Structural Changes Nov HR				87,090		87,090		87,090
	Sub Totals		55,200		142,290		142,290		142,290
	Shortfall/Surplus		-11,090		0		0		0
2	Services Savings and Efficiencies balance to find	14,800		14,800		14,800		14,800	
2	Dept Training Budget underspend		14,800		14,800		14,800		14,800
	Sub Totals		14,800		14,800		14,800		14,800
	Shortfall/Surplus		0		0		0		0
3	Property Services - Contract ends 31/03/2016 (c£500k)	100,000		100,000		100,000		100,000	
	Sub Totals		0						0
	Shortfall/Surplus		-100,000		-100,000		-100,000		-100,000
4	Coro H £100k delivered								
	Ulverston TH	100,000		100,000		100,000		100,000	
	Sub Totals		0		0		0		0
	Shortfall/Surplus		-100,000		-100,000		-100,000		-100,000
5	Kendal College/Museum	10,000		10,000		10,000		10,000	
	Kendal Museum		10,000		10,000		10,000		10,000
	Sub Totals		10,000		10,000		10,000		10,000
	Shortfall/Surplus		0		0		0		0
6	Langstone House Windermere	15,000		15,000		15,000		15,000	
			15,000		15,000		15,000		15,000
	Sub Totals		15,000		15,000		15,000		15,000
	Shortfall/Surplus		0		0		0		0
7	Community Services and new ways of working.	25,000		150,000		150,000		150,000	
			25,000		100,000		100,000		100,000
	Sub Totals		25,000		100,000		100,000		100,000
	Shortfall/Surplus		0		-50,000		-50,000		-50,000
8a	Waste Management Services (Original contract period ends 31/3/17 c£5m pa)	90,000		70,000		70,000		70,000	
8b	Recycling Credit Income		70,000		70,000		70,000		70,000
8c	Streetcare		20,000						
	Sub Totals		90,000		70,000		70,000		70,000
	Shortfall/Surplus		0		0		0		0
	Total	421,090	210,000	602,090	352,090	602,090	352,090	602,090	352,090
	check total		-211,090		-250,000		-250,000		-250,000
	Shortfall/Surplus		-211,090		-250,000		-250,000		-250,000
	2018/19 & 2019/20 Additional deficit projected (Sept 2015 MTFP)					341,510		855,910	
	2015 Savings proposals re underspends								
9	District Elections		30,000		30,000		30,000		30,000
10	Agency budget Town View Fields Hostel		38,000		38,000		38,000		38,000
11	Second Homes Discounts		15,000		15,000		15,000		15,000
12	Town Centre Facilities		45,000		45,000		45,000		45,000
13	Surfaces Car Parks		20,000		20,000		20,000		20,000
14	Braithwaite Fold Caravan Site		60,000		60,000		60,000		60,000
15	Economic Development Initiatives								
16	Accomodation Review								
17	Customer Connect								
	Sub Total		208,000		208,000		208,000		208,000
	Total Savings identified		418,000		560,090		560,090		560,090
	Shortfall/Surplus (Sept 2015 MTPF target)		-3,090		-42,000		323,510		837,910

Appendix 4

Budget Strategy 2017/18 – 2021/22

By incorporating the Budget Strategy within the Medium Term Financial Plan the Council ensures the two parts of the budget process are seamless and consistent. The proposed budget strategy is shown below:

Proposed 2017/18 Budget Strategy

a) This proposed Budget Strategy explains the approach to setting a balanced budget for 2017/18 in accordance with the timetable set out in **Appendix 1**. Through the MTFP updates, corporate issues have been addressed that will alter the future years position from the budget that was approved on 24 February 2016.

b) To address future deficits, savings options have been approved for 2016/17 and for future years. Savings will also be sought to provide funding for growth and budget pressures to ensure the Council Plan priorities are delivered. Members will be asked to consider the range of options for savings put forward and which are to be consulted on. These may include:

- increasing income
- reducing costs by improving service efficiency including the use of assets
- reduction of costs through cutting overheads
- alternative service delivery mechanisms
- ceasing to deliver services

c) The detailed service and capital budgets will be reviewed to ensure that these remain reasonable, with reference to the 2015/16 out-turn, monitoring during 2016/17 and the Service Managers' knowledge of any changes due to take effect over the budgeting time frame.

General Fund Services

d) The savings identified through the Organisational Review and previous corporate savings exercises have been built into the base budgets as part of the 2016/17 approved budget. The overall General Fund Service budget strategy is that:

- budgets will be updated by Finance for known, externally-driven changes to salaries including inflation; they will also update capital charges and recharges;
- all establishment changes must be treated as growth bids and forwarded to Human Resources Committee at the appropriate time;
- virements and minor (less than £25k gross) cost neutral changes can be made to base budgets without bid documents;
- cost-neutral budget changes of £25k (gross) and above need to be submitted as savings and growth bids, signed-off by the Assistant Directors (AD);
- all other changes, including those that are statutory or demand led will need to be brought forward as savings and growth proposals, signed-off by the AD and Portfolio Holder.

e) More detail of the approach is given below:

i. Salary budgets are increased by known incremental advances. From April

2018 1% will be included for inflationary pay awards (the pay award for 2017/18 has already been agreed). A 3% reduction will be allowed for vacancies and turnover on all salary cost centres; posts which are currently vacant will be budgeted at the scale mid-point; rates and thresholds for PAYE, NI and pension deductions will be updated.

ii. No allowance will be made for inflation in expenditure budgets unless contractually committed or unavoidable (e.g. energy, fuel and utility bills); the current inflation assumptions built in to the base will be reviewed and updated where necessary. Where a contract is due for re-tendering a review of the appropriate inflation rate and budget should be undertaken.

iii. Future year's income base budgets already have inflationary growth built into them (with the exception of car parking for 2016/17 and 2017/18). Where this cannot be met or managed through reductions in expenditure, this will be identified as a growth bid.

iv. Fees and Charges need to be consistent with income budgets. This process must involve:

   a. review of 2015/16 out-turn and any relevant multi-year trends;

   b. review of current 2016/17 budget position;

   c. review of future year income budget; and

   d. assessment of the options for any changes to fees (structures as well as tariff) and the impact of this on the income budget.

   e. For any service area where income budgets are £100k or more per annum, this process will be documented. All services will review the potential for new fees.

   Fees and Charges must be consistent with the Council's Corporate Charging Policy shown at **Appendix 5.**

v. Growth bids: the delivery of the Council Plan requires constant review of budgets to ensure funding is available to deliver the Council Plan priorities. Any increases to expenditure or decreases to income base budgets (excluding i and ii above) will be either matched corporately by a compensating saving or will need to be submitted as growth bids. The de-minimis is set at £25k. Growth bids will be required to demonstrate how they will deliver the Council Plan priorities.

vi. Existing base budgets will be challenged to identify savings that can be released to offset projected budget deficits and to fund growth. Growth will only be released in the budget process when a balanced budget is achieved. An element of one-off growth is built into the MTFP figures with £500k from 2017/18. However, growth can only be released if a balanced budget is achieved.

vii. Work to date on the Corporate Property Strategy will be reviewed to ensure that budgets reflect any changes as a result of the on-going review of the Council's property assets.

viii. Reserves will be used in accordance with their agreed policies with the fundamental principle that they are not used to fund recurring expenditure.

ix. Effective consultation will be carried out in accordance with the Corporate Consultation strategy.

x. Schemes which attract external funding need to be prioritised with reference to the Council plan and capacity to deliver.

xi. The Budget assumes a £5 Council tax increase annually from April 2016 onwards. The decision on the actual Council tax each year will be taken by Council in February and will be influenced by current Government policy and the influence of this on local government funding.

xii. The working balance contributions be reviewed against the current long-term target minimum General Fund working balance of £1,500,000 by 31 March 2017; any surplus over this target should be transferred to the General Reserve.

Capital

f) The approach to setting the capital programme will be as follows:

i. A longer-term view will be taken of spending needs to balance priorities and resources more evenly over the life of the capital programme. The Council's property advisors will be consulted as to the on-going maintenance programme with the aim being to develop a 10 year programme for recurring capital costs.

ii. Bids for new initiatives which recover the investment in a 5 year period will be prioritised. Capital Bid documents will be required prior to a scheme being accepted as part of the Capital Programme. These are to be signed-off by the relevant Portfolio Holder and will be prioritised by Members as part of developing the 2017/18 to 2024/25 Capital Programme.

iii. Schemes which attract external funding should be considered in the light of capacity to deliver these and need to be prioritised with reference to the Council plan.

iv. Existing schemes within the programme will also be reviewed with reference to their progress and any external funding restrictions

v. Capital receipts will only be committed once they have been received. Although there are known sources of capital receipts (e.g. South Lakes Housing VAT Shelter/Right to Buy receipts), future aspirations will take into account the resources required to support unavoidable recurring costs. Right to Buy receipts will be earmarked for social housing to replace the units sold that generated the receipt.

Budget Process

g) The approach to the review of the current-year budget, based on budget monitoring, will continue. The Council's Efficiency and Value for Money Strategy will be applied. The 5 year position will be set out as part of the process.

h) Regular budget reports will be provided to inform Members on the emerging issues. This is will integrate information from review of base budgets, higher level factors (such as the grant settlement) represented in the MTFP and the corporate savings process.

i) Following approval of these proposals, Assistant Directors, managers and finance staff will work together on the preparation of budgets based on the strategy set out (ensuring consultation with the relevant Portfolio Holders). Work will continue to be undertaken on refining the options for reducing the deficits currently projected and inclusion in the future Budget reports.

j) The Draft Budget and Council Plan will be consulted on in accordance with the Consultation Plan. The Draft Budget will also be subject to the statutory four week period post the 15 December 2016 Council meeting.

Appendix 5

CORPORATE CHARGING POLICY

Introduction

1. Officers and Members should ensure that all relevant issues are addressed when considering the possible introduction of new charges or reviewing current charges. Reviewing charges does, of course, result in politically sensitive issues for Members. Charging is an important and appropriate way of financing services and provides an alternative to council tax in paying for the Council's services. The Council needs to make its approach and policy on charges clear to the public and explain why it is appropriate to introduce charges or increase charges in appropriate circumstances. This can be achieved by following the principles and processes outlined in this charging policy.

2. It is also important to recognise that charging is just one aspect of the Council's overall financial management arrangements and the service and financial planning process. Clearly, Members and management ensure that services are provided efficiently and effectively and that costs are regularly scrutinised and reduced wherever possible. Hence, when new charges are being considered or current ones reviewed, this is in the knowledge that all other steps to minimise the net cost of the service have been taken.

3. The key principals and processes in relation to setting fees and charges are set out below. A declaration to evidence the annual review of fees and charges is included at Annex A; **this needs to be completed by each AD to confirm the annual review has taken place**. A detailed check list is included at ***Annex B;*** **this is to be completed where there are new or amended fees and charges**. A classification guide and the types of issue to consider for each fee type is included at ***Annex C.***

Key questions before setting fees and charges

4. The adoption of a strategic approach to charging and questioning the role of charges in the provision of services is very important in terms of the impact on the community and the Council's financial position. In considering charges, the following questions should be addressed:

   - Why are we providing this service?
   - Who benefits from the service – individuals or the community?
   - Do we subsidise this service from council tax?
   - What are we achieving by subsidising it?
   - How much do residents and businesses value the service?
   - How willing and able are they to pay for it?
   - What effect does charging have on the supply and demand for a service?
   - How can charging affect behaviour and assist service objectives?

Principles

5. Charges should be considered where only some members of the public benefit from the service provided. The overall principle for charging should be that the "user pays", and non-users do not support users through council tax.

6. Future charging proposals must be judged in the light of the Council's corporate aims and service objectives and also identify whether charging is an appropriate alternative to council tax in paying for the service in question.

7. Charges should be set at levels that, as far as possible, do not preclude members of the public from using or benefiting from a service. Consideration should be given to the ability of individuals, including those of limited means, to meet the charges and benefit from the service available and consistently reflected in agreed charges.

8. Charging arrangements should be efficient and practical and should demonstrate responsible asset management for the benefit of the whole district, i.e. that sufficient income is raised through charges to ensure that the assets employed in providing the services are fully maintained and improved when necessary.

9. Charges can be levied to raise revenue for the general provision/improvement of services, to offset council tax rises or to help fund specific projects where the Council has the legal powers to do so.

10. Charges can be used to regulate demand and change behaviours where this is appropriate to meet the Council's aims and priorities.

11. Appropriate use of section 93 of the Local Government Act 2003 and the General Power of Competence under the Localism Act 2011, to charge for services will be considered; services should consider any new areas where charges may be appropriate

12. Charges should be subject to consultation with users or beneficiaries of the service where appropriate.

13. Charges can be market-led and should take into account market demand and competition from other providers of the service.

14. The extent of any subsidy should be determined and charging levels should take account of comparisons with other Local Authorities' charges and charging policies and the willingness of users to pay for valued services.

Process

15. The following process should be applied to the annual review of fees and charges;
    - 15.1. Assistant Directors should review their fees and charges annually against the principals above as an integral part of the service and financial planning process. This review should be documented with ADs to sign off their fees and charges confirming they comply with the principles using the form at **Annex A**. Assistant Directors should consult the relevant Portfolio Holder in considering current charges and the potential for new charges in relation to all Council services as part of this process.
    - 15.2. Appropriate consultation with service users and stakeholders should be undertaken in respect of any proposed significant changes to current charges or in relation to the introduction of significant new charges. **<u>A Corporate Charging Policy Checklist (Annex B) should be completed for any new or amended charges.</u>**
    - 15.3. All charging proposals need to be considered each year by Cabinet. Variations to charges will generally apply from 1 April; proposals need to be developed and reported with reference to any statutory notice periods. Any 'mid year' proposals for new or amended charges should also be submitted to Cabinet again, with reference to statutory notice periods and the impact of this on changes to income budgets.

CORPORATE CHARGING POLICY ANNUAL REVIEW DECLARATION **ANNEX A**

I confirm that the fees and charges within my sub-directorate area have been reviewed against the corporate charging policy principals and that the proposed fees comply with these principals.

Assistant Director ………………………………………………………

Assistant Director Area……………………………………………………..

Date…………………………………………………………………………

CORPORATE CHARGING POLICY CHECKLIST **Annex B**

Please complete this for any service where there are new or amended fees and charges.

1. Objectives of Charge – what is(are) the principal charging objective(s) ?

Recover cost of service provision	Yes/No
Generate Surplus Income (where permitted)	Yes/No
Maintain existing service provision	Yes/No
Fund service improvements or introduction of new service(s);	Yes/No
Manage demand for service(s)	Yes/No
Promote access to services for low-income households;	Yes/No
Promote equity or fairness;	Yes/No
Achieve wider strategic policy objectives (e.g. encouraging green policies);	Yes/No

2. **Set out the charge type and the implications**

Identify the charge type as set out in the Charge Type Checklist (**Annex C**)
Set out how the issues for the specific charge type have been addressed
How has the impact of charging on user groups been assessed?

3. **Targeting Concessions – Set out how any concessions have been considered for the following target groups:**

OAPs
Unemployed
People under the age of 18 and students in full time education
Community Groups
Those in receipt of income-related benefits, tax credits, attendance allowance, disability living allowance and other appropriate groups

4. **Trading – Set out whether the possibility of a trading operation has been considered**
The Council is empowered to sell goods or services to other public bodies or trade commercially. Please set out how the following have been considered:

Could services be delivered more strategically over a wider area/lager scale?
Could we achieving greater efficiency through trading or partnership working?
Is there a wider demand for the Council's expertise?
Is there any spare capacity that could be utilised?
Is there potential to generate additional income?
Is there scope to support service improvement?

5. **Value For Money – Set out how value for money has been considered**

Has charging been used as a tool for achieving strategic policy objectives?
Has the optimum use of the power to charge been used?
Has charging secured improvements in value for money?
Has charging been used as a tool to reduce increases in Council Tax?
Are there any budget implication for the proposed change and if so, has a savings/growth form been submitted?

6. **Means of charging and collecting income – Set out how the income will be collected**

Can income be collected in advance, or at the time, of service delivery
How will the income be collected? (invoicing is a relatively high-cost)
Is the proposed collection method consistent with Financial Procedure Rules?

Sign off

Budget Manager…………………………………….

AD…………………………………………………….

Charging Classification

Annex C

<table>
<tr><th>Charge type</th><th>Description</th><th>Considerations</th></tr>
<tr><td>Full commercial</td><td>The council seeks to maximise revenue within an overall objective of generating as large a surplus (or a minimum loss) from this service.</td><td rowspan="2">• Are the charges high enough for the service to be profitable? If not, consider whether the service should be provided.
• How would changes in pricing structures affect demand for the service and potentially its profitability?
• Does the council offer any premium in terms of service levels that customers would be prepared to pay more for?
• Are competitors charging similar prices?
• How does the proposed fee structure fit in with the long-term business plan for the service?</td></tr>
<tr><td>Full commercial with discounts</td><td>As above, but with discounted concessions being given to enable disadvantaged groups to access the service.</td></tr>
<tr><td>Fair charging</td><td>The council seeks to maximise income but subject to a defined policy constraint. This could include a commitment made to potential customers on an appropriate fee structure. Alternatively, a full commercial rate may not be determinable or the council may be a monopoly supplier of services.</td><td>• How do the charges compare to other providers of similar services?
• Has the loss of income from not charging on a commercial basis been evaluated?
• Is the policy constraint justifying this charging policy still valid?</td></tr>
<tr><td>Cost recovery</td><td>The council wishes to make the service generally available, but does not wish to allocate its own resources to the service.</td><td rowspan="2">• Do charges recover the full costs, including overheads, capital charges and recharges?
• Is it possible to charge on a full commercial basis and if so has the loss of income from not charging on a full commercial basis been evaluated?
• Are Members aware of the effect on demand for this service from this charging policy?
• What would be the effect of changing the policy to a different one e.g. subsidised?</td></tr>
<tr><td>Cost recovery with discounts</td><td>As above, but the council is prepared to subsidise the service to ensure disadvantaged groups have access to the service.</td></tr>
<tr><td>Subsidised</td><td>Council policy is to make the service widely accessible, but believe users of the service should make some contribution from their own resources. Could also be due to the adverse impact a cost recovery or commercial charging policy would have on other council services.</td><td rowspan="3">• Has the cost of the subsidy been evaluated?
• What has been the impact on demand and on service levels from adopting this approach?
• Are charges in line with statutory requirements?
• Is there a problem of frivolous use of the service?
• Is this approach legally required?
• Does this approach fit in with the requirements of other funding streams i.e. grants?</td></tr>
<tr><td>Nominal</td><td>The council wishes the service to be fully available, but sets a charges to discourage frivolous usage.</td></tr>
<tr><td>Free</td><td>Council policy is to make the service fully available.</td></tr>
<tr><td>Statutory</td><td>Charges are set in line with legal obligations</td><td>• Are they set at the maximum permitted levels?</td></tr>
</table>

RISK ASSESSEMENT OF LEVEL OF RESERVES: 31/3/16

APPENDIX 6a

Potential Risk	Risk Score	Weighting	Financial Exposure (£000)	Balance Required (£000)	Comment (Basis of Financial Exposure)
Base Budget Contingency for inflation or other unanticipated rise.	4	50%	297	149	Assumed at 1% of Gross Revenue Budget
Underachievement of Charges Income targets and spending exceeds budgets	4	50%	482	241	Estimate of 5% Customer Receipts Income forecasts for 2016/17
Underachievement of Investment Income	4	50%	65	33	0.5% of exposure of average balance of £13m
Funding of carry-forwards	9	100%	933	933	Unspend budgets and grants in working balance at 31/3/16 but carried-forward for spending after 1/4/16
Civil Emergencies	6	75%	146	109	Bellwin scheme cuts in at 0.2% of net budget and provides for up to 85% of eligible costs (assume £1m cost - not covered by insurance)
Insurance Excesses	5	50%	34	17	Based on 10% of insurance premia payments
Potential costs of legal challenges	2	25%	700	175	Based on estimated cost of a public enquiry or legal challenge
Savings not achieved	2	25%	897	224	Target savings from 2016/17 to 2019/20 onwards
Vacancy target not delivered	2	25%	387	97	Staff vacancy target topsliced from salary budgets
Pay increase	3	50%	118	59	1% allowance made in budget for pay increase from April 2016. Impact of additional 1% pay award
Increase in pension contributions	4	50%	360	180	Allowance for 1.5% increase in pension fund contributions at next triennial revaluation
Changes to existing government funding regimes	4	50%	1,481	741	50% of Total of RSG/transitional grant/Rural Services grant funding, based on 2016/17 settlement
Changes to existing government grants	4	50%	1,783	892	50% of total revenue grants received, excluding benefit subsidy and formula grant
Impact of introduction of Universal Credit	2	25%	200	50	Increase in homelessness, changes in administration arrangements, reduction in collection rate etc
Localisation of business rates	4	50%	227	114	Assume 5% reduction in rateable values
Localisation of business rates	4	50%	406	203	Assume 50% of appeals allowed: budget assumed 30% allowed
Council tax reduction scheme	4	25%	58	14	SLDC share, based on 10% increase in claims based on 2016/17 estimate
Earmarked reserve for delivery of savings	9	100%	1,000	1,000	Potential one-off costs of delivery of savings
Risk Management	9	100%	500	500	Monies set aside to meet the one-off costs of risk management
Emergency Contingency	9	100%	1,000	1,000	Emergency contingency fund - Council practice to allocate £1m for any unforeseen emergencies
TOTALS			11,074	**6,731**	
Maximum Risk Based Reserve Balances				**11,074**	Total Financial Exposure
Recommended Risk Base Reserve Balances				**6,731**	from previous page
Minimum Risk Based Reserve Balances				**2,768**	25% of Total Financial Exposure
Current Level of Reserves					
- General Fund Working Balance				1,500	Estimated balance 31/3/17
- General Reserve				4,730	Estimated balance 31/3/17 incl statutoy reserve
Current Level of Reserves (Projected as at 31/03/16) (General Fund)				**6,230**	
Projected (Shortfall)/Excess of Current Reserve Balance over Risk Based Reserves				**-502**	assumes use the recommended risk based balance

Appendix 7

Policy on Reserves and Balances

Purpose

A Policy for Reserve and Balances represents good financial management and should be reviewed annually.

The Local Government Finance Act 1992 and Local Government Act 2003 set out that a range of safeguards to mitigate against local authorities over-committing themselves financially. These include:

- the balanced budget requirement
- Chief Finance Officers' duty to report robustness of estimates and adequacy of reserves when considering the budget requirement.
- Requirement for local authority to make arrangements for proper administration of their financial affairs and that the Chief Finance Officer is that responsible person (Section 151 duties)
- the requirements of the Prudential Code .
- the External Auditor will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

Types of Reserves

Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

The Council also holds other reserves that arise out of the interaction of legislation and proper accounting practice. This reserves are not resource backed and cannot be used for other purposes include :

- a Pensions Reserve (required under IAS19*)*. This is a specific accounting mechanism used to recognise the Council's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance Council expenditure.
- a Revaluation Reserve – this records unrealised gains in the value of fixed assets.

- a Capital Adjustment Account – this is a specific accounting mechanism used to reconcile different rates at which assets are depreciated under proper accounting practice and financed through the capital controls system.

For each earmarked reserve held by the Council there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

This Reserves and Balances Policy ensures that when establishing reserves, South Lakeland Council complies with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and in particular the need to distinguish between reserves and provisions.

Under the Council's Constitution, the power to establish financial reserves is limited to full Council except that Cabinet can set aside minor amounts (up to £35,000 in aggregate) where this would assist in the efficient operation of the Council's activities. Similarly Council determines the use of reserves although Cabinet can make or adjust transfers from reserves up to £35,000 to assist in the Council's financial management. .

Policy

This summary sets out the Council's policy on each one. It details the level and nature/purpose of each reserve. In all cases these are based on an assessment of needs and risk.

The fundamental principle governing the use of reserves is that they should not be used to fund recurring expenditure. If exceptional circumstances make this a necessity, the use of the reserve should be clearly stated and approved as an exception to the rule.

SUMMARY, PURPOSE AND COMMENTARY	Actual Balance 31 March 2015 £000	2015/16 Actual Addition £000	2015/16 Actual Use £000	Projected Balance 31 March 2016 £000	Projected Balance 31 March 2017 £000	Projected Balance 31 March 2018 £000	Projected Balance 31 March 2019 £000	Projected Balance 31 March 2020 £000	Projected Balance 31 March 2021 £000	Recommended Minimum Balance £000	Recommended Maximum Balance £000
GENERAL FUND WORKING BALANCE Buffer against unforeseen & emergency expenditure in-year, inflationary demands, adverse cash flow, inability to use capital resources.	1,500.0	-	-	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,500.0	1,000.0	1,500.0

REVENUE RESERVES											
General Reserve The main use of this reserve in recent years has been to fund the one-off costs of staff redundancy and early retirements to enable organisational reorganisation and the discontinuation of direct provision of services. This reserve also includes unspent revenue budgets carried-forward between years. Unless allocated for a particular purpose, revenue budget under-spending and windfalls are added to the General Reserve. The Medium Term Financial Plan provisionally assumes a £200,000 annual contribution to the Reserve, depending on quantification of the potential impact of these factors. Any balance on the General Fund working balance above £1.5m is transferred to this reserve as part of the closure of accounts. (For more details of the risk and an assessment of the potential financial exposure please see the Risk Assessment of Level of Reserves – at **Appendix 6).**	7,071.2	507.9	(41.0)	7,538.1	4,579.5	4,692.3	4,892.3	5,092.3	5,292.3	2,000.0	7,500.0
Statutory Duties Reserve Part of General Reserve earmarked for certain purposes: use delegated to SMT & reported as part of Corporate Financial Monitoring Includes: £50k legal costs /bye-elections contingency £40k planning legal costs contingency £60k enforcement legal costs contingency		150.0	-	150.0	150.0	150.0	150.0	150.0	150.0	-	150.0
Flooding Costs Reserve Part of General Reserve earmarked for the costs of remediation of December 2015 floods, use delegated to Chief Finance Officer by Council February 2016	-	250.0	-	250.0	-	-	-	-	-	-	250.0
Debt Redemption Reserve Underspend on budget for interest payment and MRP due to changes in capital programme, set aside for future costs of debt repayment	205.0	250.0	-	455.0	455.0	455.0	455.0	455.0	455.0	-	1,000.0
LABGI Reserve To fund non-recurring initiatives that contribute directly to one or more of the Council's priority initiatives, with a preference for economic development. The Reserve accumulated funds from the Government's Local Authority Business Growth Incentive (LABGI) scheme grant. Grants received under the LABGI scheme should be the only contributions to the Reserve – there should be no minimum or maximum contribution. The minimum balance on the reserve should be zero. This fund is now practically fully committed and should be closed once the committed spend is achieved.	37.4	-	(18.9)	18.5	4.5	4.5	4.5	4.5	4.5	-	38.0

Appendix 7

SUMMARY, PURPOSE AND COMMENTARY	Actual Balance 31 March 2015 £000	2015/16 Actual Addition £000	2015/16 Actual Use £000	Projected Balance 31 March 2016 £000	Projected Balance 31 March 2017 £000	Projected Balance 31 March 2018 £000	Projected Balance 31 March 2019 £000	Projected Balance 31 March 2020 £000	Projected Balance 31 March 2021 £000	Recommended Minimum Balance £000	Recommended Maximum Balance £000
GF Major Repairs Reserve To fund major repairs and maintenance to General Fund properties that are not capitalisable and would be difficult to accommodate in the annual planned maintenance programme, on the basis that the Reserve: • acts as a backstop for emergency major repairs • accumulates funds as necessary to meet an abnormal year in maintenance terms • is able to assist in meeting regular maintenance costs. The Reserve has been accumulating funds so that it can deal with the larger repairs for which it was established. The annual contribution is £50,000. A minimum backstop requirement of £50,000 per annum should be set for the contribution to the Reserve with a target of at least £100,000 and a maximum of £500,000 in advance of an abnormal maintenance year.	507.8	50.0	-	557.8	95.8	145.8	195.8	245.8	295.8	100.0	500.0
IT Replacement Reserve To fund the replacement of hardware and software with a preference for the updating of the corporate and networking infrastructure.	124.1	75.4	(75.2)	124.3	92.3	92.3	22.3	22.3	22.3	40.0	250.0
Revs & Bens IT Reserve Grant received towards the introduction of Council Tax reduction schemes earnarked for future IT costs	10.0	-	-	10.0	10.0	10.0	10.0	10.0	10.0	-	10.0
Economic Development Fund To encourage economic development in the District and to ensure that unused funds in a particular year can be carried forward.	100.9	123.7	(57.0)	167.6	43.9	43.9	43.9	43.9	43.9	-	35.0
New Homes Bonus Reserve New reserve to enable forward funding of eligible schemes through the Council's New Homes Bonus protocol	58.0	663.7	(383.0)	338.7	338.7	338.7	338.7	338.7	338.7		
Waste Contract Reserve Accumulated surpluses or deficits on the Council's waste contract; also used to support capital costs of waste vehicles.	396.4	-	(45.8)	350.6	110.6	(69.7)	(69.7)	(69.7)	(69.7)	-	1,000.0
Social Lettings Reserve New reserve: income from the social lettings scheme set aside for potential losses or repair bills	20.0	-	-	20.0	20.0	20.0	20.0	20.0	20.0	-	20.0
Total: Revenue Reserves	**8,531.2**	**2,070.7**	**(620.9)**	**9,980.6**	**5,900.3**	**5,882.8**	**6,062.8**	**6,312.8**	**6,562.8**	**2,140.0**	**10,753.0**

SUMMARY, PURPOSE AND COMMENTARY	Actual Balance 31 March 2015 £000	2015/16 Actual Addition £000	2015/16 Actual Use £000	Projected Balance 31 March 2016 £000	Projected Balance 31 March 2017 £000	Projected Balance 31 March 2018 £000	Projected Balance 31 March 2019 £000	Projected Balance 31 March 2020 £000	Projected Balance 31 March 2021 £000	Recommended Minimum Balance £000	Recommended Maximum Balance £000
CAPITAL RESERVES											
Fund of Revenue Monies for Capital Purposes Monies provided from revenue to support the Capital Programme & fund expenditure that may not be capitalisable.	100.0	185.0	-	285.0	205.0	231.0	331.0	431.0	531.0	100.0	500.0
Second Homes Income Reserve Initiatives to enable the provision of affordable housing: transfer of unspent balance at end of year	208.7	612.1	(820.8)	-	-	-	-	-	-	-	250.0
Total: Capital Reserves	**308.7**	**797.1**	**(820.8)**	**285.0**	**205.0**	**231.0**	**331.0**	**431.0**	**531.0**	**100.0**	**750.0**
EARMARKED RESERVES											
Kendal Employment Development Fund Assistance to eligible developing firms in the Kendal area	13.6	-	-	13.6	13.6	13.6	13.6	13.6	13.6	-	14.0
Local Land Charges Reserve Statutory ring fenced reserve to record surpluses and losses on local land charges.	(14.2)	67.0	-	52.8	52.8	52.8	52.8	52.8	52.8	-	-
Building Control Fee Income Reserve Statutory ring fenced reserve to record surpluses and losses on building control.	-	71.9	(71.9)	-	-	-	-	-	-	-	-
Planning Delivery Grant Reserve Monies provided by Planning Delivery Grant in 2009/10 carried forward for use in a subsequent years. This source of grant funding has now been discontinued and the fund will be closed when the current balance is spent.	74.0	52.3		126.3	126.3	126.3	126.3	126.3	126.3	-	42.0
Local Arts Strategic Partnership Reserve Monies provided towards Arts Strategy and related activies carried forward for use in subsequent years.	51.2	-		51.2	30.2	30.2	30.2	30.2	30.2	-	100.0
Non Domestic Rates (NDR) Deficit Reserve Timing gap between recognising s31 grant and recognising offsetting NDR collection fund deficits.	699.0	241.0	-	940.0	241.4	0.4	0.4	0.4	0.4	-	1,000.0
Non Domestic Rates (NDR) Pool Reserve Income from Cumbria NNDR pool, earmarked for economic development, £169k used to fund one off growth in 2015/16 budget.	290.6	397.9	(219.0)	469.5	684.1	684.1	684.1	684.1	684.1	-	500.0
Non Domestic Rates (NDR) Volatility Reserve Share of NNDR pool income retained by pool to offset potential future deficits	71.3	95.2	-	166.5	166.5	-	-	-	-	-	250.0
HRA Environmental Warranty Reserve Environmental insurance in 2022 relating to warranties given as part of the housing transfer.	341.0	-	-	341.0	341.0	341.0	341.0	341.0	341.0	-	341.0
Community Infrasructure Levy (CIL) reserve CIL collected but not yet spent	-	18.3	-	18.3	18.3	18.3	18.3	18.3	18.3	-	1,000.0
Various s106 Reserve New reserve: Income received under various s106 agreements not spend in year	76.4	48.5	(5.0)	119.9	41.5	36.5	31.5	26.5	21.5	-	100.0
Total: Earmarked Reserves	**1,602.5**	**992.1**	**(295.9)**	**2,299.1**	**1,715.7**	**1,303.2**	**1,298.2**	**1,293.2**	**1,288.2**	**-**	**3,347.0**
TOTAL RESERVES	**10,442.4**	**3,859.9**	**(1,737.6)**	**12,564.7**	**7,821.0**	**7,417.0**	**7,692.0**	**8,037.0**	**8,382.0**	**2,240.0**	**14,850.0**

Appendix 8

Capital Strategy

1. **Introduction**

This Capital Strategy sets out the Council's approach to meeting community and service needs through its capital investment programme. The Council's priorities, objectives and corporate outcomes are set out in its current Council Plan which was approved 24 February 2016. The Plan is supported by a set of annual service plans. The Capital Strategy describes how the deployment of capital resources will contribute to the achievement of these objectives. The Capital Strategy will continue to be reviewed with regard to its relevance in the changing context in which local government organisations work.

2. **Current Economic Context**

The current economic climate provides significant challenges for the Council. The demand for investment in the regeneration and renewal of infrastructure and assets continues, whilst at the same time the resources available to the Council are constrained by proposed reductions in public service expenditure following successive Comprehensive Spending Reviews. These reductions impact directly on the Council and on the resources available to partners.

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The Council owned property, plant and equipment, assets, investment properties and heritage assets with a total net book value of £62m at March 2016. Council assets include 43 car parks, 176 parks and open spaces, 9 cemeteries, 5 depots and 3 sports centres. The Council also owns a large number of commercial properties and agricultural land used to generate income.

OVERARCHING STRATEGY

4. The Council's capital strategy is to deliver a capital programme that:
   - Contributes to the Council Plan, and the Council's vision, values, strategic objectives and priorities
   - Is closely aligned with the Council's Asset Management Plan
   - Supports service-specific and other plans and strategies
   - Is affordable, financially prudent and sustainable, contributes to better value for money

5. The capital strategy will be delivered through:
   - Effective political and corporate leadership
   - Adequate and effective performance management arrangements
   - Clearly defined processes for building and monitoring the capital programme
   - Clear policies on financing capital expenditure
   - Effective risk management arrangements
   - A clear procurement protocol

6. In prioritising the Capital Programme, particular emphasis will be given to schemes that:
   - Achieve the Council's priorities
   - Improve performance against national and local targets
   - Improve efficiency and effectiveness in service delivery, including through partnership working
   - Generate or increase income streams
   - Promote effective Asset Management, including DDA and Health & Safety issues

LINKS TO OTHER PLANS & STRATEGIES

7. This Capital strategy links to, and is consistent with, the following other plans and strategies:
   - Council Plan
   - Service Plans & Strategies
   - Medium Term Financial Strategy
   - Corporate Asset Strategy
   - Risk Management Strategy
   - Procurement Strategy
   - Treasury Management Strategy

   The Council's property management contractor will be updating the Corporate Asset Strategy during 2016/17. The Leisure Facilities Strategy will also be finalised during the next 12 months.

8. Although it is an Infrastructure planning authority, South Lakeland, as a lower tier authority, has a limited role in infrastructure delivery. Most of our critical infrastructure is delivered by infrastructure providers such as Cumbria County Council as County Highways Authority or County Education Authority. The Cumbria Infrastructure Delivery Plan is subject to annual review in close consultation with the County Council and other providers. We also assist the County Council in applying for Local Growth Fund and other external funding for infrastructure delivery. In the longer term, although CIL Governance measures are yet to be established, it is almost certain that fit with the Infrastructure Delivery Plan will be a key criterion determining bids for CIL funding. The most important element, transport measures in Kendal have already secured £2.3m of Local Growth Fund investment.

9. The majority of Government funding to support capital development is channelled through the Local Growth Fund, administered by Cumbria Local Enterprise Partnership (LEP). Although no local growth monies have been allocated directly to the Council, the Environment Agency have secured £5.5m to support an £18m programme of flood defence works around Ulverston including mapping and modelling, a contribution to the Town Beck Flood Alleviation Scheme and a larger flood alleviation scheme for South Ulverston . The Council's forward planning team is on the project group taking this forward. Cumbria County Council have secured £2.3m, to undertake highways and transport measures in Kendal. The measures have been the subject of public consultation and are expected to be implemented by 2016.

10. The process of preparing the Council's next Local Plan, a single Local Plan which will supersede the current framework of Core Strategy, Land Allocations and Development Management Policies has commenced. The first stage is the commissioning of an Objective Assessment of Need. This will look at needs for new housing and employment having regard to demographic and migration trends as well as growth aspirations. The OAN will provide the quantitative basis for the new plan and tell us how much housing and employment land we need to plan for. The OAN is intended to be completed by the end of Financial Year 2016-17. During the same period, we will also be preparing a Strategic Flood Risk Assessment which will update our understanding of the flood constraints on development in the light of the December 2016 events. In 2018-19 we will commence working up some spatial options for the new plan informed by;

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The new plan is scheduled to be adopted by July 2021 so that the current plan is replaced before its time period expires.

AFFORDABILITY, SUSTAINABILITY, PRUDENCE AND VALUE FOR MONEY

11. **The Prudential Code**

The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) was introduced by the Local Government Act 2003. It sets out the concepts of affordability, sustainability and prudence as they apply to capital expenditure.

A key objective of the Prudential Code is to ensure that the capital investment plans of the local authority are affordable, prudent and sustainable. To demonstrate that these objectives have been met the Code sets out the prudential indicators that must be used, and the factors that must be taken into account. These are designed to support and record local decision-making in a manner that is publicly accountable.

Affordability

The fundamental objective in determining the affordability of the authority's capital plans is to ensure that the total capital investment remains within sustainable limits. This includes considering the impact on Council Tax. The Council is required to take into account all its current and forecast resources, together with the capital expenditure plans and revenue income and expenditure forecasts for the coming year and the following two years. This is done on a rolling basis, with regard to risk analysis and risk management strategies. Any significant known variations beyond this time frame must also be considered.

Prudence and Sustainability

Prudence and sustainability year on year are addressed through the prudential indicators for external debt, which must be set and revised taking into account their affordability.

The key indicator of prudence laid down by the Code is that net external borrowing should not, except in the short term, exceed the total of the capital financing requirement in the preceding year, plus the estimates of any additional capital financing requirement for the current and next two financial years. This ensures that, over the medium term, net borrowing will only be for capital purposes.

It is also prudent to carry out treasury management activities in accordance with good practice, and the Prudential Code sets a number of indicators to address this.

South Lakeland District Council and the Prudential Code

The Council addresses the issues of affordability, prudence and sustainability in its capital investment plans by complying with the requirements of the Prudential Code. This includes the setting of the prudential indicators by Council in February and the monitoring of prudential through the Corporate Quarterly Financial Monitoring process.

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13. **Minimum Revenue Provision (MRP)**

The Council is required to make provision for the principal repayment of borrowing through a mechanism known as the Minimum Revenue Provision (MRP).

The Local Authorities (Capital Finance & Accounting) (England) (Amendment) Regulations 2008, which came into force in February 2008, require the Council to make ‘prudent provision’ for the repayment of debt using one of a number of options. The underlying principle is that the repayment of debt should be aligned to the useful life of the asset or assets to which it relates.

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FINANCING CAPITAL EXPENDITURE

14. **Overview**

Decisions on capital investment are made against the background of constrained resources, and the Council is heavily dependent upon capital receipts and grants from central government to support its capital programme. Other available funding sources include prudential borrowing, third party contributions, and revenue contributions. These are all actively pursued to support capital investment.

15. **Capital Receipts**

Capital receipts are derived from asset sales. These could include income to the Council as lessor from finance leases.

Asset sales come from a variety of sources. Generally speaking, 100% of asset sales can be used to support capital expenditure. Sometimes the asset sale is linked directly to a capital project, for example in a relocation scheme. More often, asset sales relate to surplus assets that are held corporately and are not specific to a scheme or service.

The Council completed the transfer of its housing stock to South Lakes Housing, a registered social landlord, in March 2012. Under the terms of the transfer agreement the Council received both an initial capital receipt and will receive future capital receipts from the sale of houses, other assets and from a VAT shelter.

The amount of receipts from asset sales is dependent on both the type of asset itself and on economic and market conditions. The current economic climate has significantly reduced the number of sales and the amount of receipts.

16. **Unsupported Borrowing**

The Local Government Act 2003 introduced new flexibilities into the capital expenditure and financing rules governing local authorities. The new rules, contained in the ‘Prudential Code’, allow local authorities to set their own limits with regard to borrowing undertaken to support capital expenditure. Additional borrowing may now be undertaken, provided that it is, and can be shown to be, prudent, affordable and sustainable. This method of financing capital expenditure is called “unsupported borrowing”.

In order for unsupported borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt financing) costs. Ideally this will come from revenue savings or additional income arising directly from the capital scheme. For example, refurbishment of a building may generate maintenance and/or energy savings, or the building of a car park could generate income through charges. The cost of borrowing therefore should be borne by the service that uses the asset.

17. **Supported Borrowing**

The other form of borrowing available for funding the capital programme is supported borrowing. This is where the costs of the borrowing are part recognised in the formula grant settlement and are therefore ‘supported’. However the formula grant does not cover the full cost of the borrowing undertaken. As a district authority supported borrowing allocations are very limited, generally only housing supported borrowing allocations have been made available in recent years.

18. **Government Grants**

The conditions attached to government grants vary according to the particular grant. Some will fund the full cost of the scheme, others just a percentage, with the local authority having to fund the balance. Most, but not all, grants are time-limited. Government grants tend to be focussed towards central government priorities.

19. **Third Party Contributions**

As with government grants the conditions attached to third party contributions vary.

This category of funding is becoming of increasing importance to the Council in a climate of stretched local government resources. Included here are:

- Planning obligations funding from Section 106 agreements (developer contributions)
- National Lottery grants
- Contributions from local bodies.
- Contributions from national bodies.

20. **Revenue Contributions**

In the past revenue contributions have been a fairly minor source of capital financing for the Council due to pressures on the revenue budget. They are, however, sometimes used to top up small shortfalls in the funding required for a particular scheme.

Community Infrastructure Levy

21. The Council has introduced a Community Infrastructure Levy (CIL), the first in Cumbria. The CIL is a levy on new housing and retail development outside the National Parks. Its purpose is to assist with the delivery of infrastructure necessary to support the growth proposed in the Local Plan. 15% of the CIL receipt also goes to the Parish Council for the area in which the development takes place. The levy is expected to raise around £17m between now and 2025. Because CIL is levied when planning permission is granted but paid in instalments after building has started, it will be some time before a significant sum accumulates. The Council is currently considering its approach to CIL governance and is due to report on this in the autumn.

22. **Reserves**

The Council uses a number of reserves to fund the capital programme. There are two main types:

- Reserves used to collect specific funds to be used over a number of years, such as the Second Homes Discount reserve, the LAGBI reserve or the New Homes Bonus reserve
- Reserves can be used to smooth the timing of the application of revenue contributions, for example the IT Reserve and the General Fund Major Repair Reserve.

The Policy on Reserves and Balances gives details of the purpose of each reserve.

FUNDING STRATEGY

23. The capital funding strategy is proposed as part of the overall capital strategy and is therefore also reviewed on an annual basis.

The Council's capital funding strategy for 2017/18 to 2021/22 is set out below:

Funding streams are allocated in the following ways:

- Capital receipts are not allocated or committed prior to receipt, unless inextricably linked to a specific project.
- CIL will be allocated in accordance with the approved scheme after the deduction of the parish share. CIL will only be paid once received and in accordance with the statutory timetable.
- General fund capital receipts received during the year will be added to the un-earmarked general fund capital receipts reserve and taken into account as a potential funding source for new schemes or variations in the relevant financial year or the following financial year, subject to revenue budget considerations e.g. debt financing budget implications.
- Receipts from Right to Buy will be earmarked for the Right to Buy replacement scheme.
- General Fund capital receipts received from the capital portion of finance lease income on Council owned properties under IFRS rules will be earmarked for capital expenditure on the Council's property assets.
- Capital Reserves – Capital receipts generated by asset sales will be partly set aside in a capital reserve fund. This reserve provides a funding source for future priority schemes and emergencies.
- The only call on the earmarked general fund capital reserve during the year would be for unforeseen high priority emergency capital works that cannot be financed from alternative sources. Agreement will be through the normal channels – that is the submission of a project appraisal or variation to Cabinet with final approval by Council.
- Hypothecated funding – i.e. funding linked directly to a specific scheme or service area, such as grants, third part contributions, revenue contributions and supported borrowing – is allocated 100% to the relevant scheme or service.
- Supported Borrowing will be used if the unsupported element is affordable.
- Unsupported Borrowing will be used to fund capital investment if the cost of the borrowing is affordable. Ideally the capital investment itself will produce revenue savings, which will cover the cost of borrowing to invest.
- The IT Replacement Reserve will only be used to fund the replacement of hardware and software with a preference for the updating of the corporate and networking infrastructure.
- The Fund of Revenue Monies for Capital Purposes will only be used to provide support to the Capital Programme, to supplement the capital finance

available to the Programme by revenue contributions and to cover 'grey area' expenditure and allow flexibility in financing decisions.

- Underspends on schemes may not be automatically diverted to other schemes. This will be considered against the demands of the programme as a whole, any reserve project list and funding requirements for the following year.

The funding strategy is used to determine the allocation of funding to the programme at the start of the year and throughout the year. Depending on the timing and restrictions of the funding streams, the most appropriate funding will be used at the year end. Finance staff, under the direction of the Chief Finance Officer, will apply the available funding to the outturn expenditure in line with the best interests of the Council.

24. Revenue Implications of Capital Projects

The revenue implications of capital projects are identified through medium term planning and the capital appraisal process, and fed into the Council's medium term revenue budget to ensure that all revenue implications are taken into account.

25. Leasing (Council as Lessee)

Leases are classified in accounting terms as either finance or operating leases. This distinction is important because it dictates whether the lease must be classified as capital (finance leases) or revenue (operating leases), and different accounting treatment is required for each.

Items financed through an operating lease are coded to and financed as part of the Council's revenue budget. It is the responsibility of the budget holder to ensure that there is sufficient capacity in the revenue budget to fund the annual operating lease costs.

The Council's preference is not to enter into finance leases unless there are exceptional reasons for doing so. Where an operating lease is either not available or not suitable, a capital purchase funded by prudential borrowing generally offers greater benefits than a finance lease. The introduction of IFRS from April 2010 reduced the number of instances where operating leases can be used to finance expenditure, particularly in the case of short life assets such as IT hardware, equipment and vehicles. Where this applies it is likely that such items will be purchased through the capital programme and financed by prudential borrowing, with the revenue cost of the borrowing met from the existing service budget.

PRIORITISATION PROCESS

26. Prioritising projects

All bids for inclusion in the following years programme are considered according to a set of objective criteria to assist with the prioritisation of schemes and the allocation of funds. This ensures that, in a context of limited resources, the community vision and strategy and the Council's vision, values, objectives and priorities form the framework for decisions about investment priorities, and that capital allocations are made using clear impartial criteria.

The prioritisation process is linked directly to the information given on the completed project appraisals, with weighting given to schemes that strongly support the Council's objectives and priorities, and those that fulfil an urgent legal or statutory requirement.

In summary, each bid can be rated on the extent to which the project contributes:

- The Council's objectives and priorities

- Legal commitments or statutory duties, including DDA & Health & Safety issues
- Equalities
- Improvements in performance indicators
- Efficiency savings
- Value for money
- The delivery of service objectives
- Effective Asset Management
- Extent of ring fenced or specific funding
- Levels of financial risk involved
- Impact on the revenue budget and income generation

Prioritisation of the bids enables officers to put forward a recommended programme that is within available resources. The weighting within the scoring framework will be reviewed on an annual basis as part of a policy of continuous improvement and to take into account any relevant factors. Bids for work required to meet a statutory or legal obligation will be given a high priority.

The prioritised programme is for guidance only. Members are responsible for agreeing the capital programme and have the discretion to include or exclude schemes as they deem appropriate.

27. **Capital Programme 2016/17 to 2020/21 - Project Appraisals**

All bids for inclusion in the capital programme are supported by a project appraisal, the preparation of which is the responsibility of the budget holder or project manager. The project manager signs the appraisal to confirm that their Assistant Director, Director and Portfolio Holder are aware of and support the scheme.

Project appraisals have been completed for all 2016/17 to 2020/21 capital programme bids. The appraisal pro-forma has been designed to ensure that the information gathered is sufficient in order to make decisions based on the criteria set out above. Project appraisals must consider carefully the deliverability of projects to avoid slippage of the capital programme.

The de-minimus level set by the authority for capital expenditure is £10,000. Individual schemes must therefore be £10,000 and above to be included in the authorities capital programme. The only exception is where the funding for the project is external and requires the scheme to be capital.

MONITORING THE CAPITAL PROGRAMME

28. **Project management & monitoring**

Project managers are responsible for the proper and effective control and monitoring of their projects, including financial monitoring.

This includes ensuring that:

- Only capital expenditure is charged to the capital project
- Only expenditure properly attributable to the scheme is coded to the scheme
- The scheme expenditure is contained within the agreed budget, and that any ‘unavoidable’ variations are dealt with appropriately
- Realistic expenditure profiles are determined
- A realistic forecast outturn for the financial year and the project as a whole are calculated and kept under regular review
- Any slippage of expenditure from current to future years is identified
- Any grants or third party funding is applied for and all grant conditions met
- The source of any revenue funding is identified

Project managers are also responsible for carrying out project reviews following scheme completion.

The finance team is responsible for providing support and advice to assist project managers in managing and monitoring their capital budgets. It also has a key role in consolidating and co-ordinating the monitoring information that is required for reporting purposes. This involves reporting to Senior Management Team, Cabinet and Council.

29. **Capital Programme Monitoring**

The capital programme position is reported to Senior Management Team, Cabinet and Council as part of Corporate Financial Monitoring report and covers the latest programme and any amendments to be notified or approved, expenditure to date, and the forecast outturn. It also outlines the financing position and any steps needed to deal with potential financing difficulties.

At year-end, an outturn report and carry-forward requests are taken to Cabinet and Council. These will include an analysis of programme slippage to the following year, including the reasons for that slippage and how it is to be financed.

30. **Changes to the Agreed Programme**

The programme for the coming year is set and agreed by Council prior to 1st April (at the February Council as part of the Budget process), but it is essential to also have a process that then allows for changes during the year.

Changes may be required as a result of proposed additions to the programme, amendments to existing schemes or deletions from the programme. For example tenders may come in above or below estimate; difficulties may be encountered in implementation, which require a change of approach; funding may need to be released to support another more urgent priority.

31. **Proposed additions to the programme**

The need to add a scheme to the programme usually arises from either access to additional funding, such as a grant or third party contribution, or as a response to an unforeseen urgent issue (often related to legal or health and safety concerns).

In order to bid for an addition to the programme, a project appraisal must be completed and signed off in the usual way. The funding for the project must be identified at this stage. Where there is no additional funding to support the bid, resources must be identified from within the existing programme. The prioritisation of the proposed addition will need to be considered with reference to any reserve list of projects, as well as projects already in the programme but not yet complete.

The request for the addition will either be incorporated into the regular Corporate Quarterly Financial Monitoring report to Cabinet or Council, or approved by Cabinet and Council.

32. **Amendments to Existing Schemes**

If the proposed amendment is one of substance, which results in a scheme materially different from the original project appraisal, then the original project must be withdrawn, and a new project appraisal completed to support the new bid. If, however, the substance of the scheme remains the same, then the change can be dealt with through the Corporate Quarterly Financial Monitoring process.

Formal variations to budgets for existing projects must be completed and authorised in the following circumstances:

- Forecast total scheme outturn is materially in excess of budget

- Additional funding has become available to support a scheme
- A forecast overspend is to be funded by a forecast underspend in another project
- Funding is released due to a forecast underspend on a scheme
- A scheme is to be withdrawn from the programme

CONSULTATION

33. Consultation generated by the corporate planning process extends to the Capital Programme.

The detailed capital programme is shown at **Appendix 9**.

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Capital receipts are derived from asset sales. These could include income to the Council as lessor from finance leases.

Asset sales come from a variety of sources. Generally speaking, 100% of asset sales can be used to support capital expenditure. Sometimes the asset sale is linked directly to a capital project, for example in a relocation scheme. More often, asset sales relate to surplus assets that are held corporately and are not specific to a scheme or service.

The Council completed the transfer of its housing stock to South Lakes Housing, a registered social landlord, in March 2012. Under the terms of the transfer agreement the Council received both an initial capital receipt and will receive future capital receipts from the sale of houses, other assets and from a VAT shelter.

The amount of receipts from asset sales is dependent on both the type of asset itself and on economic and market conditions. The current economic climate has significantly reduced the number of sales and the amount of receipts.

16. **Unsupported Borrowing**

The Local Government Act 2003 introduced new flexibilities into the capital expenditure and financing rules governing local authorities. The new rules, contained in the ‘Prudential Code’, allow local authorities to set their own limits with regard to borrowing undertaken to support capital expenditure. Additional borrowing may now be undertaken, provided that it is, and can be shown to be, prudent, affordable and sustainable. This method of financing capital expenditure is called “unsupported borrowing”.

In order for unsupported borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt financing) costs. Ideally this will come from revenue savings or additional income arising directly from the capital scheme. For example, refurbishment of a building may generate maintenance and/or energy savings, or the building of a car park could generate income through charges. The cost of borrowing therefore should be borne by the service that uses the asset.

17. **Supported Borrowing**

The other form of borrowing available for funding the capital programme is supported borrowing. This is where the costs of the borrowing are part recognised in the formula grant settlement and are therefore ‘supported’. However the formula grant does not cover the full cost of the borrowing undertaken. As a district authority supported borrowing allocations are very limited, generally only housing supported borrowing allocations have been made available in recent years.

18. **Government Grants**

The conditions attached to government grants vary according to the particular grant. Some will fund the full cost of the scheme, others just a percentage, with the local authority having to fund the balance. Most, but not all, grants are time-limited. Government grants tend to be focussed towards central government priorities.

19. **Third Party Contributions**

As with government grants the conditions attached to third party contributions vary.

This category of funding is becoming of increasing importance to the Council in a climate of stretched local government resources. Included here are:

- Planning obligations funding from Section 106 agreements (developer contributions)
- National Lottery grants
- Contributions from local bodies.
- Contributions from national bodies.

20. **Revenue Contributions**

In the past revenue contributions have been a fairly minor source of capital financing for the Council due to pressures on the revenue budget. They are, however, sometimes used to top up small shortfalls in the funding required for a particular scheme.

Community Infrastructure Levy

21. The Council has introduced a Community Infrastructure Levy (CIL), the first in Cumbria. The CIL is a levy on new housing and retail development outside the National Parks. Its purpose is to assist with the delivery of infrastructure necessary to support the growth proposed in the Local Plan. 15% of the CIL receipt also goes to the Parish Council for the area in which the development takes place. The levy is expected to raise around £17m between now and 2025. Because CIL is levied when planning permission is granted but paid in instalments after building has started, it will be some time before a significant sum accumulates. The Council is currently considering its approach to CIL governance and is due to report on this in the autumn.

22. **Reserves**

The Council uses a number of reserves to fund the capital programme. There are two main types:

- Reserves used to collect specific funds to be used over a number of years, such as the Second Homes Discount reserve, the LAGBI reserve or the New Homes Bonus reserve
- Reserves can be used to smooth the timing of the application of revenue contributions, for example the IT Reserve and the General Fund Major Repair Reserve.

The Policy on Reserves and Balances gives details of the purpose of each reserve.

FUNDING STRATEGY

23. The capital funding strategy is proposed as part of the overall capital strategy and is therefore also reviewed on an annual basis.

The Council's capital funding strategy for 2017/18 to 2021/22 is set out below:

Funding streams are allocated in the following ways:

- Capital receipts are not allocated or committed prior to receipt, unless inextricably linked to a specific project.
- CIL will be allocated in accordance with the approved scheme after the deduction of the parish share. CIL will only be paid once received and in accordance with the statutory timetable.
- General fund capital receipts received during the year will be added to the un-earmarked general fund capital receipts reserve and taken into account as a potential funding source for new schemes or variations in the relevant financial year or the following financial year, subject to revenue budget considerations e.g. debt financing budget implications.
- Receipts from Right to Buy will be earmarked for the Right to Buy replacement scheme.
- General Fund capital receipts received from the capital portion of finance lease income on Council owned properties under IFRS rules will be earmarked for capital expenditure on the Council's property assets.
- Capital Reserves – Capital receipts generated by asset sales will be partly set aside in a capital reserve fund. This reserve provides a funding source for future priority schemes and emergencies.
- The only call on the earmarked general fund capital reserve during the year would be for unforeseen high priority emergency capital works that cannot be financed from alternative sources. Agreement will be through the normal channels – that is the submission of a project appraisal or variation to Cabinet with final approval by Council.
- Hypothecated funding – i.e. funding linked directly to a specific scheme or service area, such as grants, third part contributions, revenue contributions and supported borrowing – is allocated 100% to the relevant scheme or service.
- Supported Borrowing will be used if the unsupported element is affordable.
- Unsupported Borrowing will be used to fund capital investment if the cost of the borrowing is affordable. Ideally the capital investment itself will produce revenue savings, which will cover the cost of borrowing to invest.
- The IT Replacement Reserve will only be used to fund the replacement of hardware and software with a preference for the updating of the corporate and networking infrastructure.
- The Fund of Revenue Monies for Capital Purposes will only be used to provide support to the Capital Programme, to supplement the capital finance

available to the Programme by revenue contributions and to cover 'grey area' expenditure and allow flexibility in financing decisions.

- Underspends on schemes may not be automatically diverted to other schemes. This will be considered against the demands of the programme as a whole, any reserve project list and funding requirements for the following year.

The funding strategy is used to determine the allocation of funding to the programme at the start of the year and throughout the year. Depending on the timing and restrictions of the funding streams, the most appropriate funding will be used at the year end. Finance staff, under the direction of the Chief Finance Officer, will apply the available funding to the outturn expenditure in line with the best interests of the Council.

24. **Revenue Implications of Capital Projects**

The revenue implications of capital projects are identified through medium term planning and the capital appraisal process, and fed into the Council's medium term revenue budget to ensure that all revenue implications are taken into account.

25. **Leasing (Council as Lessee)**

Leases are classified in accounting terms as either finance or operating leases. This distinction is important because it dictates whether the lease must be classified as capital (finance leases) or revenue (operating leases), and different accounting treatment is required for each.

Items financed through an operating lease are coded to and financed as part of the Council's revenue budget. It is the responsibility of the budget holder to ensure that there is sufficient capacity in the revenue budget to fund the annual operating lease costs.

The Council's preference is not to enter into finance leases unless there are exceptional reasons for doing so. Where an operating lease is either not available or not suitable, a capital purchase funded by prudential borrowing generally offers greater benefits than a finance lease. The introduction of IFRS from April 2010 reduced the number of instances where operating leases can be used to finance expenditure, particularly in the case of short life assets such as IT hardware, equipment and vehicles. Where this applies it is likely that such items will be purchased through the capital programme and financed by prudential borrowing, with the revenue cost of the borrowing met from the existing service budget.

PRIORITISATION PROCESS

26. **Prioritising projects**

All bids for inclusion in the following years programme are considered according to a set of objective criteria to assist with the prioritisation of schemes and the allocation of funds. This ensures that, in a context of limited resources, the community vision and strategy and the Council's vision, values, objectives and priorities form the framework for decisions about investment priorities, and that capital allocations are made using clear impartial criteria.

The prioritisation process is linked directly to the information given on the completed project appraisals, with weighting given to schemes that strongly support the Council's objectives and priorities, and those that fulfil an urgent legal or statutory requirement.

In summary, each bid can be rated on the extent to which the project contributes:

- The Council's objectives and priorities

- Legal commitments or statutory duties, including DDA & Health & Safety issues
- Equalities
- Improvements in performance indicators
- Efficiency savings
- Value for money
- The delivery of service objectives
- Effective Asset Management
- Extent of ring fenced or specific funding
- Levels of financial risk involved
- Impact on the revenue budget and income generation

Prioritisation of the bids enables officers to put forward a recommended programme that is within available resources. The weighting within the scoring framework will be reviewed on an annual basis as part of a policy of continuous improvement and to take into account any relevant factors. Bids for work required to meet a statutory or legal obligation will be given a high priority.

The prioritised programme is for guidance only. Members are responsible for agreeing the capital programme and have the discretion to include or exclude schemes as they deem appropriate.

27. **Capital Programme 2016/17 to 2020/21 - Project Appraisals**

All bids for inclusion in the capital programme are supported by a project appraisal, the preparation of which is the responsibility of the budget holder or project manager. The project manager signs the appraisal to confirm that their Assistant Director, Director and Portfolio Holder are aware of and support the scheme.

Project appraisals have been completed for all 2016/17 to 2020/21 capital programme bids. The appraisal pro-forma has been designed to ensure that the information gathered is sufficient in order to make decisions based on the criteria set out above. Project appraisals must consider carefully the deliverability of projects to avoid slippage of the capital programme.

The de-minimus level set by the authority for capital expenditure is £10,000. Individual schemes must therefore be £10,000 and above to be included in the authorities capital programme. The only exception is where the funding for the project is external and requires the scheme to be capital.

MONITORING THE CAPITAL PROGRAMME

28. **Project management & monitoring**

Project managers are responsible for the proper and effective control and monitoring of their projects, including financial monitoring.

This includes ensuring that:

- Only capital expenditure is charged to the capital project
- Only expenditure properly attributable to the scheme is coded to the scheme
- The scheme expenditure is contained within the agreed budget, and that any ‘unavoidable’ variations are dealt with appropriately
- Realistic expenditure profiles are determined
- A realistic forecast outturn for the financial year and the project as a whole are calculated and kept under regular review
- Any slippage of expenditure from current to future years is identified
- Any grants or third party funding is applied for and all grant conditions met
- The source of any revenue funding is identified

Project managers are also responsible for carrying out project reviews following scheme completion.

The finance team is responsible for providing support and advice to assist project managers in managing and monitoring their capital budgets. It also has a key role in consolidating and co-ordinating the monitoring information that is required for reporting purposes. This involves reporting to Senior Management Team, Cabinet and Council.

29. **Capital Programme Monitoring**

The capital programme position is reported to Senior Management Team, Cabinet and Council as part of Corporate Financial Monitoring report and covers the latest programme and any amendments to be notified or approved, expenditure to date, and the forecast outturn. It also outlines the financing position and any steps needed to deal with potential financing difficulties.

At year-end, an outturn report and carry-forward requests are taken to Cabinet and Council. These will include an analysis of programme slippage to the following year, including the reasons for that slippage and how it is to be financed.

30. **Changes to the Agreed Programme**

The programme for the coming year is set and agreed by Council prior to 1st April (at the February Council as part of the Budget process), but it is essential to also have a process that then allows for changes during the year.

Changes may be required as a result of proposed additions to the programme, amendments to existing schemes or deletions from the programme. For example tenders may come in above or below estimate; difficulties may be encountered in implementation, which require a change of approach; funding may need to be released to support another more urgent priority.

31. **Proposed additions to the programme**

The need to add a scheme to the programme usually arises from either access to additional funding, such as a grant or third party contribution, or as a response to an unforeseen urgent issue (often related to legal or health and safety concerns).

In order to bid for an addition to the programme, a project appraisal must be completed and signed off in the usual way. The funding for the project must be identified at this stage. Where there is no additional funding to support the bid, resources must be identified from within the existing programme. The prioritisation of the proposed addition will need to be considered with reference to any reserve list of projects, as well as projects already in the programme but not yet complete.

The request for the addition will either be incorporated into the regular Corporate Quarterly Financial Monitoring report to Cabinet or Council, or approved by Cabinet and Council.

32. **Amendments to Existing Schemes**

If the proposed amendment is one of substance, which results in a scheme materially different from the original project appraisal, then the original project must be withdrawn, and a new project appraisal completed to support the new bid. If, however, the substance of the scheme remains the same, then the change can be dealt with through the Corporate Quarterly Financial Monitoring process.

Formal variations to budgets for existing projects must be completed and authorised in the following circumstances:

- Forecast total scheme outturn is materially in excess of budget

- Additional funding has become available to support a scheme
- A forecast overspend is to be funded by a forecast underspend in another project
- Funding is released due to a forecast underspend on a scheme
- A scheme is to be withdrawn from the programme

CONSULTATION

33. Consultation generated by the corporate planning process extends to the Capital Programme.

The detailed capital programme is shown at **Appendix 9**.

Appendix 9

The purpose of this appendix is to show the updated capital programme

Programme Spending by Project	2015/16 £000	2016/17 approved £000	Carry forward and out turn £000	2016/17 revised £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total 2016/17 to 2020/21 £000
Play Areas (including community funded schemes)	209.4	220.0	164.3	384.3	20.0	20.0	20.0	20.0	464.3
Grange Regeneration	0.0	157.3	0.0	157.3	0.0	0.0	0.0	0.0	157.3
Nobles Rest	0.0	146.4	-3.0	143.4	0.0	0.0	0.0	0.0	143.4
Ferry Nab Redevelopment Phase 1	320.6	0.0	140.9	140.9	0.0	0.0	0.0	0.0	140.9
Waterhead Public Realm	305.1	0.0	117.0	117.0	0.0	0.0	0.0	0.0	117.0
Waterhead Public Jetty	30.0	0.0	26.9	26.9	0.0	0.0	0.0	0.0	26.9
Public Realm - The Glebe	100.0	100.0	0.0	100.0	0.0	0.0	0.0	0.0	100.0
The Glebe phase 2	0.0	100.0	0.0	100.0	200.0	0.0	0.0	0.0	300.0
Kendal Town Centre Public Realm	0.0	115.0	0.0	115.0	0.0	0.0	0.0	0.0	115.0
Kendal Leisure Centre	0.0	487.0	0.0	487.0	0.0	0.0	0.0	0.0	487.0
Town Centre Improvement Fund	40.7	25.0	17.4	42.4	0.0	0.0	0.0	0.0	42.4
Wordsworth Trust contribution	0.0	0.0	0.0	0.0	42.0	0.0	0.0	0.0	42.0
Festival Infrastructure	50.0	0.0	14.8	14.8	0.0	0.0	0.0	0.0	14.8
Flood impact works	0.0	600.0	0.0	600.0	0.0	0.0	0.0	0.0	600.0
Footway Lighting	0.0	25.0	0.0	25.0	25.0	25.0	25.0	25.0	125.0
Festivals Infrastructure	0.0	50.0	0.0	50.0	0.0	0.0	0.0	0.0	50.0
Kendal Market Place Phase 2	0.0	35.0	0.0	35.0	0.0	0.0	0.0	0.0	35.0
Nobles Rest Drainage and Access Project	0.0	50.0	0.0	50.0	0.0	0.0	0.0	0.0	50.0
Children's Play Space Audit Action Plan Implimentation	0.0	20.0	0.0	20.0	20.0	20.0	0.0	0.0	60.0
Millerground Public Open Space, Access and Play Project**	0.0	25.0	25.0	50.0	100.0	0.0	0.0	0.0	150.0
IT Replacements	112.0	51.0	21.0	72.0	40.0	40.0	40.0	40.0	232.0
Customer Connect	0.0	200.0	0.0	200.0	0.0	0.0	0.0	0.0	200.0
CRM Development	0.0	60.0	0.0	60.0	0.0	0.0	0.0	0.0	60.0
Access to Services	21.8	0.0	9.6	9.6	0.0	0.0	0.0	0.0	9.6
Mobile Working	0.0	145.0	0.0	145.0	0.0	0.0	0.0	0.0	145.0
Town and Car Park signing	42.3	0.0	32.5	32.5	0.0	0.0	0.0	0.0	32.5
Westmorland Shopping Centre Car Park Refurbishment	231.5	0.0	132.5	132.5	0.0	0.0	0.0	0.0	132.5
Rydal Road Car Park, Ambleside Works to Bridge	10.0	170.0	10.0	180.0	0.0	0.0	0.0	0.0	180.0

Programme Spending by Project	2015/16 £000	2016/17 approved £000	Carry forward and out turn £000	2016/17 revised £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total 2016/17 to 2020/21 £000
Rydal Road Car Park bridge repair & widening	0.0	110.0	0.0	110.0	0.0	0.0	0.0	0.0	110.0
South Lakeland House carpark works	12.0	408.0	12.0	420.0	0.0	0.0	0.0	0.0	420.0
New Road Common	27.1	0.0	27.1	27.1	0.0	0.0	0.0	0.0	27.1
Ulverston Culvert works	0.0	0.0	400.0	400.0	0.0	0.0	0.0	0.0	400.0
Electric vehicle charging point	0.0	40.0	0.0	40.0	0.0	0.0	0.0	0.0	40.0
Car park re-surfacing	0.0	180.0	0.0	180.0	0.0	0.0	0.0	0.0	180.0
Vehicle & Plant Programme (inc bins and boxes)	1,925.0	380.0	188.1	568.1	1,599.0	60.0	1,508.0	694.0	4,429.1
Lake Patrol Boat	100.0	90.0	100.0	190.0	0.0	0.0	0.0	0.0	190.0
Composter grants	27.8	0.0	7.7	7.7	0.0	0.0	0.0	0.0	7.7
Ulverston Waste Recycling site*	0.0	0.0	0.0	0.0	770.0	0.0	0.0	0.0	770.0
Disabled Facilities Grants	604.8	500.0	99.7	599.7	500.0	500.0	500.0	500.0	2,599.7
Right to buy replacement scheme	0.0	1,683.0	0.0	1,683.0	326.0	0.0	0.0	0.0	2,009.0
Affordable & Empty Homes, Town Centre Properties.	793.8	500.0	511.3	1,011.3	500.0	500.0	500.0	500.0	3,011.3
Other Housing schemes	0.0	308.3	-194.0	114.3	0.0	0.0	0.0	0.0	114.3
Cross-a-Moor junction improvement	0.0	0.0	300.0	300.0	0.0	0.0	0.0	0.0	300.0
Loans to Housing Associations*	0.0	1,000.0	0.0	1,000.0	0.0	0.0	0.0	0.0	1,000.0
Locally Important Projects (funded from revenue)	136.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Killington land	30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kendal Museum contribution	85.0	0.0	85.0	85.0	0.0	0.0	0.0	0.0	85.0
Boiler control and emergency generator	70.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Castle Dairy New Roof	78.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Coronation Hall alterations	60.0	157.0	41.1	198.1	0.0	0.0	0.0	0.0	198.1
Former UTH tenant relocation/refurbishment	0.0	50.0	0.0	50.0	0.0	0.0	0.0	0.0	50.0
Energy-saving building enhancements	110.0	100.0	49.2	149.2	0.0	0.0	0.0	0.0	149.2
Former Knitware Factory (Ulverston) site clearance	10.0	100.0	10.0	110.0	0.0	0.0	0.0	0.0	110.0
Kendal Enterprise Centre	594.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kendal Town Hall stone work	0.0	0.0	200.0	200.0	0.0	0.0	0.0	0.0	200.0

Programme Spending by Project	2015/16 £000	2016/17 approved £000	Carry forward and out turn £000	2016/17 revised £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total 2016/17 to 2020/21 £000
Bids subject to further assessment:									0.0
Leisure sites (subject to facilities strategy)									0.0
Westmorland Shopping Centre Car Park options									0.0
Accomodation review									0.0
SLH Atrium									0.0
Employment sites									0.0
Grange Promenade works									0.0
Total	**6,137.9**	**8,388.0**	**2,546.1**	**10,934.1**	**4,142.0**	**1,165.0**	**2,593.0**	**1,779.0**	**20,613.1**

*Subject to business case **Yr 1 funded through LIPS

Appendix 9

The purpose of this appendix is to show the revised position on capital funding 2016/17 - 2020/21

	Balance April 2015 £000	Income £000	Use in capital programme £000	Support of revenue savings £000	Balance March 2021 £000
Revenue contributions	285	2,741	2,326	0	700
Second homes income reserve	0	2,750	0	2,750	0
IT replacement reserve	134	200	232	0	102
New homes bonus (capital)	339	2,180	1,284	750	485
GF MRR	558	250	612	0	196
Capital grants and contributions	337	200	537	0	0
Disabled Facilities Grant	0	1,730	1,730	0	0
Capital receipts	2,927	0	2,395	0	532
RTB receipt	3,203	4,500	2,009	0	5,694
VAT Shelter receipt	1,291	3,000	3,171	0	1,120
Total excluding borrowing	**9,074**	**17,551**	**14,296**	**3,500**	**8,829**
Funding from borrowing			**6,317**		
Total capital expenditure			**20,613**		

Appendix 10

Medium Term Financial Plan Risks and Opportunities Log

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
New.	Result of EU referendum may potentially change estimated levels of growth, inflation, interest etc.	The Council may have to amend the capital and revenue spending plans to react to changes in funding and potential increased levels of expenditure	High	Critical	Monitor impact of decision
1.	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.	Low	Marginal	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
2.	The programme of budget reductions does not deliver the required level of savings to correct the forecast inherent budget deficit.	Council will be forced to cut services and/or make knee-jerk and potentially irrational spending reductions.	Low	Critical	Universal acceptance of the problem by heightened awareness. Clear direction and identification of measures by Members and Officers. Strict project management to ensure that proposals are implemented.
3.	Resources cannot be identified to fund new service development.	Corporate outcomes may not be delivered.	Low	Marginal	Accurate assessments of spending needs to be built into the budget forecast. Project management of reduction programme.
4.	Further loss of income from investments as interest rates reduce.	Revenue budget unable to cope with reduced income	Medium	Marginal	Close monitoring of returns, already minimal levels of projected interest receipts.

Appendix 10

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
5.	• Provisions for pay, price inflation are inadequate e.g. fuel • Income falls below targets • Government grant is withdrawn suddenly	In-year budgetary pressure and potential overspending, jeopardising service delivery.	Low	Marginal	Close monitoring and short-term use of revenue contingency provision and General Reserve followed by review for following year.
6.	Government devolution approach diverts funding to other areas	Reduction in funding for other services	Medium	Marginal	Monitor proposals for extension of devolution
7.	The resilience of the budget is not re-enforced by the strengthening of reserves and balances.	Budget may not be able to cope with unexpected events and spending plans may have to be curtailed.	Low	Marginal	Close adherence to the Plan's proposals for the maintenance of reserves and balances.
8.	Government introduction of more stringent capping system through the specification of levels above which a referendum will be triggered	Revenue budget unable to cope with basic inflationary increases, further pressure on resources and service delivery.	Low	Marginal	Maintenance of General Reserve as a buffer against unexpected restriction on council tax increases. The Plan uses realistic assumptions for forward planning.
9.	Impact of rate revaluation April 2017	Reduction in income not fully offset by adjustment in tariff, particularly on appeals.	High	Serious	Monitor proposals, including appeals; review Cumbria Pool membership
10.	Government proposals for localisation of business rates increase uncertainty of major income stream.	Income streams will be insufficient to fund service delivery.	High	Critical	Monitor changes in rateable values & proposals for new development / closures/ other changes. Monitor Government proposals for changes in NNDR legislation. Maintenance of General Reserve as a buffer against unexpected changes in funding.
10a.	Government proposals for additional reliefs for business rates will not be fully funded				

Appendix 10

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
11.	Council is reluctant to take tough decisions in a number of service areas e.g. fees & charges or grants payable	Income streams may not be optimised leading to reduced resources available for spending on priority services or projected savings may not be generated	Low	Serious	Financial decisions in non-priority areas should be made on commercial principles backed by sound business cases.
12.	Budgetary control procedures are not understood and followed.	Variances from budgets are not identified and acted upon, leading to inappropriate/unauthorised spending.	Low	Marginal	Ongoing review of procedures to ensure that budget monitoring information is appropriate and meaningful. Greater emphasis on trend analysis and the use of customer data. Closer liaison between Finance staff and budget holders.
13.	Reduction in economic development funding if Cumbria LEP is unable to attract significant funding.	Inability to improve employment prospects within the district	Low	Serious	If LEP is unable to invest in economic development there will be increased pressure on the Council's capital programme to invest significant funds.
14.	Reform of New Homes Bonus	Reduction in income for affordable housing and locally important projects	High	Marginal	New Homes Bonus is not included in the base budget: indications from the consultation are that the period of bonus will be reduced from 6 to 4 years and certain new homes may be excluded if approved on appeal.
15.	Second Homes agreement expires with no replacement agreement	Reduction in income for affordable housing	High	Critical	The Second Homes income agreement with Cumbria County Council expires in March 2019: income from the agreement support affordable housing expenditure in the general fund revenue budget.

Appendix 10

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
16.	The Council is unable to meet future demand for services	Service falls below all acceptable standards.	Medium	Critical	Close monitoring of the changing needs and levels of demand and review of resource allocation.
17.	Pension funding	Budget may not be able to cope with additional costs and spending plans may have to be curtailed.	Medium	Marginal	Movement to alternative method of contribution based on set percentage for current service accrual and fixed contribution for past service costs should reduce inherent problem of declining staff base for contributions. Government reform of pension scheme should alleviate impact of declining investment returns. Rates to be agreed winter 2016/17 for April 2017.
18.	Costs of asset maintenance, as identified in the Corporate Asset Strategy, exceed resources available.	Budgetary pressures force cuts in standards of maintenance.	Medium	Critical	A quinquennial review of maintenance requirements is prepared. The General Fund Planned Maintenance fund exists to meet abnormal spending needs.
19.	Future demographic and other changes demand additional expenditure	Budget inadequate for additional spending demands/potential loss of income due to declining population	Medium	Marginal	Monitor impact of demographic changes
20.	Potential creation of Internal Drainage Board	Unavoidable Levy payable to Internal Drainage Board; under capping rules, levies would count against the Council's Council Tax capping limit.	High	Marginal	Monitor proposals, review treatment as special expense. Under new proposals for calculating council tax increases a new levy would count towards triggering a referendum.

Appendix 10

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
21.	Potential loss of surplus-generating assets through the proposed Community right to bid and/or failure of assets transferred	Budget may not be able to cope with loss of income/sudden increase in budgets required for remedial costs	Low	Marginal	Review all requests against the Asset Transfer Policy
22.	Higher that estimated increase in costs due to international political uncertainty e.g. fuel	Budget may not be able to cope with additional costs and spending plans may have to be curtailed.	Low	Marginal	Frequent budget monitoring
23.	Reduced ability to attract and retain suitably qualified staff due to Government announcements on pay restraint, pay progression, Local Government pension reform and increased NI contributions for national Single Tier pensions from April 2016.	Inability to deliver services to current levels or additional costs of temporary staff	Low	Marginal	Monitor recruitment activity
24.	Welfare reform: additional costs of implementation of Universal Credit due to need to support digital by default application process and payment to claimants rather than landlords.	Potential increase in support costs and potential increase in homelessness cases due to rent arrears. Loss of administration grant towards continuing costs	High	Marginal	Monitor proposals and respond to consultation
25.	Procurement projects: projected savings not generated	Unable to deliver estimated savings, inability to balance budget	Medium	Marginal	Review all savings proposals for deliverability, ensure specification of proposed contract is realistic.

<u>**Appendix 10**</u>

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
26.	Procurement projects: challenge to process	Potential legal costs and additional costs of service delivery until challenge resolved	Low	Marginal	All procurement exercises to follow Council's Contract Procedure Rules, which are updated for changes in legislation. Additional legal advice is procured for major or unusual procurement projects
27.	Closure of major employer	Reduction in income from business rates but increase in demand for affordable housing and council tax reduction scheme.	Medium	Marginal	Monitoring of significant employers
28.	Legal challenge, particularly of charging regimes	Potential need to refund income received and contribute to legal costs	Low	Marginal	Potential claims for significant refunds of charges e.g. land charges
29.	Increased tax avoidance, particularly of business rates	Reductions in income from business rates	Medium	Marginal	Monitor claims for reliefs, particularly empty properties
30.	Restrictions on ability to charge for car parking	Reduction in income from car parking charges	Medium	Critical	Monitor comments of Government ministers.
31.	Changes in shopping habits and other behavioural changes reduces income from Council operations	Reduction in income from markets, car parking, public halls etc	Medium	Serious	Will be incremental impact initially: monitor income and usage as part of corporate monitoring process and budgeting process
32.	Increased applications for rate reliefs and/or appeals	Reduction in income from business rates	Medium	Critical	Monitor applications for relief and appeals

Appendix 10

REF	VULNERABILITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO CONTROL THIS RISK
33.	Costs associations with flooding are flood recovery schemes not funded by Government	Potential use of reserves to offset grants and other assistance given. Council costs are not eligible for grants / incurred after deadline for spend	Medium	Serious	Monitor ongoing spend and agreements to fund

<u>Appendix 10</u>

OPPORTUNTIES

REF	OPPORTUNITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO ACHIEVE THIS OPPORTUNITY
A.	Regional Devolution	Removal of government restrictions and barriers between organisations enabling more localised decision making, for example variation in Council Tax discounts and premiums	Medium	Significant	Discussions with other public sector organisations and HM Treasury
B.	Significant increase in net dwellings increases New Homes bonus.	Additional funding to support either expansion of existing services, provision of new services or prevents reduction in existing services	High	Marginal	Maximise addition of properties (& minimise removal of properties) on valuation list by end of September annually; maximise increase in number of affordable homes through planning requirements or provision of support, financial or otherwise. Although may be significant increase in income, the Council has commitment for use on affordable housing and locally important projects.
C.	Localisation of business rates	Potentially could provide funding to support either expansion of existing services, provision of new services or prevent reduction in existing services	High	Marginal	The Government scheme of tariffs limits the potential for significant gains from increased business rates. Monitor planning applications, Local Plan proposals etc.
D.	Shared services	Potentially could provide additional funding to support either the existing level of service or enhanced service levels	High	Marginal	Review existing services, work with other public services in the area to review service provision and potential sharing of services: depends on finding a partner.

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REF	OPPORTUNITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO ACHIEVE THIS OPPORTUNITY
E.	New advances in technologies	Potentially could reduce staffing requirements or existing non-staffing costs; could permit new or enhanced services	Low	Marginal	Monitor developments in technology
F.	Community Groups wishing to take over services	Potential transfer of costs to alternative provider who may be able to provide existing services at lower cost or enhanced services at existing cost	Low	Significant	Monitor requests, including those under the Community Right to Challenge. Currently there appears little appetite or capacity for further transfers.
G.	Opportunities for generating additional income for services – relaxation of national controls e.g. planning fees	Potential increase in income	High	Marginal	Monitor proposals, respond to consultation
H.	Significant increase in economic development funding if Cumbria LEP is able to attract significant funding through bidding for Regional Growth Fund or Single Local Growth Fund monies.	Ability to improve employment prospects within the district	High	Significant	Funding is allocated directly to schemes so the Council is not involved as accountable body but funding would reduce pressure on the Council's capital programme to support economic development schemes.
I.	Cost of debt repayment lower than expected due to higher long-term interest rates and therefore PWLB premiums reducing	Need to commit less capital receipts to repayment of debt in order to deliver interest payment reductions	High	Marginal	Monitor interest rates and repay debt when premiums are minimised.
J.	Increased income from investments as interest rates improve.	Additional revenue income offsets need to find savings to balance budget deficit.	Low	Marginal	Close monitoring of returns, minimal levels of projected interest receipts in MTFP financial model.
K.	Identification and delivery of savings enable funding of	Additional revenue savings beyond those needed to offset	Low	Marginal	Close monitoring of deliverability of

Appendix 10

REF	OPPORTUNITY / TRIGGER	CONSEQUENCE	LIKELI-HOOD	IMPACT	ACTIONS TO ACHIEVE THIS OPPORTUNITY
	programme of growth and service development	budget deficit			proposed savings
L.	Corporate assets generate new income streams, either revenue or capital	Additional income to offset budget deficit or to supplement capital programme.	High	Marginal	Review each asset for alternative use or sale in accordance with the Corporate Asset Strategy

Glossary

Baseline Funding Level

The Government's assessment of the Council's share of business rates. For 2013/14 this was based on actual NNDR collected in 2009/10 and 2010/11. From 2014/15 this will be increased by inflation. From 2020 this will be based on 100% localisation of business rates.

Best Value

A general duty for local authorities to demonstrate that they deliver high quality services that provide overall value including economic, environmental and social value.

Budget

A statement defining the Council's policies over a specified period of time in terms of finance. Budgets usually include statements about the use of other resources (e.g., numbers of staff) and provide some information on performance measures.

Budget Requirement

The estimated revenue expenditure on General Fund services that needs to be financed from the Council Tax, Business Rates and Formula Grant after deducting income from fees and charges, certain specific grants and any funding from reserves.

Business rates

Income collected from non-domestic ratepayers, formally known as Non-Domestic Rates (see below).

Capital Expenditure

Spending that will provide benefit over a period of years. This includes spending on the acquisition, construction or improvements of assets (e.g. land, building, vehicles, and equipment) either directly by the Council or indirectly by grants or loans to others. Capital expenditure is defined by legislation: items falling outside of the definition must be charged to a revenue account.

Capital Programme

A schedule of the Council's capital expenditure plans for a period of several years together with the funds that will pay for that spending.

Capital Receipts

The proceeds from the sale of land or other assets. Capital receipts can be used to finance new capital expenditure within rules set down by the Government, but they cannot be used to finance revenue expenditure.

Until April 2004, the Government set proportions of receipts that were usable for capital expenditure or reserved (set-aside) for debt redemption.

Since April 2004 receipts can be re-invested in new capital expenditure, subject to affordability.

Capping

A system of controlling the spending of local authorities whereby Central Government limits a local authority's budget requirement either because it is deemed excessive or is deemed to show an excessive increase over the previous year. Direct capping by Ministers was replaced for the 2012/13 Council Tax setting process by local referendums if Council Tax increased by more than the amount specified by Ministers.

Community Infrastructure Levy (CIL)

Payment from developers for new construction: shared with parishes and must be used for agreed infrastructure projects.

Contingency

Money set-aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income and to provide for inflation that exceeds that provided in service budgets.

Council Plan

A document that sets out the Council's policies, priorities, objectives and targets for a period of several years. The Plan is reviewed annually.

Council Tax

The main source of local taxation to local authorities, Council Tax is levied on households within the South Lakeland area by the District Council and the proceeds are paid to Cumbria County Council, Cumbria Police Authority, Parish Councils and its own General Fund.

Damping

The damping mechanism ensures that each authority received a minimum cash increase, or maximum decrease, in formula grant each year: for losing councils like South Lakeland, in the past grant was maintained at this 'floor' level via redistribution from gaining authorities. Under the current arrangements the level of damping has been frozen until 2020.

Debt Charges

A term for the interest paid on loans raised and repayments of principal. Also known as capital financing costs or loan charges.

Direct Revenue Financing

See Revenue Contributions to Capital.

Estimates

The amounts which are expected to be spent, or received as income, during an accounting period. The term is also used to describe detailed budgets, which are either being prepared for the following year, or have been approved for the current year.

External Audit

The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Since October 2012 the Council's external auditors are Grant Thornton.

Fees and Charges

Income raised by charging users of services for the facilities. For example, local authorities usually make charges for the use of leisure facilities, car parks, planning, building regulations, collection of trade refuse etc.

Financial Procedure Rules

A written code of procedures approved by the Council as part of its Constitution, intended to provide a framework for proper financial management. These usually set out rules on accounting, audit, administrative procedures and budgeting systems.

Fund of Revenue Monies for Capital Purposes

A reserve set up by the Council by contributions from the General Fund revenue account to provide additional funds to supplement its capital programme and to meet one-off spending associated with capital schemes that fall outside the definition of capital expenditure in legislation.

General Fund

The main revenue account of the District Council. Day-to-day spending on services is met from the fund. Spending on the provision of Council housing, however, must be charged to a separate Housing Revenue Account if the Council increases its housing stock above a certain level of properties.

Gross Expenditure

The total cost of providing the Council's services before taking into account income from Government grants and fees and charges for services.

Growth

Any increase in spending from one year to another which enables the Authority to pay for more services (staff, goods, etc) rather than to meet higher costs.

Growth items are also referred to as investment or service development items. Proposals for growth are subject to a competitive bidding evaluation process to assess their contribution to corporate outcomes or statutory/health and safety requirements before being considered for inclusion in the revenue budget.

Housing Revenue Account (HRA)

Local authorities are required to maintain a separate account – the housing revenue account – which sets out the expenditure and income arising from the provision of Council housing. The costs of all other services are charged to the General Fund. The Council closed its HRA on 30 March 2013 following the transfer of its housing stock to South Lakes Housing, a registered social landlord.

Interest and Investment Income

Surplus cash funds held by the Council (reserves, balances, set-aside capital receipts) are invested in order to earn interest that is credited to its revenue accounts.

Internal Audit

An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Levy (business rates)

Payable to the Government: 50% of income retained by the district council over the baseline funding level.

Local Authorities Business Growth Incentive (LABGI) Scheme

The Council has a LABGI reserve which earmarked LABGI grant received for economic development activities.

Net Expenditure

Gross expenditure less specific services income, but before deduction of revenue support grant.

Non-Domestic Rates

Income collected from business ratepayers: calculated as a rateable value (set by the Valuation Office Agency, reviewed on a change in circumstances or as part of an annual revaluation: the last revaluation was in 2010 and the next will be in 2017) and a multiplier (set by Government, usually increased by inflation but capped at a 2% increase from April

2014). Collected by the district council the income is shared with central government (50%), county council (10%) and retained by the district council (40%). Tariffs and top-ups are used to equalise income to need as assessed under the old formula grant settlement but it is intended the formula will not updated from the 2013/14 local government settlement until reset in 2020. Levy of 50% is payable on income above baseline: safety net payments are available if income falls below 92.5% of baseline.

Outturn

Actual income and expenditure in a financial year.

Pooling

A number of councils can form a business rate pool: the baseline funding levels are pooled. In practice this reduces levy to be paid but also reduces the ability to claim safety net if income falls. A pool has to be approved by DCLG annually according to a pre-set timetable.

Provisions and Reserves/Funds

Amounts set aside in one year to cover expenditure in the future. Provisions are for liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. Reserves are amounts set aside which do not fall within the definition of provisions and include general reserves (or ‘balances’) which every authority must maintain as a matter of prudence.

Procurement

Procurement is the process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the whole cycle from identification of needs through to the end of a services contract or the end of the useful life of an asset. Procurement involves obtaining best value for money by choosing the option that offers the optimum combination of whole life costs and benefits to meet the customer’s requirement.

Prudential Regime/Prudential Code

Until 31 March 2004, local authorities’ capital spending was controlled by Central Government, largely by limiting their borrowing. In April 2004 the Government introduced a new prudential system for capital finance. As well as using capital receipts and revenue monies to finance capital expenditure, Councils can now borrow up to limits set by themselves so long as their decisions can be shown to be affordable and prudent. The system is governed by a statutory code which local authorities are obliged to follow.

Reserves

See Provisions and Reserves

Revenue Contributions to Capital

Resources provided from an authority’s revenue budget to finance expenditure on capital projects, frequently as a ‘top-up’ to other capital resources. Also known as Direct Revenue Financing (DRF).

Revenue Expenditure/Revenue Account

Running costs, including employees, premises, supplies, services and debt charges. These are recorded in revenue accounts together with income from Government grants, fees and charges.

Revenue Support Grant (RSG)

A grant paid by Central Government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

Grant is distributed to Councils based on the Government's assessment of their spending needs. This is determined by a set of formulae that reflect factors such as population, geography, deprivation and economic characteristics.

Right to Buy (RTB)

A Government scheme whereby tenants of Council houses are offered incentives to buy their homes. The sale proceeds represent capital receipts for the Council. Following the housing transfer some tenants still have a preserved right to buy: as part of the transfer agreement the Council shares the proceeds of sales from March 2012.

Spending Power

Term introduced by the local government finance settlement in December 2010 to take into account other sources of fund when comparing government grant allocation between authorities. Spending power is the total of Council Tax, formula grant, specific grants & NHS spending to support social care & benefit health.

Tariff

Payments to the Government due under localisation of business rates: the difference between the income expected to an authority and the authority's baseline funding level, set as part of the local government finance settlement.

Top-ups

Payments from the Government under localisation of business rates if the income expected to an authority is less than the authority's baseline funding level, the opposite of a tariff.

Treasury Management

Management of the Council's cash flow, borrowing and investments, governed by agreed policies and annual statements.

Value for Money (VFM)

A much-used term that describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. A VFM audit takes into account the economy, efficiency and effectiveness (known as the 'three Es') of a local authority service, function or activity.

Zero Based Budgeting

An approach to building budgets up from scratch which is essential when creating a new budget and useful when reviewing budgets or calculating estimates for periodic and ad hoc income and expenditure. Under this approach, estimates are constructed on the basis of the individual activities the authority plans to enter into and the particular revenues it expects to generate.

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