Allerdale Borough Council

Executive – 9 February 2022

Council – 23 February 2022

Budget 2022-23 – Revenue and Capital

Portfolio holder	Councillor Colin Sharpe PH Finance and Legal
Report from	Catherine Nicholson, Chief Officer Assets & S151 telephone no: 01900-702503 email: catherine.nicholson@allerdale.gov.uk
Wards affected	All
Is this a key decision	Yes

1.0 The reason for the decision

1.1 To present the Council's draft revenue and capital budget and the formal advice of the chief financial officer on the robustness of the estimates included in the budget and the adequacy of the reserves which support the Council's budgetary plans.

2.0 Recommendations

2.1 It is recommended that:

(i) The total planned revenue expenditure is £15,894,980 including parish precepts of £2,702,794

(ii) £15,728,915 is approved as the Council's net budget requirement for 2022-23

(iii) Allerdale's share of council tax is frozen at the current (2021-22) level (£179.72 on band D Properties).

(iv) No changes are made to the Council's Council Tax Reduction discount scheme and that the current scheme remains in place for 2022-23

(v) The revenue estimates, as approved, are used in the calculation of the basic amount of tax under Section 31 of the Local Government Finance Act 1992

(vi) The minimum level of non-earmarked general fund balances is set at £2.7m and that no maximum level is set.

(vii) the three-year capital budget (2022-23 to 2024-25) of £41,738,197 (comprising £19,760,372 in 2022-23, £15,400,055 in 2023-24 and £6,577,770 in 2024-25) is approved

(viii) the proposed three-year capital budget for 2022-23 to 2024-25 is financed as follows:
- grants and contributions ……………………..£35,885,865
- borrowing and credit arrangements (leases)...£5,216,480
- capital receipts …………………………………£635,852

3.0 Background and Introduction

3.1 The Council has a statutory responsibility to set a balanced budget for each financial year. In short, this means the Council's expenditure on services must be contained within the available funding envelope.

3.2 This report sets out the:
- outcome of the 2022-23 Budget Consultation exercise
- proposed revenue budget for 2022-23, and
- proposed capital budget for the three-year period 2022-23 to 2024-25.

3.3 This report also sets out the chief finance officer's report to the Council (made under section 25 of the Local Government Act 2003) on:

(a) the robustness of the estimates made for the purposes of the Council's budget calculations, and

(b) the adequacy (or otherwise) of the Council's financial reserves.

3.4 Members are required to have regard to the report made under s25 of the Local Government Act 2003 when making decisions about the Council's budget calculations.

4.0. Budget Consultation

4.1 Consultation with the public and other key stakeholders is essential to informing the Council's priorities and the financial plans which underpin delivery of those priorities, including the Council's annual budget.

4.2 The 2022-23 Budget consultation was held between 15 December 2021 and 10 January 2022. The consultation was accessible via the Council's website with hard-copy versions of the consultation also made available on request. The consultation document was circulated to numerous partner organisations such as town and parish councils and other local bodies and was actively promoted through the local press, the Council's website and social media. Responses could be submitted on-line using the Cumbria-wide consultation portal, by email or in hard-copy format.

4.3 The consultation document highlighted:

- the financial challenges facing the Authority and the steps being taken by the Authority to bridge the financial gap arising from the year on year reductions in central government grants
- the need for the Authority to exercise fiscal responsibility prior to the transfer of the Authority's functions to the new unitary Authority on 1 April 2023
- the significance of council tax income in meeting the cost of providing council services and delivering on the Authority's obligation to set a balanced budget.

4.4 The consultation gave an opportunity to residents, local businesses and partners to indicate whether they would support:

- an increase in Council Tax of £5.00 a year on a band D property (a below inflation increase of 2.78% across all Council Tax bands) to avoid having to make even more savings
- no increase in Council Tax - which would mean additional savings would need to be identified across council services for 2022-23.

4.5 At the closing date, the Council had received a total of 830 responses to the consultation. The majority of these (around 90%) were from local residents with a small number from local businesses and other organisations.

Key message from the Budget Consultation

4.6 On options for next year's Council Tax, the majority of respondents (73%) stated that they supported no increase in Council Tax, whilst 27% of respondents indicated support for an increase of £5.00 a year on a band D property (with proportionate increases for other Council Tax bands).

5.0 National and Local Context

2021 Autumn Budget and Spending Review

5.1 The Autumn Budget and Spending Review 2021 (SR 21) was presented to Parliament on 27 October 2021. It was accompanied by publication of the latest official forecasts for the economy and public finances from the Office for Budget Responsibility (OBR) in its Economic and Fiscal Outlook.

5.2 The 2021 Spending Review sets central government departmental resource and capital budgets for the next three years (2022-23 to 2024-25) and the devolved administrations' block grants for the same period. Following single-year Spending Reviews in 2019 and 2020, SR 21 represents the first return to multi-year statements since 2015.

5.3 Since the March 2021 Budget, the UK has exited lockdown and removed most public health restrictions. This has facilitated an economic recovery. Many of the Government's pandemic-related support schemes have now ended. While high levels of Covid-19 cases highlight the continued uncertainty over the future path of the pandemic, the 2021 Autumn Budget was the first in over two years not to be dominated by managing the pandemic. The effects of the pandemic, however, were still front and centre in the policy decisions and the OBR's forecasts for the economy and public finances.

OBR Economic and Fiscal Outlook report

5.4 The 2021 Spending review is set within the context of the latest forecasts for the economy and public finances from the Office for Budget Responsibility (OBR), published on 27 October 2021 in the October 2021 Economic and Fiscal Outlook. These forecasts take into account Government policies announced up to and including the October 2021 Budget and Spending Review and update the previous forecasts published in March 2021. Whilst noting the considerable uncertainty surrounding the post-pandemic outlook, the OBR's October forecasts highlight a stronger than expected recovery from the economic and fiscal damage caused by the pandemic.

5.5 In the OBR's central projections:

- although there are indications that the pace of recovery has begun to slow in recent months UK GDP is expected to grow by 6.5% in 2021, compared with 4.0% in its March 2021 forecast. After expected growth of 6.0% in 2022, economic growth (GDP) is then expected to tail off to 2.1% (2023), 1.3% (2024), 1.6% (2025) and 1.7% (2026) in the following years.
- whilst temporary supply disruption will to continue to restrain growth in the near-term, UK GDP is expected to continue its recovery, regaining its pre-pandemic (2019) level around the turn of the year, some months earlier than was forecast in March
- estimates of the sustained economic damage ("scarring") caused by the pandemic have been lowered. Previously, the OBR forecast GDP to be 3% lower in the "medium term" compared with its pre-pandemic trajectory. This has been reduced to 2% although the OBR stressed the large degree of uncertainty associated with this forecast.
- CPI inflation is expected to peak at 4.4% during the second quarter of 2022 with additional developments since the OBR closed its forecasts (on 24 September) being consistent with inflation peaking at close to 5% next year. This compares with twelve-month CPI inflation of 3.1% in September 2021 and a low of 0.3% in November 2020. After remaining well below target during most of the pandemic, CPI inflation has risen sharply in recent months. Part of the recent increase can be attributed to the arithmetical effect on the annual comparison of unusually low prices a year earlier. The rise also reflects increases in global commodity prices, which have raised fuel price inflation in particular. In addition, bottlenecks have emerged in global product markets and there have been signs of excess demand in the domestic economy, raising the prices of other goods.
- unemployment is expected to peak at 5.2% in the fourth quarter of 2021 (down from the 6.5% predicted in March) before falling back to 4.5% by the end of 2022 and settling at around 4.2% by the end of 2023. The OBR

attributes this improvement to the faster than expected growth and success of government support schemes such as the furlough scheme.

- forecasts for average wage growth in 2021-2023 have been revised upwards to 5.0% and 3.9% respectively. This is attributed partly to labour shortages in some sectors.
- the budget deficit (government borrowing) is expected to be £183bn (7.9% of GDP) in 2021-22, compared to £234bn (10.3% of GDP) forecast in March and a peak and peacetime record of £320bn (15.2% of GDP) in 2020-21. Borrowing is expected to fall sharply to £83bn (3.3% of GDP) in 2022-23 as pandemic support rolls off, before declining more gradually to reach £44.0bn (1.5% of GDP) in 2026-27. This leaves borrowing at the forecast horizon 1.0% of GDP lower than it was before the pandemic in 2019-20, and at a level that would be the lowest for 25 years.
- lower borrowing over the forecast period means that total public sector net debt i.e. accumulated government borrowing, as a proportion of the value of annual economic output (GDP), is projected to peak below 100% of GDP at 98.2% in 2021-22. This compares with 83% of GDP in 2019-20 and 96.6% in 2020-21. After remaining broadly stable in 2022-23 and 2023-24, it is then expected to gradually decline, as economic growth outpaces increases in debt, to reach 88.0% of GDP in 2026-27. By 2024-25 debt is still over 19% of GDP above its pre-pandemic level but 11.5% of GDP lower than we forecast in March.
- on an underlying basis, net debt excluding the Bank of England Bank, peaked at 86.1% of GDP last year. It is expected to remain broadly steady in forthcoming years before falling in 2025-26 and 2026-27. Excluding the Bank of England means that this measure of underlying debt isn't affected by some temporary policy measures that the Bank has taken following the EU referendum and pandemic

5.6 In September, the Chancellor stated that the Spending Review would follow the path set out at the March 2021 Budget, plus the extra money raised by the new Health and Social Care Levy and the increase to dividends tax rates. However, the improved underlying economic and fiscal outlook presented in the OBR's October report, coupled with the decision not to reverse the tax rises announced in and since the March 2021 Budget, allowed the Chancellor to increase the spending review envelope.

5.7 The increases in public spending announced will, according to OBR forecasts, take public spending as a share of GDP up from 39.8% before the pandemic to 41.6% in 2026-27.

Spending review 2020-21 (SR 21) - Spending Priorities

5.8 The published Autumn Budget and SR 21 document is laid out across the following key themes:

i. **Investing in growth** - through a range of changes to the taxation system and by increasing capital expenditure on research and development from £14.8bn in 2021-22 to £20.0bn in 2024-25; through further investment in infrastructure across road, rail, digital and locally and by a package of additional measures aimed at boosting skills.

ii. **Supporting people and businesses** - through a range of measures, including reducing the taper on Universal Credit from 63% to 55% and a 6.6% increase to the National Living Wage (NLW), to £9.50 an hour, starting on 1 April 2022. There will also be adjustments to business rates, including a temporary relief of £1.7bn across 400,000 retail, hospitality and leisure properties in 2022-23, a freeze on the business rates multiplier for 2022-23 and a new business rates relief for investment in property improvements from 2023.

iii. **Building back greener** - through measures aimed at reducing transport as an emitter of greenhouse gases; extending efforts to reduce greenhouse contributions from buildings; supporting decarbonisation of energy and industry through new technologies and protecting and enhancing the natural environment.

iv. **Levelling up** - with the government publishing a Levelling-Up White Paper by the end of the year, setting out in more detail the framework and next steps towards levelling up opportunities and boosting livelihoods across the country. SR21 has also announced the first £1.7bn of allocations through the Levelling-Up Fund.

v. **Advancing Global Britain** - through government policy on development on diplomacy, tackling global challenges and defence and security.

vi. **Seizing opportunities of Brexit** - through measures on alcohol duty reform, a package of reforms to air passenger duties and developing freeports in Scotland, Wales and Northern Ireland.

5.9 SR 21 was delivered within the constraints of a new set of fiscal rules codified in a revised draft *Charter for Budget Responsibility* published alongside the Autumn Budget and SR 21. These include a revised fiscal mandate and three supplementary targets. Subject to parliamentary approval, these will replace those in the existing *Charter*, in which the near-term targets expired in 2020-21.

5.10 The new fiscal mandate is:

- to have public sector net debt (excluding the Bank of England) as a share of GDP falling by the third year of the rolling forecast period.

5.11 The three supplementary targets are:

i. to balance the current budget by the third year of the rolling forecast period.
ii. to ensure that public sector net investment does not exceed 3% of GDP on average over the rolling five-year forecast period
iii. to ensure that a subset of expenditure on welfare is contained within a predetermined cap and margin set by the Treasury (the 'welfare cap').

Departmental budgets

5.12 Total departmental spending is set to grow in real terms at 3.8% a year on average over the current Parliament – a cash increase of £150bn a year by 2024-25 (£90bn in real terms). With the exception of the Ministry of Defence all central government departments will see a real terms rise in spending although the scale of those increases are not evenly distributed. Some departments (such as the Department for International Trade and the Cabinet Office) will have day-to-day budgets that are essentially flat in real terms. Others (such as Local Government, Transport and Health and Social Care) will see average annual real terms growth of over 4%. In cash terms just two departments (the Department for Health and Social Care and the Department for Education) between them account for over half of all the extra funding allocated across the Review period.

5.13 The total Resource Departmental Expenditure Limit (the amount of money allocated for day-to-day departmental spending) is set to grow in cash terms by over £100bn a year over the Parliament. This is equivalent to an average annual real increase of 3.3% from 2021-22 to 2024-25. The increase is however heavily front-loaded to the start of the period, with a 4.4% real-terms increase in overall spending in 2022-23 relative to the previous year. Spending then increases by 1.2% in real terms in 2023-24 and finally by 0.5% in 2024-25.

5.14 The Local Government Departmental Expenditure Limit (LG DEL) will rise by £3.6bn by 2024-25; an average annual real terms increase of 9.4% from 2021-22 to 2024-25. This includes £2bn in 2024-25 related to the income from the health and social care levy, intended to fund the reforms set out in the adult social care reform command paper.

5.15 Specific announcements included in the 2021 Spending Review and of direct relevance to local government include:

- an estimated increase in core spending power for local authorities - the amount of money local authorities have to spend from government grants, council tax, and business rates - of 3% in real-terms each year over the spending review period. Much of this is intended to fund reforms to social care. Local authority spending power will be 13% higher in real terms in 2024-25 than in 2019-20 as a result of increases in central grants and locally raised council tax and business rates. Measured against the 2021-22 baseline, Core Spending Power (CSP) is projected to increase by £3.3bn in 2022-23, a real-terms increase of 3.4% (i.e. a cash increase of 6.5%).

- £4.8bn of new grant funding over the SR21 period for social care and other services. This includes an additional £200m for the Supporting Families programme (formerly Troubled Families), funding for cyber security and funding to improve local delivery and transparency. This funding is in addition to the £5.4bn of Social Care Reform funding from the Health and Social Care Levy announced in September, £3.6bn of which will be routed through local authorities in order to implement the lifetime cap on personal care costs and expand means tested support to people with less than £100,000 in relevant assets.
- an expectation that the Council Tax referendum limit will remain at 2% per annum for the Spending Review Period, with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept. However, with inflation potentially as high as 5% this year, this implies a real-term cut in local authority council tax receipts. No announcements were made about whether there will be an extension of the additional funding to support authorities with increased costs of Localised Council Tax Support.

5.16 The estimated increase in core spending power includes the £3.6bn of additional central government grants to implement the social care reform. Excluding these grants, local authority spending power is set to rise just below 1.9% in real terms each year over the spending review period and to be 9.1% higher in 2024-25 than in 2019-20. Excluding the money for social care reform, £4.7bn (26%) of the increase in local authority spending power between 2021-22 and 2024-25 is from grants and £13.3bn (74%) will come from locally raised council tax and business rates.

5.17 The increase in core spending power is front-loaded. Authorities will receive an increase in 2022-23, and this will remain for the SR period, but will not increase significantly. CSP increases in future years will come from the adult social care reform funding and from council tax. Future increases in core spending power will therefore be dependent on councils increasing council tax by the maximum amount permitted.

5.18 Other announcements relevant to local government included:

- £34.5m of additional funding over the SR21 period to further strengthen local delivery and transparency. This funding will help strengthen the sector’s procurement and commercial capacity, establish the Audit Reporting and Governance Authority as the new local audit systems leader, and help local councils meet new transparency requirements.
- funding of £38m to support authorities with cyber security
- £560m to be provided for youth services as part of the levelling up agenda. There will also be new funding for community football pitches (£200m+), to support museums and libraries (£800m), and for 100 new ‘pocket parks’ on small areas of derelict land.
- an end to the one-year public sector pay freeze with the intention being to return to the usual system of independent pay commission

recommendations for ‘fair and affordable’ pay rises over the whole Spending Review period

- an increase the National Living Wage for individuals aged 23 and over by 6.6% from £8.91 to £9.50 an hour effective from 1 April 2022. There will also be increases to the National Minimum Wage rates for younger people and apprentices.
- new funding for education recovery after the pandemic, as well as funding for skills, apprenticeships, and early years initiatives
- funding for development priorities such as climate finance, nature and biodiversity, green growth, women and girls, humanitarian preparedness and response, and Covid vaccines. Aid spending will return to 0.7% of GNI in 2024-25, if certain conditions about the state of the public finances are met.
- funding for the Shared Prosperity Fund, replacing EU structural funding in the UK
- funding for housing, including an additional £1.8bn for housing supply, £639m in funding by 2024-25 to end rough sleeping and £65m to ‘digitise’ the planning system
- transport investment, including for rail, roads, city region transport settlements, buses, cycling and the transition to electric vehicles
- funding of more than £300m to implement free, separate food waste collections in every local authority in England from 2025.

5.19 The conclusions of the government’s latest fundamental review of the business rates system were also published alongside the Autumn Budget and Spending Review 2021. To reduce the burden of business rates in England, support investment, and make the system more responsive, the government announced:

- a freeze to the business rates multiplier for a second year, from 1 April 2022 until 31 March 2023, keeping the multipliers at 49.9p and 51.2p rather than rising by inflation
- the introduction of a new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022-23. Eligible properties will receive 50% relief, subject to a cap of £110,000 per business cap.
- a new 100% improvement relief, to take effect from 2023 and be reviewed in 2028, providing 100% relief for 12 months from higher bills for occupiers where eligible improvements to an existing property increase the rateable value.
- the introduction from 1 April 2023 until 31 March 2035, of targeted business rate exemptions for eligible plant and machinery used in on-site renewable energy generation and storage, and a 100% relief for eligible heat networks, to support the decarbonisation of non-domestic buildings
- an increase in the frequency of business rates revaluations so that they take place every 3 years instead of every 5 years, starting in 2023, measures to support the accuracy of the list and additional funding to the

Valuation Office Agency to support the delivery of the new revaluation cycle

- an extension of transitional relief for small and medium-sized businesses and the supporting small business scheme, for one year following delay to 2023 of the next revaluation. This will restrict bill increases to 15% for small properties (up to a rateable value of £20,000 or £28,000 in Greater London) and 25% for medium properties (up to a rateable value of £100,000), subject to subsidy control limits. A consultation on the Transitional Relief scheme for the 2023 revaluation will be carried out in 2022.

5.20 Local Authorities are expected to be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs.

5.21 The Government had previously used the 2019-20 settlement announcement to reaffirm its intention to move to 75% local retention in 2020-21. Along with the Fair Funding Review (also known as the Review of Relative Needs and Resources), previously scheduled to take place in 2019, implementation was subsequently pushed back to 2021-22. However, in April 2020 the Government announced that, in order to allow councils to focus on meeting the immediate public health challenge posed by the pandemic, the Fair Funding Review and the move to 75% business rates retention, would no longer be implemented in 2021-22.

5.22 Neither SR 20, published in November 2020 or the 2021-22 local government finance settlement published in February 2021 provided further update on planned local government funding reform (fair funding review, 75% business rates retention, full reset of business rates baselines or alternative business rates retention system) or on revisions to proposed implementation dates. The government did however, announce at SR 20 that it had decided not to proceed with a reset of business rates baselines in 2021-22. The SR 20 papers also stated that the Government would consult on reforms to the New Homes Bonus shortly, with a view to implementing reform in 2022-23.

5.23 No announcements were made at SR21 about the future of the fair funding review (Review of Relative Needs and Resources), the move to further business rates retention, the business rates reset or new homes bonus reform.

<u>Local Government finance report and provisional settlement 2022-23</u>

5.24 The provisional local government finance settlement for 2022-23 was issued on 16 December 2021 and sets out the distribution of centrally allocated resources for local authorities in England. The final 2022-2023 settlement is expected to be laid before the House of Commons in late January or early February 2022. The 2022-23 local government finance settlement is for one year only and is based on the Spending Review 2021 (SR21) funding levels. Following single year settlements in 2020-21 and 2021-22, this is the third consecutive one-year settlement and the first time since 2015 that, in the context of a multi-year Spending Review, the government has provided local authorities with only a single-year settlement.

5.25 Key announcements included in the provisional local government finance settlement for 2022-23 and relevant to the Authority include:

- **Council Tax** - as previously announced in the Spending Review 2021, the council tax referendum limit for 2022-23 will be 2%, with social care authorities being allowed a social care precept of up to 1% (over the existing core referendum threshold of 2%). The provisional settlement also confirmed district councils will be allowed to apply the higher of the core referendum limit or £5 (on a band D property), without triggering a referendum and that social care authorities will be able to use the unused parts of the 3% social care precept flexibility available in 2021-22 in 2022-23. Town and parish councils continue to be excluded from the referendum principles.
- **Business Rates Retention** - as announced at SR21, the business rates multiplier will be frozen for 2022-23. The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) will therefore remain unchanged (except for pilots, where amounts have increased to reflect grants rolled in). The under-indexing multiplier grant has however been increased, in order that local authorities do not lose what would have been the increase to the multiplier (as per previous years when a cap was applied).
- **Revenue Support Grant** - for those authorities still receiving Revenue Support Grant **(**RSG), this has been increased by 3.1% in line with what would have been the increase to the multiplier (CPI inflation for the 12 months to September 2021). In addition, two New Burdens grants; the Electoral Registration grant and the Financial Transparency of Local Authority Maintained Schools grant have been rolled into RSG and distributed on the basis of the 2013-14 shares of Settlement Funding.
- **New Homes Bonus -** there have been no changes to the scheme for 2022-23 with the overall allocation for each authority based on the legacy payments for 2019-20 plus the 2022-23 allocations. As previously announced, there will be no legacy payments for the new 2022-23 allocations or for the 2020-21 and 2021-22 allocations. The threshold over which the bonus is paid is unchanged at 0.4%. The 2022-23 allocations have been announced at £554m. This represents a reduction of £68m on 2021-22.
- **Rural Services Delivery** (RSDG) - for 2022-23, the total funding of £85m and the individual allocations remain unchanged from 2021-22
- **Lower Tier Services Grant** - a continuation of the lower tier services grant for a further year, with a total amount allocated remaining unchanged at £111m. The distribution methodology also remains unchanged, meaning individual authority allocations will differ slightly in comparison to last year. For 2022-23, £90.5m (2021-22 £86m) will be distributed in line with the 'lower-tier' element of the 2013-14 settlement

funding assessment. The remaining £20.5m (2021-22: £25m) will be allocated to provide a funding floor to ensure no authority has a total Core Spending Power less than in 2021-22

- **Services Grant** - a new one-off un-ringfenced grant worth £822m in 2022-23. This new grant will be distributed through the existing formula for assessed relative need across the sector, using 2013-14 shares of Settlement Funding Assessment. This will provide funding to all tiers of local government in recognition of the vital services, including social care, delivered at every level of local government. It includes funding for the additional costs arising from the increase in employer National Insurance Contributions which will take effect in 2022-23. Government has indicated its intention for this to be a one-off grant for 2022-23 and that it will work closely with local government on how to best use this funding from 2023-24 onwards. The government has also confirmed there will be no transition arrangements for changes to this aspect of Core Spending Power in future years.

5.26 The Settlement outlines the Settlement Funding Assessment (SFA) (comprising Revenue Support Grant and retained business rates income (baseline funding)) for local authorities and the Government's assessment of Core Spending Power of local authorities. Core Spending Power (CSP) is the Government's measure of the core components of local government funding. It comprises the aggregate of the Settlement Funding Assessment, assumed income from Council Tax, New Homes Bonus, Rural Services Delivery Grant and a number of other grants. The Settlement Funding Assessment (and CSP estimate) does not include any locally retained growth in business rates.

5.27 Nationally, the government's figures indicate that Core Spending Power will, in cash terms increase by an average of +6.9% in 2022-23. This is based on the assumption that every council raises their council tax by the maximum permitted without a referendum and that the annual growth in the council tax base remains consistent with the growth achieved by each local authority between 2017-18 and 2021-22. For the local government sector as a whole, the cumulative change in Core Spending Power over the period 2015-16 to 2021-22 is +20.6% in cash terms

5.28 For Allerdale the figures in table 1 highlight a reduction in the Council's core spending power by around 5.1% in cash terms from £11.534m in 2015-16 to £10.951m in 2022-23. This includes a reduction of approximately £1.94m (33.5%) in the Settlement Funding Assessment, offset by:

- a projected increase of approximately £1.2m (26.5%) in council tax income (based on the Governments assumptions regarding base growth and increases in council tax levels in line with the maximum permitted without a referendum) and
- a net increase of approximately £0.16m (13.4%) in the levels of New Homes Bonus, Rural Services Delivery Grant and other grants over the period.

Table 1: Settlement Funding Assessment (SFA) & Core Spending Power

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Revenue Support Grant	2,523	1,700	1,061	652	196	199	200	207
Baseline funding	3,284	3,346	3,414	3,517	3,597	3,656	3,656	3,656
Total – SFA	**5,807**	**5,046**	**4,475**	**4,169**	**3,793**	**3,855**	**3,856**	**3,863**
Assumed Council tax	4,537	4,714	4,920	5,100	5,304	5,400	5,552	5,739
New Homes Bonus	1,079	1,533	1,612	1,004	838	606	262	291
Rural Services Delivery Grant	63	324	261	326	326	326	342	342
Lower Tier Services Grant	-	-	-	-	-	-	156	164
Services Grant	-	-	-	-	-	-	-	252
Multiplier Comp. Grant[1]	48	48	51	80	117	147	190	300
Core spending power	**11,534**	**11,665**	**11,319**	**10,679**	**10,378**	**10,334**	**10,358**	**10,951**
Annual change		1.1%	-3.0%	-5.7%	-2.8%	-0.4%	0.2%	5.7%
Cumulative change		-	-1.9%	-7.4%	-10.0%	-10.4%	-10.2%	-5.1%

[1]Compensation for under-indexing the business rates multiplier

5.29 The revenue support grant element of the Council's Settlement Funding Assessment has fallen by over 90% from £2.523m in 2015-16 to £0.207m in 2022-23. Since the implementation of Business Rates retention in 2013-14, baseline funding amounts have typically increased in line with inflation.

5.30 The reductions in RSG, which underpin the reduction in the Settlement Funding Assessment, were originally timetabled to coincide with the planned transition to 100% local rates retention in 2019-20. However, following the snap 2017 General Election and the subsequent fall of the Local Government Finance Bill 2016-17, this policy was paused. The Finance Bill would, amongst other things, have provided the legislative framework for the introduction of 100% Business Rates Retention (BRR). Without a change to primary legislation a move to 100% BRR is not possible. As noted above, whilst the Government subsequently used the 2019-20 settlement to announce its intention to move to 75% local retention in 2020-21 this, along with the Fair Funding Review originally scheduled to take place in 2019 has since been delayed.

5.31 The provisional local government finance settlement for 2022-23 provided no further update on the planned local government funding reforms (i.e. Fair Funding Review, 75% Business Rates Retention, the full reset of the business rates baselines or the potential Alternative Business Rates Retention System). Indications are that the government intend to make further announcements in relation to funding reforms in 2022, before consulting on any potential changes.

6.0 Local Government funding - resources available to support the 2022-23 Revenue Budget

6.1 The Council's net revenue budget is funded from the following:

- Central Government grants (including revenue support grant, rural services delivery, new homes bonus on other government grants)
- the Business Rate Retention Scheme (non-domestic rates)
- Council Tax
- Income from fees and charges
- Interest and investment income.

Central Government Support

6.2 Following introduction of the Business Rate Retention Scheme (BRRS) in April 2013, central government support for local government (the Settlement Funding Assessment) now comprises two main funding streams:

i. Revenue Support Grant (RSG), and
ii. amounts funded through the Business Rates Retention scheme (the (NNDR) baseline funding level).

6.3 The Settlement Funding Assessment represents the Authority's share of central government's local government spending control total. In addition to the Settlement Funding Assessment, there are also various specific grants (sometimes called targeted grants) distributed outside the settlement. The basis on which these grants are distributed varies from grant to grant. They include non-ringfenced grants, which have no accompanying restrictions on what councils can spend the money on, and ring-fenced grants where the expenditure is controlled to fund a particular service that is a national priority.

Revenue Support Grant (RSG)

6.4 Revenue Support Grant (RSG) is a non-ringfenced central government grant that can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to local authorities is established through the local government finance settlement.

6.5 The Council's Revenue Support Grant for 2022-23, included in the Provisional Finance Settlement for 2022-23, is £207,132. An increase of £6,646 (3.3%) on the amount received in 2021-22 (£200,486). The majority of this increase (£6,064) reflects an inflationary uplift of just over 3% in line with what would have been the increase to the business rates multiplier (CPI inflation for the 12 months to September 2021). The balance of the year on year increase reflects the Authority's share of the new elements being rolled into Revenue Support Grant for 2022-2023 (i.e. the Individual Electoral Registration grant (£1.1m) and the Financial Transparency of Local Authority Maintained Schools grant, £0.8m).

6.6 Despite this modest increase, the amount of RSG receivable by the Authority in 2022-23, remains £4.6m lower than the amount paid to the Authority in 2013-14. A reduction of (96%).

Rural Services Delivery Grant (RSDG)

6.7 Rural Services Delivery Grant (RSDG) is a non-ringfenced section 31 grant paid by central government to rural authorities in recognition of the extra costs of delivering public services in sparsely populated areas. The grant is paid to the upper quartile of authorities based on the super-sparsity indicator, a proxy for rurality which ranks authorities by the proportion of the population which is scattered widely using census data and weighted towards the authorities with the sparsest populations.

6.8 For 2022-23 no changes were made to the national allocation (£85m) or distribution methodology applied to this grant. The Authority's RSDG allocation for 2022-23 is therefore £341,633; the same amount received in 2021-22.

New Homes Bonus Grant

6.9 The New Homes Bonus grant was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. It match funds the council tax raised on the net number of additional new homes and long term empty properties brought back into use and is based on data included in the Council Tax Base Return (CTB1) submitted in October each year. In two-tier areas the bonus is split 80:20 between the district and county councils.

Table 2: New Homes Bonus Grant

Year	Year of Payment (Allerdale Borough Council Share)					
	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
2011-12						
2012-13						
2013-14	222					
2014-15	469					
2015-16	277	277				
2016-17	458	458	458			
2017-18	178	178	178	178		
2018-19		91	91	91	91	
2019-20			111	111	111	111
2020-21				226		
2021-22					59	
2022-23						180
Total	**1,604**	**1,004**	**838**	**606**	**261**	**291**

6.10 The provisional allocations of New Homes Bonus funding for 2022-23 were announced in December 2021. Final allocations are expected to be published alongside the final local government finance settlement in late January or early February 2022. The Council's allocation of New Homes Bonus grant funding for 2022-23 is £291,259. An increase of £29,745 on the £261,514 received in 2021-22. This is paid as a non-ring-fenced grant meaning the Council is free to decide how to spend it and can spend it on either revenue or capital or place it in reserves.

6.11 Following changes announced in 2016, the number of years during which New Homes Bonus payments are made was reduced from six to five years in 2017-18 and to four years from 2018-19. Further changes to New Homes Bonus legacy payments were made in 2020-21, with the cessation of legacy payments in respect of allocations for 2020-21 and subsequent years. The changes made to New Homes Bonus funding in 2016 also included the introduction, from 2017-18, of a national baseline for housing growth of 0.4% of council tax base (weighted by band), below which the Bonus will not be paid

6.12 No further changes have be made to the scheme for 2022-23 with the overall allocation for each authority based on the legacy payments for 2019-20 plus the 2022-23 allocations. As previously announced, there will be no legacy payments for the new 2022-23 allocations or for the 2020-21 and 2021-22 allocations. The threshold over which the bonus is paid is unchanged at 0.4%.

6.13 The Government has not yet responded to its consultation on New Homes Bonus reform which was ran from 10 February 2021 to 7 April 2021.

<u>Other government Grants - Lower Tier Services Grant</u>

6.14 The Lower Tier Services Grant is a un-ringfenced grant, payable to local authorities with responsibility for lower tier services (for example, homelessness, planning, recycling and refuse collection, and leisure services). Introduced in the 2021-22 local government finance settlement, the grant was made in response to the exceptional circumstances faced by authorities and was to be paid on a non-recurring basis.

6.15 However, in the provisional settlement for 2020-23 it was announced that the lower tier services grant would continue for a further year, with a total amount allocated remaining unchanged at £111m. The distribution methodology also remains unchanged, meaning individual authority allocations will differ slightly in comparison to last year. For 2022-23, £90.5m (2021-22 £86m) will be distributed in line with the 'lower-tier' element of the 2013-14 settlement funding assessment. The remaining £20.5m (2021-22: £25m) will be allocated to provide a funding floor to ensure that no authority has a total Core Spending Power less than in 2021-22.

6.16 The Authority's Lower Tier Services Grant allocation for 2022-23 is £163,980, an increase of £8,524 or 5.5% on the 2021-22 allocation of £155,726.

Other Grants – 2022-23 Services Grant

6.17 The 2022-23 Services Grant is a new one-off un-ringfenced grant, which will allocate £822m to local authorities. This new grant will be distributed through the existing formula for assessed relative need across the sector, using 2013-14 shares of Settlement Funding Assessment and provide funding to all tiers of local government. It includes funding for the additional costs arising from the increase in employer National Insurance Contributions which will take effect in 2022-23. Government has highlighted its intention for this to be a one off grant for 2022-23 and that it will work closely with local government on how to best use this funding from 2023-24 onwards. The government has also confirmed there will be no transition arrangements for changes to this aspect of Core Spending Power in future years.

6.18 The Authority's Services Grant allocation for 2022-23 is £252,008.

Business rates (non-domestic rates - NNDR)

6.19 Under the business rates retention scheme, 40% of business rates (NNDR) collected is retained by the Council. The remainder is paid to Central Government (50%) and Cumbria County Council (10%). The scheme also provides that certain sums are to be treated as being outside the scheme and retained in their entirety by the Council (or by the Council and the County Council). The Council is also able to retain the growth in the local share of business rates, subject to the payment of a levy to central government, designed to prevent disproportionate increases in the Council's funding as a result of growth in business rates income.

6.20 A system of top-up and tariffs ensures the Council's share of estimated business rates income (business rates baseline) does not exceed the level of funding to be provided through the business rates retention scheme (baseline funding). Tariffs, top-ups and baseline funding levels are normally indexed each year in line with the small business rates multiplier (usually set at the September RPI). Top-up, tariffs and baseline amounts have also been adjusted to ensure that the impact of the 2017 revaluation was revenue neutral for local authorities.

6.21 As noted above, at the 2021 spending review central government announced its decision to freeze the business rates multiplier in 2022-23. As a consequence, the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) normally subject to annual indexation, will remain at 2021-22 levels. The Council's baseline funding for 2022-23 is £3.656m and the amount of tariff payable is £7.418m. Authorities will be fully compensated for the freezing of the business rates multiplier in 2022-23 by way of a grant payment made under Section 31 ('s31') of the Local Government Act 2003.

6.22 The amount of business rates income available to the Council's general fund and taken into account when setting the budget, is based on an estimate made in January preceding the start of the financial year and included in the government return NNDR 1 (i.e. January 2022 for the 2022-23 Financial Year). The estimate of business rate income, reported in the government return NNDR 1, also determines how much the Council must pay to central government and the County Council during the course of the year.

6.23 The estimate of business rates income takes into account any projected changes in the NNDR tax base, estimated losses due to appeals and expected collection rates. The amounts paid to the County Council and central government and the amount retained by the Council are fixed at the outset of each year (based on the estimates included in the Council's NNDR 1 return). As a consequence, any difference between estimated amounts and the actual amounts receivable will result in a surplus, or deficit on the Council's Collection Fund. An estimate must therefore be made by the Council of the surplus or deficit on the Collection Fund at the end of the previous financial year. This estimated amount is then shared between the Council, Cumbria County Council and central government and added (or subtracted) from each Authorities share of the following year's non-domestic rating income. The estimated Collection Fund deficit at 31 March 2022 relating to business rates is £8,348,958. The Council's share of this deficit is £3,339,583.

Table 3: Allocation of collection fund deficit (business rates) at 31 March 2022

	Share of surplus/ (deficit)	**Allocation**		
		2022/23	**2023/24**	**2024/25**
	£000	**£000**	**£000**	**£000**
Allerdale Borough Council	(3,340)	(3,340)	0	0
Central Government	(4,174)	(4,174)	0	0
Cumbria County Council	(835)	(835)	0	0
Total estimated deficit	**(8,349)**	**(8,349)**	**0**	**0**

6.24 During 2020-21, the government introduced several additional and extended business rates reliefs in response to the Covid-19 pandemic. This included the increased and expanded retail discount scheme that provided 100% relief for eligible Retail, Hospitality & Leisure properties and the Nursery discount scheme. At Budget 2021 (3 March 2021), the government announced these reliefs would be extended into the first quarter of 2021-22 and would then continue at a reduced level of 66% (with the 66% scheme subject to a cap on the amount of relief that could be claimed per business). When compared with 2021-22 NNDR1 estimates submitted to DLUHC in January 2021, this extension of the retail and nursery discount schemes has resulted in a significant reduction in the amount of business rates collected from ratepayers in 2021-22 and contributed to the significant collection fund deficit estimated at 31 March 2022.

6.25 The Authority is compensated for this loss in business rates income by way of additional section 31 grant, payable in 2021-22. However, because the demand on the Collection Fund in respect of business rates is fixed prior to the start of the financial year this creates:

- a favourable variance on the General Fund in 2021-22 (reflecting receipt of both the s31 grant and the Authority’s share of the estimated business rates income)
- a deficit on the Collection Fund in 2021-22 that will need to be disbursed in 2022-23 in accordance with statutory provisions.

6.26 As noted in the 2021-22 revised budget, to offset the fall in business rates income, generated by the requirement for the Authority to repay its share of the Collection Fund deficit when setting its 2022-23 revenue budget, the additional s31 grant received in the current financial year will be transferred to an earmarked reserve in 2021-22 and released in 2022-23 to offset the reduction in business rates income.

6.27 A summary of the business rate income included in the 2022-23 budget is shown in table 4.

Table 4: Estimated Business Rates (NNDR) funding 2022-23

Funding Element	£’000
Allerdale Share of NNDR Income	10,126
Renewable Energy disregard – retained by billing authority	544
Net tariff payable to Central Government	(7,418)
Share of estimated Collection Fund deficit at 31 March 2022	(3,340)
	(88)
Reconciliation adjustment re prior years disregarded income	(11)
Levy payable (net of estimated reduction under pool arrangements)	(487)
Section 31 grant	3,878
Transfer (to)/from Earmarked Reserve (2021-22 s31 Grant)	3,334
Transfer estimated retained levy to Earmarked Reserve	(645)
Release of Prior year retained levy from Earmarked Reserve	189
Total estimated income from Business Rates	**6,170**

6.28 As part of the business rates retention scheme, local authorities have the option of working with neighbouring authorities to seek formal designation as a pool which is treated as a single authority for the purpose of certain calculations under the scheme. This provides the opportunity to increase the amount of growth in the local share retained locally (through a reduction in the levy rate). Pooling also provides scope to manage the impact of volatility in rates income across a wider economic area.

6.29 A Cumbria Business Rates Pool has been in place since April 2014. Prior to 2018-19 membership of the pool consisted of Cumbria County Council Allerdale Borough Council, Barrow Borough Council, Carlisle City Council, Eden District Council and South Lakeland District Council. In 2018-19 membership of the pool was extended to include Copeland Borough Council. After undertaking appropriate due diligence, including modelling the individual position alongside the pool position, the Authority along with Cumbria County Council and the five other district councils in Cumbria, reached a collective decision to continue the Cumbria Business Rates Pool in 2022-23, with no changes to the existing membership.

6.30 In 2022-23 it is estimated that business rates income of £645k that would otherwise have been paid to central government through the levy payment, will remain available to the Council's general fund as a result of the agreed pooling arrangement. This estimate is based on past experience of the Authority's share of the retained pool levy. Whilst most Covid related risks to business rates income appear to have subsided, residual uncertainties over the value of the retained levy expected from the pool remain. In recognition of this uncertainty, the estimated value of the retained levy has been not included in the available revenue funding but has instead, been transferred to an earmarked reserve. This reserve will be made available once circumstances allow the value of the retained levy estimated with sufficient certainty.

6.31 At successive Autumn Statements and Budgets since 2013, the Chancellor of the Exchequer has announced various changes to the business rates system that affect the business rates income of local authorities. In any year, the financial impact of measures is fully met by Central Government and authorities are compensated for any loss to their "local share" of business rates by means of a Section 31 grant. The following changes will affect the Council's business rates income in 2022-23:

- (i) making permanent the doubling of small business rates relief from 1 April 2017 and changing eligibility thresholds from 2017-18
- (ii) doubling rural rate relief - to be awarded through discretionary relief until such time as the Government can make the necessary changes to primary legislation
- (iii) discretionary relief of £1,500 in respect of the office space occupied by local newspapers. Extension of the scheme for a further 5 years until 2024-25 was announced in January 2020
- (iv) 100% relief for public lavatories - this scheme was announced at Budget 2018 and was implemented by the Non-Domestic Rating (Public Lavatories) Act 2021
- (v) freezing of the Small Business Multiplier for 2022-23
- (vi) extension of the current transitional relief scheme and the supporting small business scheme that comes to an end on 31 March 2022 for one year to the end of the current revaluation cycle
- (vii) 50% relief for eligible, occupied, retail, hospitality and leisure properties up to a cash cap limit of £110,000 per business (the 2022-23 Retail, Hospitality and Leisure Business Rates Relief scheme).

6.32 A central government grant under Section 31 of the Local Government Act 2003 will be paid to authorities to compensate them for the ongoing loss of business rates income they suffer as a result of these changes. A grant is also paid to compensate local authorities for the ongoing loss of income they suffer as a result of past decisions made by Government to:

- cap the increase in the small business multiplier to 2% in each of 2014-15 and 2015-16 and to CPI from 2018-19 onwards
- freeze the small business multiplier at 49.9p for 2021-22.

6.33 A reconciliation of the baseline funding contained in the 2022-23 local government finance settlement to the total estimated income from business rates for 2022-23 is set out in table 5.

Table 5: Reconciliation of 2022-23 business rates income to baseline funding

Funding Element	£'000
Baseline funding	3,656
Share of retained growth	1,798
Pool gains	645
Renewable Energy disregarded income retained by Authority	533
Share of Collection Fund Surplus/(Deficit)	(3,340)
Transfer (to)/from Earmarked Reserve (2021-22 s31 Grant)	3,334
Net transfer of estimated retained levy to Earmarked Reserve	(456)
Total estimated income from Business Rates	**6,170**

Council tax

6.34 Each year the Council must calculate the amount of revenue it needs to raise through council tax (the council tax requirement). Calculation of the council tax requirement is calculated based on the Authority's estimates of:

- the expenditure it will incur in the year less estimates of the income it will receive from government grants, business rates, fees and charges and interest and investment income
- allowances required for contingencies in relation to amounts to be charged or credited to revenue
- the financial reserves it will be appropriate to raise in the year for meeting its estimated future expenditure, less
- the amount of the financial reserves that will be used in the financial year to meet expenditure.

6.35 The Authority's council tax requirement must also take into account the amounts the Authority is required to transfer during the year between its General Fund and Collection Fund in respect of its share of any surpluses or deficits on the Collection Fund for the previous year in respect of business rates and council tax.

6.36 The amount of council tax income available to the Authority's general fund in the financial year is fixed at the level determined when the council tax is set. This amount is paid out of the Authority's Collection Fund regardless of how much council tax is actually collected during the year. As a consequence, if more council tax is collected than expected a surplus on the Collection Fund will arise; if less is collected, a deficit will result. Statutory provisions require the surplus or deficit on the council tax element of the collection fund for the previous year to be estimated on 15 January of that year. The estimated surplus/deficit on the Collection Fund is shared out, in accordance with statutory provisions, between the Authority and the major precepting authorities (Cumbria County Council and the Police and Crime Commissioner for Cumbria) in the following year and taken into account in the budget calculations for that year.

6.37 The collection fund surplus in respect of council tax at 31 March 2022, estimated as at 15 January 2022 is £175,259. This comprises a total prior year element of £184,815 (surplus) and an exceptional balance in respect of 2020-21 of £9,556 (deficit). Allerdale Borough Council's share of the estimated surplus is £22,653. The portion of this surplus to be distributed in 2022-23, after adjusting for the allocation of the exceptional balance in respect of 2020-21 to 2021-22 and the following two years under the deficit phasing provisions introduced in December 2020, is summarised in the following table.

Table 6: Allocation of collection fund surplus (council tax) at 31 March 2022

	Share of surplus/ (deficit)	Allocation		
		2022/23	2023/24	2024/25
	£000	£000	£000	£000
Cumbria County Council	130	133	(3)	-
Cumbria Police & Crime Commissioner	23	24	(1)	-
Allerdale Borough Council	22	23	(1)	-
Total estimated surplus	**175**	**180**	**(5)**	**-**

Proposed council tax increase

6.38 The Council has the ability to set any level of council tax increase. However, whilst the Localism Act 2011 abolished Council Tax capping in England, it introduced in its place, a power for local electorates to approve or veto excessive council tax rises. Since 2012-13, an authority setting a council tax increase which exceeds principles endorsed by the House of Commons alongside the local government finance settlement (i.e. which is "excessive") will be required to hold a council tax referendum. The result of a council tax referendum is binding.

6.39 In 2016-17 at the start of the four-year offer made to local government the threshold level for shire districts, above which council tax increases was considered excessive, was set at 2% or more than £5 above the amount of council tax in previous year (whichever is higher). In 2018-19 this threshold was increased to 3% or up to and including £5, whichever is higher, to reflect the level of inflation. The £5 threshold applied to band D properties with proportionate increases being applied to properties in other council tax bands. For financial years 2019-20, 2020-21 and 2021-22 the referendum principle limits for shire district councils in two-tier areas returned to the higher of 2% or £5.

6.40 At the 2021 Spending Review it was announced that the referendum threshold for increases in council tax was expected to remain at 2% in 2022- 23. It did not however, include specific proposals for shire districts, stating instead that the Department for Levelling Up, Housing and Communities (DLUHC) would set out full details of the council tax referendum principles through the Local Government Finance Settlement for 2022-23. The Council's budget consultation, which opened on 15 December 2021, was therefore conducted on the assumption that the additional (£5) flexibility would be available in 2022-23.

6.40 The Provisional Settlement for 2022-23 proposed that for 2022-23 district councils would, as in previous years, be permitted to increase council tax by up to 2% or up to and including £5 (whichever is higher) above the authority's relevant basic amount of council tax for 2021-22 without triggering a referendum. These limits are expected to be confirmed in late January or early February 2022 following publication of the Referendums Relating to Council Tax Increases (Principles) (England) Report 2022-23.

6.41 Having regard to the outcome of the 2022-23 budget consultation exercise the Authority proposes no increase to its share of council tax for 2022-23

6.42 Based on the 2022-23 tax base of 31,031.82 (see below) and the Authority's share of the Band D council tax charge of £179.72, the amount of Council Tax income receivable for 2022-23 is £5,577,039. This compares with a total of £5,551,508 in 2021-22 (an increase of £25,531) and total of £5,732,198 based on an increase £5 on band D Properties, with proportionate increases being applied to properties in other council tax bands. A difference of £155,159.

6.43 For local authorities with responsibility for adult social care (including Cumbria County Council) the referendum principles are extended to include the ability to levy an adult social care (ASC) precept of 1% on top of the core principle of up to 2%. Social care authorities will be also able to use the unused parts of the 3% social care precept flexibility available in 2021-22 in 2022-23. Police and Crime Commissioners (PCCs) will be allowed increases of up to £10. No referendum limits apply to town and parish councils. However, the continued absence of referendum limits remains contingent on town and parish councils evidencing restraint when setting council tax precept levels. As in previous years, the government has indicated that it will keep this approach under review for future years and will take careful account of the increases set by parishes in 2022-23 when reviewing the matter ahead of next year's settlement.

6.44 The Council has no control over the increases in the council tax charge implemented by the County Council, Police and Crime Commissioner for Cumbria or the town and parish councils. Together these account for around 90% of the total Council Tax.

Council tax base

6.45 After calculating its council tax requirement, each local authority then sets its basic amount of council tax (band D) at the level necessary to raise this amount, taking into account its likely collection rate. The basic amount council tax is calculated by reference to the Council's council tax requirement and its council tax base.

6.46 The council tax base is the number of Band D equivalent dwellings in a local authority area. The tax base is therefore an estimate of the taxable capacity for the borough as a whole and for each parish area. To calculate the tax, the number of dwellings in each council tax band is reduced to take account of discounts and exemptions. This includes reductions awarded under the Council's Council Tax Reduction Scheme. The resulting figure for each property band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. An adjustment is then made for the collection rate.

6.47 The tax base for 2022-23 has been set at 31,031.82. This represents an increase of approximately 0.46% on the 2020-21 tax base of 30,889.76.

6.48 Council tax raised on behalf of parish and town councils ('Parish Precepts') are incorporated into the Council's general fund budget and council tax requirement. Details of parish precepts for 2022-23 are set out in Appendix A.

7.0 Determination of the council's net budget (budget requirement)

7.1 Preparation of the council's 2022-23 net revenue budget begins with a roll forward of the 2021-22 recurring base budget (£12,609k). This figure is then adjusted to accommodate:

- changes to salary costs including the impact of pay awards, incremental pay increases and changes to establishment
- recurring growth and savings, and
- non-recurring growth and savings - i.e. those required for the current year only.

7.2 The key assumptions and considerations adopted in preparing the 2022-23 budget include:

- recognition of the financial and human resource impact of local government reorganisation in the period prior to the transfer of the Authority's functions to the new unitary Authority on 1 April 2023
- prioritising the delivery of essential (safe and legal) and statutory services
- addressing the medium and longer term impacts of the Covid-19 pandemic on the Council's finances
- continuing to identify areas where efficiencies can be made
- increasing, where appropriate, income from fees and charges in line with the Council's charging policy
- increasing the base budget to reflect inflationary uplifts to contract prices in line with our contractual commitments and the relevant measure of inflation
- not applying a general inflationary uplift to non-pay expenditure in order to drive further efficiencies
- costing salary expenditure based on an assumed 5% uplift to pay-scales, effective from 1 April 2022, to reflect current levels of inflation
- continuing to allow for a 2% reduction in staff costs to accommodate staff turnover during the year.

7.3 The Council's net revenue budget (budget requirement) for 2022-23 is shown in table 7.

Table 7: 2022-23 Revenue Budget

	2022-23 £000	Reference
Base Budget	12,609	
Change in salary costs - recurring	609	7.7
Recurring growth	424	7.8
Recurring savings	(330)	7.9
Recurring (base) budget	**13,312**	
Change in salary costs – non-recurring	0	
Non-recurring growth	724	7.11
Non-recurring savings	(1,010)	7.12
Net Expenditure	**13,026**	
Expenditure on earmarked priorities	166	Appendix F
Proposed Budget (excluding parish precepts)	**13,192**	
Parish precepts	2,703	Appendix A
Proposed Budget (including parish precepts)	**15,895**	
Less: Planned use of earmarked balances	(166)	Appendix F
Net Budget Requirement	**15,729**	

7.4 The Council's net budget requirement is funded as follows:

Table 8: 2022-232 Revenue Funding

	2022-23 £000	Paragraph
Revenue support grant	207	6.4
Rural Services Delivery Grant	342	6.7
New Homes Bonus	291	6.9
Other Gov. grants (Lower Tier Services Grant)	164	6.14
Other Gov. grants (Services Grant)	252	6.17
NNDR funding	9,510	6.19
Collection fund surplus/(deficit) - NNDR	(3,340)	6.19
Council tax – excluding parish element	5,577	6.34
Council tax – parish element	2,703	
Collection fund surplus/(deficit) - Council Tax	23	6.26
Use of /(contribution to) General Fund Balances	0	
Total funding	**15,729**	

7.5 The budget for net expenditure in 2022-23, excluding parish precepts and spend on earmarked priorities (met from the use of earmarked reserves) is £13,026k. This compares with a total of £13,344k for 2021-22 (revised budget). A summary of the changes underlying the movement between the 2021-22 revised budget and the proposed 2022-23 budget, is set out in Appendix C.

7.6 A breakdown of the Revenue Budget for 2022-23 by Executive member portfolio is set out in Appendix B.

Change in salary costs - £609k (recurring)

7.7 This is the net total increase required to in respect of a number of changes in the salary budgets. These changes include contingent sums allocated to meet the cost of the nationally agreed pay award, changes to employers' national insurance contributions rate, the cost of annual increments and changes to staffing structures.

Recurring growth - £424k

7.8 Details of recurring growth bids included as adjustment to the Council's base budget are summarised in table 9:

Table 9: Recurring growth bids 2022-23

Bid Detail	Bid £000
Economic Growth, Community Development & Placemaking Portfolio	
Maryport FHS Project: Utility costs at the Carlton Hub and Christchurch during construction.	10
Markets: Part-time markets assistant post.	7
Finance & Legal Portfolio	
Corporate Management: Increase in housing benefit certification fees and inflationary uplift to subscription fees for technical publications and advisory services.	12
Pension Deficit: Increase in pension deficit contribution in line with Rates and Adjustment Certificate issued by the scheme actuary.	13
Insurances: Increase in insurance premium costs.	10
Policy, Governance & People Resources Portfolio	
Members Services: New member allowances scheme & funding for community development initiatives.	10
Environmental Services Portfolio	
Domestic Waste: Reduction to income budget following decision not to implement charges for replacement bins.	24
Recycling: Reduction to income budget following decision not to implement charges for replacement bins.	32
Sports & Leisure Centres: Estimated inflationary uplift to management fee.	47
Maryport Wave: Estimated inflationary uplift to management fee.	20
Multi-storey Car Park: Increase in insurance premium costs.	10
Multi-storey Car Park: Contractual uplift on MSCP lease costs.	11
Grounds Maintenance: Estimated inflationary uplift to contract charges (Contractual inflationary increase).	25
Street Cleansing: Estimated inflationary uplift to contract charges (Contractual inflationary increase).	69
Cemetery Services: Estimated inflationary uplift to contract charges. (Contractual inflationary increase).	12
Recycling: Inflationary uplift to contract price.	59
Trade Waste: Inflationary increase on disposal costs of trade waste.	15
Allerdale Fleet: uplift to fuel, lubricant and consumables budget to reflect anticipated expenditure.	8
Customer Experience & Innovation Portfolio	
Benefits: Reduction in DHP funding based on the current year's allocation. This will be offset in full by a corresponding reduction saving on expenditure. (see table 10 for savings bid reflecting corresponding reduction expenditure).	30
Total recurring growth bids	**424**

Recurring savings – (£330k)

7.9 Details of recurring savings bids included as adjustment to the Council's base budget are summarised below:

Table 10: Recurring savings bids 2022-23

Bid Detail	**Bid £000**
Economic Growth, Community Development & Placemaking Portfolio	
Markets: Increase in income generated from increases in fees and charges and extended markets provision.	(23)
Maryport FHS project: Rental income from BT mast located on the former Carlton Cinema building.	(5)
78A & 7B, High St. Maryport: Rental income from flats78A and 7B High Street Maryport (converted former public convenience) not previously included in the base budget.	(8)
Industrial Units: Increase in rental from industrial units following rent reviews and renewals.	(21)
Finance and Legal Portfolio	
Banking & Interest: Reduction in interest costs to reflect existing PWLB debt, additional borrowing requirements associated with the 2021-22 and 2022-23 capital programme and updated interest rate forecasts.	(50)
MRP & Finance Charges: Reduction in the amount required to be set aside from revenue to meet the cost of capital expenditure funded by borrowing.	(161)
Environmental Services Portfolio	
Bereavement Services: Additional income from increases in fees and charges and service demand.	(8)
Leisure & Tourism Portfolio	
Carnegie Trust: Agreed reduction in subsidy awarded.	(15)
Customer Experience & Innovation Portfolio	
Benefits: Reduction in DHP expenditure, in line with the funding allocation for the current financial year (see table 9 for growth bid reflecting corresponding reduction in grant funding).	(30)
Benefits: Increase in contribution from central government towards the cost of administering Housing Benefits.	(9)
Total recurring savings bids	**(330)**

Non-recurring growth/savings

7.10 There are a number of bids that are non-recurring, i.e. they are required for one year only, and therefore will not directly impact on the base budget. These are summarised in the following tables:

Non-recurring growth - £724k

7.11 The non-recurring growth bids included in the Council's net budget requirement are summarised in table 11:

Table 11: Non-Recurring growth bids 2022-23

Bid Detail	Bid £000
Economic Growth, Community Development & Placemaking Portfolio	
Workington Town Centre: Reduction in the variable element of rental income receivable as a result of rent reductions on renewals and reduced rents on new lettings.	65
Maryport Maritime Museum: Costs associated with the packing, collection and storage of Maryport Museum's collection during refurbishment of the current Senhouse St. premises and its relocation to the redeveloped former , Christchurch building.	48
Finance and Legal Portfolio	
Contingencies: Additional budget to address issues arising around Local Government reorganisation.	216
Policy, Governance & People Resources Portfolio	
Homelessness Prevention Grant: To establish an expenditure budget in relation to the Homelessness Prevention Grant 2022-23.	141
Domestic Abuse Funding: To establish an expenditure budget, equivalent to the 2022-23 new burdens funding allocation.	6
Environmental Services Portfolio	
Planting for Pollinators: expenditure associated with ring-fenced grant funding from the Government's Green Recovery Fund (via Cumbria Wildlife Trust) to create, enhance and manage habitats for the benefit of pollinating insects. (see table 12 for savings bid for related grant funding).	52
Multi-storey Car Park: Reduction to income budget to reflect current usage.	180
Greenspace at Harrot Hill: Match funding contribution for maintenance of greenspace at Harrot Hill, Cockermouth.	7
Arcus: One off implementation cost associated with the Arcus system.	9
Total non-recurring growth bids	**724**

Non- recurring savings - (£1,010k)

7.12 Details of non-recurring saving bids included in the Councils net budget requirement are summarised in table 12.

Table 12: Non-recurring savings bids 2022-23

Bid Detail	Bid £000
Economic Growth, Community Development & Placemaking Portfolio	
Asset Transfer: Saving on cost of upgrades to parks and open spaces to in advance of asset transfer to town/parish councils, pending Local Government Reorganisation.	(20)
Corporate Property Maintenance: Saving generated from reduction in planned maintenance and forecast utility costs.	(19)
Town Centres: Reduction in expenditure on initiatives and general promotions.	(20)
Environmental Services Portfolio	

Bid Detail	Bid £000
Trade Waste: Inflationary increase on recycling credits.	(56)
Trade Waste: Reduction in trade bin purchases.	(5)
Trade Waste: Increase in income from sale of recycled materials due to increases in market prices.	(52)
Recycling: Increase in income from sale of recycled materials due to increases in market prices.	(441)
MSCP Utilities & Maintenance: Reduction in planned maintenance and contribution to earmarked reserve.	(31)
Planting for Pollinators: Ring-fenced grant funding from the Government's Green Recovery Fund (via Cumbria Wildlife Trust) to create, enhance and manage habitats for the benefit of pollinating insects (see table 11 for associated expenditure growth bid)	(52)
Sports & Leisure Centres: Reduction in management fee to reflect closure of Keswick Pool.	(100)
Policy, Governance & People Resources Portfolio	
Planning Policy: Savings from the planning policy budget to reflect changes to work programme as a result of local government reorganisation.	(27)
Homelessness Prevention Grant: Establishment of income budget in relation to the Homelessness Prevention Grant 2022-23.	(141)
Domestic Abuse Funding: Establishment of income budget, equivalent to the 2022-23 new burdens funding allocation.	(6)
Elections: Removal of planned transfer to earmarked reserves.	(40)
Total non-recurring savings bids	**(1,010)**

Contingencies

7.13 The Council includes in its recurring (base) budget a central contingency budget for unquantifiable risks. The contingency balance held within the base budget for 2022-23 is £252,239. The total contingency balance inclusive of non-recurring bids (£216,361) and pay-award contingency (£416,080) is £884,680.

8.0 Capital budget

8.1 Capital expenditure includes the acquisition and construction of non-current assets, such as land and buildings, which have a useful life in excess of 12 months as well as expenditure on additions to, or enhancement of, existing non-current assets. It also includes items such as grants towards capital expenditure incurred by third parties (for example Disabled Facilities Grants).

8.2 The following paragraphs set out the Council's proposed capital programme for 2022-23 and the following two financial years (2023-24 and 2024-25) together with a summary of how this expenditure will be financed.

8.3 Capital expenditure may also impact on the Council's revenue budget. Where this is the case, the revenue implications of capital expenditure are dealt with as part of the Revenue Budget process. Examples of the revenue implications of capital expenditure include:

- increases/decreases in operating costs, e.g. utilities, maintenance, staff costs or increased income from new or enhanced assets
- the requirement to set aside from the General Fund an annual amount (the Minimum Revenue Provision), to meet the capital cost of expenditure funded from borrowing or other credit arrangements
- increased finance costs, either by way of interest on borrowing or the loss of income on investment balances, used to fund capital expenditure.

Financing the capital programme

8.4 Resources available to finance capital expenditure include:

- capital receipts (usable proceeds from asset sales)
- grants and contributions from third parties
- direct financing from revenue.

8.5 Capital expenditure that is not financed up-front from these resources will increase the Council's underlying need to borrow, as measured by the capital financing requirement (CFR). The Council's underlying borrowing is not necessarily the same as its actual borrowing position. The level of external debt will be determined in accordance with the Council's treasury management strategy and practices. As a consequence, an increase in the Council's underlying borrowing position will not necessarily mean a corresponding increase in the amount of external borrowing.

8.6 Statutory provisions set out the purposes to which the Council can apply its available capital receipts. The uses specified in regulations include:

- to meet capital expenditure in the current year
- to reduce the underlying borrowing requirement associated with capital expenditure not financed from capital receipts, grants or revenue
- to pay a premium charged in relation to any amount borrowed
- to meet the administrative costs of, or incidental to, a disposal of an asset.

8.7 In accordance with the Codes of Practice published by the Chartered Institute of Public Finance and Accountancy and good professional practice, capital receipts expected to be received in 2022-23 and subsequent years will only applied to fund new (capital) priorities where, after carrying out option appraisals and whole life costings, it can be demonstrated that this offers better value for money to the Council when compared with alternative uses. Alternative uses include their application to reduce the underlying borrowing requirement associated with past expenditure.

Proposed capital programme

8.8 The proposed capital programme covering 2022-23 and the following two financial years is summarised in table 13. A summary of individual schemes included in the proposed three-year capital programme analysed by Executive Member Portfolio is included in Appendix D.

Table 13: Proposed Capital Programme & methods of financing

	Proposed Budget			
	2022-23 £000	**2023-24 £000**	**2024-25 £000**	**Total £000**
Capital Expenditure[1] :				
Econ. Growth, Community Dev. & Placemaking	18,298	14,022	5,200	37,520
Finance & Legal	74	0	0	74
Policy, Governance & People Resources	1,378	1,378	1,378	4,134
Environmental Services	11	0	0	11
Leisure and Tourism	0	0	0	0
Customer Experience & Innovation	0	0	0	0
Total Expenditure	**19,761**	**15,400**	**6,578**	**41,739**
Financed by:				
External funding sources:				
Disabled Facilities Grant (Better Care Fund)	1,378	1,378	1,378	4,134
Other Housing Grants	17	0	0	17
Towns Fund Grant	5,600	10,100	5,200	20,900
Future High Streets Grant	7,221	3,233	0	10,454
Cumbria LEP funding	140	0	0	140
Heritage Action Zone Grant	187	43	0	230
Other grants & contributions	11	0	0	11
Allerdale BC resources:	**14,554**	**14,754**	**6,578**	**35,886**
Capital Receipts	635	1	0	636
General Fund	0	0	0	0
Borrowing (unfinanced expenditure)	4,498	645	0	5,143
Credit Arrangements - capital leases	74	0	0	74
Total financing	**19,761**	**15,400**	**6,578**	**41,739**

[1] Gross expenditure excludes expected budget carry forwards from the approved 2021-22 capital programme; these requests will form part of the 2021-22 Capital Outturn Report.

8.9 The proposed capital programme for the three-year period to March 2025 includes the following changes to the existing three-year capital programme:

Table 14: Summary of changes to existing capital programme

	Financial year		
	2022-23 £000	2023-24 £000	2024-25 £000
Gross expenditure			
Previously approved capital programme (2021-22 revised budget)	19,280	15,344	0
Reprofiling adjustments (Maryport HAZ)	(56)	56	0
Capital Growth - see table below	2,860	0	6,578
Capital Savings - see table below	(2,323)	0	0
Proposed capital programme 2022-23 to 2024-25	**19,761**	**15,400**	**6,578**

Capital Growth and Savings

8.10 A number of new capital expenditure bids have been submitted for approval as part of the 2022-23 budget setting process. These are summarised in table 15.

Table 15: Summary of Capital Bids

	Financial year				
Capital Scheme	**2022-23 £000**	**2023-24 £000**	**2024-25 £000**	**Total bid £000**	**Para**
Capital Expenditure:					
Growth Bids					
DFG - Mandatory Grants	0	0	1,378	1,378	8.11
Lillyhall Infrastructure	411	0	0	411	8.13
Workington Towns Deal	2,300	0	5,200	7,500	8.16
Workington Hall	75	0	0	75	8.22
Leased assets acquisitions	74	0	0	74	8.23
sub-total - growth bids	**2,860**	**0**	**6,578**	**9,438**	
Savings Bids					
Maryport HAZ	(23)	0	0	(23)	8.24
Regeneration & Investment [1]	(2,300)	0	0	(2,300)	8.16
sub-total - savings bids	**(2,323)**	**0**	**0**	**(2,323)**	
Net Growth Bid	**537**	**0**	**6,578**	**7,115**	
Financed by:					
DFG Housing Grant	0	0	1,378	1,378	
Towns Fund Grant	0	0	5,200	5,200	
HAZ Grant	(13)	0	0	(13)	
Capital receipts	486	0	0	486	
Lease	74	0	0	74	
Borrowing (unfinanced expenditure)	(10)	0	0	(10)	
	537	**0**	**6,578**	**7,115**	

[1]Transfer from Regeneration and Investment to WorkingtonTowns Deal budget

Disabled Facilities Grants (DFG) (£1,378k growth bid 2024-25)

8.11 This scheme involves mandatory and discretionary grant support to individuals to meet the cost of housing adaptations that enable people to stay living in their own home for longer. The Authority has a statutory duty to provide adaptations to the homes of disabled people who qualify for a mandatory disabled facilities grant (DFG). Expenditure on DFGs is fully funded from an annual grant paid to upper-tier authorities as part of the Better Care Funding allocations and cascaded to district councils responsible for providing DFGs.

8.12 Pending confirmation of the Authority's grant funding allocation for 2022-23 and future years, budgeted DFG expenditure for 2022-23 has been set at £1,378k, based on the Authority's grant income allocation for 2021-22. For 2023-24 and 2024-25, the annual capital budget for DFGs has also been included at a provisional amount of £1,378k. These estimates will be revised to align with future grant funding allocations once these have been confirmed. This will ensure that the DFG expenditure budget continues to reflect available grant funding.

Lillyhall Infrastructure (£411k growth bid -2022-23)

8.13 The 2021-22 revised capital budget includes a budget of £1.98m (including £1.76m brought forward from 2020-21) to support a hybrid planning application to include detailed approval for enabling infrastructure and speculative industrial and commercial development, along with the delivery of enabling infrastructure works on Council owned land at Lillyhall. The scheme (total cost £2,414,680 inclusive of expenditure incurred in 2020-21 of £437,494) is financed from Growth Deal grant funding from Cumbria LEP (£1,789,761), capital receipts (£74,920) and borrowing (£549,999).

8.14 At revised budget 2021-22, the remaining budget for the project was increased by £214,680 to £1,977,186. The growth bid of £410,954 submitted for approval as part of the 2022-23 budget setting process reflects the addition of costs associated with adoption of the newly constructed estate roads and water drainage systems by the relevant authorities. This additional expenditure will be financed from capital receipts.

8.15 This latest growth bid will bring the total additional budget requested since the original scheme budget of £2.2m (fully funded from grant and third party contributions) was approved in 2020-21, to £625,634. The use of capital receipts to fund the additional spend will bring the total scheme costs funded by the Authority, from borrowing and capital receipts, to £1,035,873.

Workington Towns Fund schemes (growth bid £7.5m - 2024-25)

8.16 The revised three-year capital programme 2021-22 to 2023-24 includes a budget of £15,800k relating to the five priority projects contained in the Workington Town Deal funding offer of £23.1m (including capital funding of £22.4m) across financial years 2021-22 to 2025-26, and related Heads of Terms Agreement between the Authority and the Department for Levelling Up, Housing and Communities (DLUHC (formerly the Ministry of Housing, Communities and Local Government) signed in April 2021.

8.17 The overarching aim of the Towns Fund is to drive the sustainable economic regeneration of towns to deliver long term economic and productivity growth. This will be done through:

- Urban regeneration- ensuring towns are thriving places for people to live and work, including by:
  - increasing density in town centres;
  - strengthening local economic assets including local cultural assets
  - site acquisition, preparation, remediation, and/or development; and
  - making full use of planning tools to bring strategic direction and change.
- Skills and enterprise infrastructure
  - driving private sector investment and small business development; ensuring towns have the space to support skills and small business development.
- Connectivity
  - developing local transport schemes that complement regional and national networks;
  - supporting the delivery of improved digital connectivity.

8.18 The priority projects being taken forward as part of Workington Town Deal are summarised below:

Table 17: Priority projects included in the Workington Town Investment Plan

Scheme element	2021-22 £000	2022-23 to 2024-25 £000	2025-26 £000	Total £000
Port of Workington – Clean Energy and Logistics Hub: development of 3 ha of serviced employment land at the Port of Workington and adjacent Oldside site to enable investment in key sectors serviced by the port) [Total capital cost: £4.5m funded from Towns Deal grant]	100	4,400	0	4,500
Innovation Centre and Entrepreneurship Programme: provision of flexible town centre office space solution (c15,000 sq. ft.) for start-up and growing businesses in West Cumbria, as well as high quality co-working space for local knowledge workers, located on the Central Car Park site. [Total capital cost: £8.8m; £7.5m funded from Towns Deal grant and £1.3m from Allerdale BC match funding (funded from borrowing)]	0	7,500	0	7,500
Townscape and Connectivity Measures: series of projects focused on providing high quality public realm, urban connectivity and green infrastructure across the town centre's key corridors) [Total capital cost: £4.0m funded from Towns Deal grant]	0	4,000	0	4,000
Digital Accelerator: investment in digital equipment at one of the training providers in Lillyhall to facilitate the creation of new and improved learning space within which higher level (Level 4 and 5) qualifications in specific digital skills can be delivered to West Cumbrian residents. [Total capital cost: £1.0m funded from Towns Deal grant]	0	1,000	0	1,000
Workington Sports Village: development of a multipurpose sports village providing high quality inclusive and accessible sporting facilities for both community and professional clubs) [Total budgeted capital cost: £6.4m; £5.4m funded from Towns Deal grant and £1m from Allerdale BC match funding (funded from borrowing)].	0	4,000	1,400	5,400
Total (Funded from Towns Deal grant	**100**	**20,900**	**1,400**	**22,400**
Costs funded from Allerdale BC match-funding		2,300		**2,300**
Total Budget	**100**	**23,200**	**1,400**	**24,700**

8.19 Funding for individual projects remains subject to successful completion of Phase 2 of the Towns Fund process. Following agreement of the Heads of Terms, the Authority has a period of up to 12 months in which to develop the agreed projects and complete detailed business cases for each of the projects being taken forward. This will include confirming delivery arrangements and detailed assessment of the revenue consequences of the projects on the Council's MTFP. This information will then be subject to assessment and agreement by Government, prior to funding being released in accordance with an agreed funding profile.

8.20 Pending completion of phase 2 of the Towns Fund process, expenditure and grant funding has been profiled across financial years 2021-22: £100k, 2022-23: £7,900k, 2023-24: £10,100k, 2024-25: £5,200k and 2025-26: £1,400k, based on the indicative values included in the financial profile submitted to DLUHC in September 2021. The budget bid of £7,500k represents the addition of £5,200k planned spend in 2024-25 to the three-year capital programme plus the reallocation of £2,300k, from the previously agreed £4,400k regeneration and investment budget, to provide match-funding for the Workington Sports Village (£1m) and Workington Innovation and Entrepreneurship Programme (£1.3m) elements of the Towns deal scheme . The Authority's £2,300k match-funding contribution will be met from borrowing.

8.21 The total estimated value of the Workington Sports Village scheme is £11.5m. A total budget allocation of £6.4m, profiled across financial years 2022-23 to 2025-26, is included in the proposed capital programme to meet those costs. The balance of £5.1m, identified in the Heads of Terms offer as being met from match funding (£6.1m less £1m contribution from Allerdale BC), is not included in the capital programme.

Workington Hall (£75k growth bid -2022-23)

8.22 The current capital budget for this scheme of £250k covers refurbishment and consolidation works necessary to ensure continued progress towards removal of the building from the At Risk Register. This budget is unfunded and will be met from borrowing. The proposed budget increase of £75k, funded from capital receipts, represents the Authority's contribution to a further programme of works that will ensure continued progression towards eventual removal of the building from the At Risk Register. The additional budget allocation will bring the total budget for the scheme during financial years 2021-22 to 2022-23 to £325,000.

Leased Assets - property, vehicles & equipment (£74k growth)

8.23 From 1 April 2022 changes to the rules governing the accounting treatment of leases, mean that, with the exception of short-term leases and leases of low-value assets, all leased assets and the related lease liabilities will be recognised on the Authority's balance sheet. Under these new requirements the acquisition of an asset under a lease (excluding short-term leases and leases of low-value assets) will be treated as capital expenditure. The budget of £74k covers the initial cost of replacing (under leasing arrangements) those assets held under leases scheduled to expire in 2022-23. The revenue financing cost of these leased assets (Minimum Revenue Provision and interest on the lease liability) will be met from existing revenue budgets.

Maryport Regeneration (HAZ) (£23k savings bid- 2022-23)

8.24 Based around Senhouse Street Maryport, the capital element of this programme of works involves:

- the refurbishment of four key high street buildings (including Maryport Town Hall, the Maritime Museum, Heron Foods and 68 Crosby Street)
- an extensive shop-front grant scheme to facilitate the replacement of some of the poorer quality shopfronts
- small-scale public realm improvements.

8.25 The current capital budget for the programme of works is £750k. Expenditure of £21k was incurred on the programme in 2020-21 leaving a remaining budget of £729k (2021-22 revised capital budget). This is currently profiled to be spent across financial years 2021-22: £365k (including £106k carried forward from 2020-21) and 2022-24: £364k. The scheme is funded from Heritage Action Zone Funding from Historic England of £593k (including capital funding of £470k), capital receipts of £150k and borrowing of £130k.

8.26 The proposed budget saving bid of £23k and reprofiling adjustment of £56k submitted as part of the 2022-23 budget cycle reflects the most recent assessment and profiling of expected capital costs across financial years. Overall costs of the scheme are unchanged from those included in the revised budget for 2021-22 with the proposed reduction in capital costs of £23k offset by a commensurate increase in expected revenue costs.

Financing of capital expenditure

8.27 Capital Expenditure within the three-year programme will be partly financed from:

- capital grants and contributions of £35.886m (£14.554m in 2022-23, £14.754m in 2023-24 and £6.578m in 2024-25)
- capital receipts of £636k (including £635k in 2022-23 and £1k in 2023-24).

8.28 The remaining capital expenditure within the three-year programme, £4,572k in 2022-23, and £645k in 2023-24 is unfinanced and will be met from borrowing and credit arrangements (leases). Borrowing will be undertaken in accordance with the Council’s Treasury Management Strategy, either through additional PWLB loans or by using cash and investment balances (internal borrowing).

8.29 Unfinanced capital expenditure of £1,557k included in the existing 2021-22 revised capital budget, coupled with the additional unfunded capital expenditure of £5,143k included in the proposed three-year capital programme 2022-23 to -2024-25 will result in:

- an increase in the underlying need to borrow (the capital financing requirement, excluding amounts related to on balance sheet lease transactions, from £21.14m at 31 March 2021 to £24.89m at 31 March 2023, followed by a decrease to £22.91m at 31 March 2025
- an increase the amount of external borrowing from £16.65m (at 31 March 2021) to up to an estimated £22.27m at the end of financial year 2022-23, before falling to £20.86m at 31 March 2025.

8.30 The revenue implications of this unfinanced capital expenditure, including the amounts chargeable to the general fund in respect of the associated minimum revenue provision and interest costs on additional borrowing, is included in the revenue budgets for 2022-23 and subsequent years.

8.31 Further details of all schemes included in the proposed three-year capital programme 2022-23 to 2024-25 are set out in Appendix D.

9.0 Budget Assurance statement from the Chief Financial Officer

9.1 Section 25 of the local Government Act 2003 places a duty on the chief financial officer (Chief Officer Assets & s151 Officer) to make a report to the Council on the robustness of budget estimates and the adequacy of the Council’s reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year. This is because the Council is setting the council tax before the commencement of the year and cannot increase it during the year. It is therefore important that there is an understanding of the risks of increased expenditure or reduced income during the year.

9.2 The budget proposals for 2022-23 have again been developed as the ongoing impacts of the pandemic are being experienced. This is having significant adverse impacts on both our residents and businesses and the Council continues to be impacted by losses in several of its key income streams.

9.3 On the 21 July 2021, the Council was informed of the Government’s intention to re-organise local government in Cumbria. All six districts and the County Council will cease to exist in their current form on 31 March 2023 and will be replaced by two unitary authorities from 1 April 2023.

9.4 It is essential that the budget includes an assessment of the potential financial risks facing the Council and that the Council has adequate reserves should those risks materialise. The Council holds a general reserve for unforeseen and unplanned circumstances and a range of earmarked reserves for specific eventualities. Whilst these levels are adequate they require continuous monitoring given the risks and the Council cannot be complacent.

9.5 The Council has a strong track record of financial management and this has been continued even against the backdrop of significant financial restraint over the last 10 years.

Robustness of Estimates

9.6 The budget estimates for 2022-23 have been prepared following a robust process by suitably qualified and experienced staff.

9.7 The business planning and budget setting principles for 2022-23 have been updated to take the implications of Local Government Reorganisation (LGR) into account.

9.8 In preparing the 2022-23 budget, Managers were asked to limit any budget growth bids to contractual (inflationary) uplift and to the impact of the Covid-19 pandemic on costs and income. The budget process also required Managers to consider any potential savings that could be made in 2022-23 whilst ensuring the business continues to operate effectively for the benefit of residents and businesses.

9.9 To support the process, Managers were provided with a business planning template designed to capture the budget requirements alongside activity descriptions, and an assessment of risks facing each service area.

9.10 Departmental business planning sessions were held across the organisation, with representatives from both the Finance and Policy teams. This allowed for officer scrutiny of savings and growth bids and provided an opportunity to discuss service activity and budget requirements in more detail.

9.11 All budgets have been reviewed and discussed by the Portfolio Holders with their relevant Chief Officers and informally with Executive and the Senior Management Team. Overview and Scrutiny Committee have also challenged the budget setting processes and assumptions behind the estimates via the Budget Task and Finish Group.

9.12 Throughout 2021-22 the Council has closely monitored the budget position with particular emphasis on the areas most impacted by the continuing effects of the pandemic and the volatile budgets. This has allowed the 2021-22 budget to be revised following the completion of forecasting at the end of Quarter 2 of 2021-22. This has in turn provided an updated budget position from which to commence the 2022-23 budget process.

9.13 The provisional one-year settlement for 2022-23 was another late announcement. This meant that much of the Council’s budget plans had to be developed without an indicative settlement for local government. This is the third consecutive one-year settlement and the Council’s Finance team has experience of developing a range of potential funding scenarios to address this uncertainty.

9.14 There continues to be significant uncertainty around the revenue funding streams for local government and some assumptions have to be built into the budget models.

9.15 Income levels in some areas have recovered well from the impacts of the pandemic, and the budget includes additional income to reflect these areas. Sensitivity analysis has been undertaken on these key volatile income streams and a prudent approach adopted in accommodating anticipated increases in revenue within the budget.

9.16 The adverse impacts of the Covid-19 pandemic continues to weigh on a number of key income streams, including Town Centre commercial rents and carparks. Again, prudent estimates have been included in the budget bids to accommodate the ongoing impact of the pandemic on these income streams and the uncertainty which surrounds the pace and scale of any future recovery.

9.17 Office for Budget Responsibility (OBR) forecasts have been used to update inflation assumptions. However, even with appropriate yet significant inflation increases being included within the MTFP there remains significant uncertainties over the future outlook for inflation. To cover this risk enhanced rates have been added to allow for inflationary uplifts to contracts and 5% has been included for pay awards.

9.18 The advice of the Council's treasury management advisers has been taken into account in estimating investment income and borrowing costs. The Council will continue to monitor financial markets closely.

9.19 This Council remains part of a Cumbria wide Business Rates Pool and we will continue to monitor our position in the Pool carefully and look at further opportunities as the work around LGR develops.

Adequacy of Reserves

9.20 A summary of the expected movement in the general fund reserves over the period covered by the Council's medium term financial plan is shown in table 18.

9.21 Based on the information currently available regarding expected levels of funding beyond 2022-23, the Council's general fund balance is expected to fall towards the minimum balance of £2.7m in 2021-22 and be fully expended in 2023-24.

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Table 18: Estimated General Fund balances

	2021-22[1] £000	2022-23 £000	2023-24 £000	2024-25 £000
Opening Balance at 1 April	3,168	2,736	2,736	(180)
Add: transfer (to)/from Earmarked Reserves	0	0	0	0
Less: Use to finance 2021-22 Capital Programme	(13)	0	0	0
Less: budgeted use of GF to support 2021-22 Revenue Budget	(419)			
Forecast revenue Outturn variance	-			
Less: Use to fund 2022-23 Revenue Budget		0	0	0
Less: Use to fund 2022-23 Capital Budget		0	0	0
Less: Projected Revenue Surplus/(Deficit) per MTFP			(2,916)	(3,254)
Projected Balance at 31 March	2,736	2,736	(180)	(3,434)
Less Retained - Minimum Balance	(2,700)	(2,700)	(2,700)	(2,700)
Available for use	**36**	**36**	**0**	**0**

[1] Based on revised 2021-22 budget;

9.22 In addition to general fund balances, the Council also holds Earmarked Reserve balances. These have largely been created from under spends and additional income received in previous years and have been set aside for specific purposes. They include amounts:

- set aside to meet planned future expenditure
- retained for service departmental use, including budgets carried forward from prior years to meet known commitments
- relating to unspent revenue grants where there are restrictions on use
- set aside as a contingency to cushion the impact of unexpected events or transactions.

9.23 These reserves are reviewed on a monthly basis to ensure they are applied in line with corporate priorities. A detailed breakdown of the remaining earmarked reserves is included at Appendix F.

9.24 In the current climate it is essential that the Council maintains reserves to deal with uncertainty. Reserves provide the cushion to deal with unknowns and unforeseen events in the year and give the opportunity to respond to unanticipated service changes.

9.25 Reserves support a financially sustainable Council by allowing for flexibility and agility. This is important with the uncertain future around local government funding.

9.26 Following the Government's announcement about local government reorganisation in Cumbria, the Authority has been a required to contribute £1.6m towards the costs of creating the new unitary authorities for Cumbria. To meet this obligation, at revised budget 2021-22, members approved the establishment of an implementation reserve/budget provision of up to £1.6m funded through the reallocation of existing earmarked reserves.

9.27 As a result of this and the application of amounts set aside from s31 grant income to meet Collection Fund deficits in 2021-22 and 2022-23, earmarked reserves have reduced significantly and some previously agreed spend will no longer be available. The Council continues to face difficult decisions ahead, despite the significant changes and transformation achievements made to date.

9.28 Determining the future budget requirements and level of reserves and balances is a matter of judgement, however best informed. There remains much uncertainty around future funding levels, but Central Government has been clear that local government is expected to become reliant on funding that it raises itself. This means protecting the Council Tax and NNDR base and increasing other income sources.

9.29 Given the increased level of financial risks due to the expected funding reductions from Central Government and the impacts of preparing for local government reorganisation, there is a case for retaining higher levels of balances. Given these circumstances the current minimum level of balances of £2.7m is still therefore considered to be prudent.

9.30 Having regard to the matters highlighted above:

- the estimates used in the 2022-23 Budget are considered to be as robust as possible given the challenging circumstances
- the high-level estimates used in the projections for the MTFP beyond 2022-23 are recognised as being made in the context of significant uncertainty surrounding future levels of central government funding for local government funding and the impact of LGR in Cumbria. The two new unitary authorities will be tasked with developing savings and transformation plans to address future budget gaps.
- the level of reserves and balances are considered adequate but given the ongoing uncertainty and the need to implement LGR, efforts must be made to build up reserves where possible.
- it is recognised that work on LGR is having an impact on capacity within the organisation and it is essential that a focus is maintained on financial monitoring during the year to ensure that business as usual activities are contained within the budget envelope.

10.0 Delivery arrangements

10.1 Not applicable to this decision/report.

11.0 Implications and Impact

Contribution to Council Strategy Priorities, Outputs and Outcomes

11.1 The revenue budget is set to support the Council in achieving its priorities as set out in the Council Plan and to facilitate control of expenditure on its activities. Sound financial management is essential to successful delivery of the Council's financial plans, achievement of value for money and the stewardship and safeguarding of public money.

Finance/Resource implications

11.2 Financial issues and implications are included within the main body of this report. The revenue estimates will form part of the calculation of the overall council tax level to be set.

Legal and governance implications

11.3 The Council has a statutory responsibility to set a balanced budget for each financial year. In short, this means the Council's expenditure on services must be contained within the available funding envelope.

Risk analysis

11.4 Not applicable to this decision/report.

Increasing satisfaction and service

11.5 Not applicable to this decision/report.

Equality impacts

11.6 Completed as part of the budget growth bids and savings bids process.

Health and Safety impacts

11.7 Not applicable to this decision/report.

Health, wellbeing and community safety impacts

11.8 Not applicable to this decision/report.

Environmental/sustainability impacts

11.9 Not applicable to this decision/report.

Other significant implications

11.10 There are no other significant implications arising from report.

Appendices attached to this report

Appendix	Title of appendix
Appendix A	Parish precepts
Appendix B	Budget analysed by portfolio
Appendix C	Movement in revenue budget 2021-22 (revised) to 2022-23 (original)
Appendix D	Three year capital budget 2022-23 to 2024-25 - summary by portfolio
Appendix E	Capital programme 2022-23 to 2024-25
Appendix F	Summary of Earmarked Reserves by portfolio
Appendix G	Medium Term Financial Plan

Background documents available

Name of background document	Where it is available
None	

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