



Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Executive
Date:	05 January 2021
Subject:	Council Budget 2021/22
Decision Reference:	I020062
Key decision?	Yes

Summary:

This report outlines budget proposals for the next financial year 2021/22. The Provisional Local Government Finance Settlement for 2021/22 was issued on 17 December 2020, and is expected to be in line with the Final Settlement, which is due to be published in February 2021. We await further budgetary information from the Lincolnshire District Councils so the budget proposals for 2021/22 are therefore estimated at this stage.

The Executive is asked to approve the proposals for the Council's budget for 2021/22, set out in this report and based on these estimates, for internal and external consultation.

Recommendation(s):

That the Executive approves the budget proposals described in this report as its preferred option for the purposes of further consultation.

Alternatives Considered:

1. The proposals for the Revenue Budget, Capital Programme and Council Tax as described in this report.
2. Higher levels of spending and consequently a higher level of Council Tax next year.
3. Lower levels of spending and consequently a lower level of Council Tax next year.

Reasons for Recommendation:

The recommended option takes account of the anticipated levels of

Government grant and Business Rates funding to the Council and allows for an increase in Council Tax of 1.99%.

The budget includes unavoidable cost pressures which will support the delivery of Council services, and a number of savings which do not impact negatively on services. The recommendation is for a one year budget for the financial year 2021/22, which takes account of the expected reforms to local authority funding from April 2022. The recommended option currently presents a surplus budget of £1.921m, although this may become a deficit budget once all budgetary information has been received by the end of January 2021. If the final position is a deficit budget, then a contribution from reserves will be used to balance the budget for 2021/22.

1. Background

The Medium Term Financial Strategy

- 1.1 A new Medium Term Financial Strategy was approved last year, and has supported our budget setting process this year. The Strategy is being refreshed with minor changes and will be included with the report for the meeting of the Executive on 2 February 2021.

The Budget Process

- 1.2 This year's budget process started in the spring of 2020 with a re-assessment of our high level budget assumptions. Following this, budgets have been examined in detail and a number of new cost pressures have emerged in addition to the pressures identified for 2021/22 in the previous year's budget process. In some areas, savings have also been found, with no negative impacts from these on service delivery. As this year has progressed, our assumptions have been refined as new information has emerged.
- 1.3 In terms of budget holder input, the budget process has finished and we received confirmation of next year's funding from central Government in the form of the Provisional Local Government Finance Settlement on 17 December 2020. Following this, the Final Local Government Finance Settlement is expected to confirm the Provisional Settlement in February 2021, and at the end of January 2021 we will receive confirmation of Council Taxbase and Collection Fund balances from our local District Councils. Once all of this information has been received, the budget proposals for 2021/22 will be confirmed at the meeting of the Executive on 2 February 2021.

Spending Review 2020

- 1.4 The Spending Review (SR2020) results were announced by the Chancellor of the Exchequer on 25 November 2020. This was a spending review covering one year only to reflect the uncertainties caused by the coronavirus pandemic. The Office for Budget Responsibility has published economic forecasts alongside the SR2020 and these show that spending, public

sector debt and the budget deficit are all much higher than forecast in March 2020 and that the UK economy is set to contract significantly this year.

1.5 As expected, the SR2020 confirmed a "roll-over" settlement for local authorities. The Chancellor has ruled out returning to a programme of austerity to tackle the budget deficit, which is an indication that significant cuts in spending will not be required over the medium term. However the Chancellor announced a pay freeze for most public sector employees in 2021/22, the exceptions being National Health Service staff and public sector employees with a full time basic salary of up to £24,000. This latter group will receive a flat uplift of £250. The Council's position is that pay awards are negotiated, so this provides an indication of what may be agreed for our employees. Other announcements included:

- An overall real terms increase in core spending power in 2021/22 of 4.4%, (but the sector is still worse off in real and cash terms compared to in 2010/11);
- The National Living Wage will increase to £8.91 per hour from April 2021 for people aged 23 years and over. This has been factored into our cost pressures.
- Councils providing Adult Social Care services can again charge an adult social care precept of up to 3% in 2021/22, which can be deferred to 2022/23;
- The referendum limit will remain at 2% for general council tax. This means that a total council tax increase of up to 5% can be charged by Councils providing Adult Social Care services;
- Revenue Support Grant will be inflated by 0.55%;
- £300m of new Social Care Support grant will be allocated to Councils providing Social Care services. This has been announced for 2021/22 only but our experience over the last two years shows that Social Care Support grant does continue so we have assumed that it will be in place for the remainder of this parliament;
- There will be a Tax Income Guarantee Scheme which will fund 75% of unrecoverable council tax and business rates losses in 2021/22;
- A number of other specific grants will be received, although the amounts are not yet known. These include grants for: Troubled Families; additional school transport capacity; capital funding for maintaining and expanding children's homes; capital funding for local roads maintenance covering potholes, congestion and boosting connectivity, capital funding for cycle routes.

1.6 The coronavirus pandemic has impacted significantly on the 2020/21 financial year, and central Government has provided grant funding to cover our costs and losses arising directly from the pandemic. It is assumed that where direct impacts carry on into 2021/22 these will continue to be funded in full by Government grant. As an example, we expect that pressures will continue in adult social care. The Spending Review 2020 announcement confirmed that there would be funding in 2021/22 to cover continuing coronavirus costs and losses.

Provisional Local Government Finance Settlement

1.7 The provisional settlement announced on 17 December 2020 confirmed the following funding streams for the Council in 2021/22:

- Our share of the £300m new Social Care Support grant was confirmed at £5.364m, which is higher than we had anticipated by £0.964m;
- Rural Services Delivery Grant – our allocation is £7.277m, which is higher than we had anticipated by £0.342m;
- New Homes Bonus grant – our allocation is £1.469m, which is lower than we had anticipated by £0.570m ;
- Revenue Support grant – our allocation is £20.580m, which is slightly higher than we had anticipated by £0.001m ;
- Business Rates Top-Up grant – our allocation is £91.302m, which is lower than we had anticipated by £0.502m.

1.8 These confirmations of funding were largely in line with our estimates, but we also received confirmation of additional funding of £5.354m for Local Council Tax Support. We had not planned for this new grant, but anticipate that it will be required to cover reduced funding from Council Tax, arising from a lower Council Taxbase and / or a Council Tax Collection Fund deficit due to the impact of the pandemic. This is now the biggest risk to our budgetary position next year, and the impact will not be confirmed until after 31 January 2021 when the Lincolnshire District Councils report their budget figures to us.

1.9 Other confirmations received in the provisional settlement were:

- The council tax referendum limit will be 2% for general council tax increases and 3% for a further Adult Social Care precept which can be deferred to 2022/23;
- There will be £1.55bn of funding for Covid-19 cost pressures next year and our share of this is £15.159m;
- We can continue to claim grant to cover part of our Covid-19 related losses on sales, fees and charges for the first quarter of next year;
- The Integrated Better Care Fund and our existing Social Care Support grant will continue at the existing level into next year;
- There will be a Tax Income Guarantee Scheme to support 75% of irrecoverable losses on Council Tax and Business Rates arising from the pandemic. This is £762m nationally and we expect to see more detail on this at the end of January 2021;
- There will be some additional funding to cover the cost of increased audit fees to support the Government's response to the Redmond Review on Local Authority Financial Reporting and External Audit. This is £15m nationally and we await further details.

Local Government Funding Reform

- 1.10 Members will be aware that central Government planned to implement significant funding reforms for the sector. There are two streams to these reforms: the Review of Relative Needs and Resources (formerly known as the Fair Funding Review), and 75% Business Rates Retention. These reforms were originally due to be implemented from April 2020, and were later deferred to April 2021. Earlier this year, government announced a further deferral until April 2022 so that the focus this year could be on supporting local government in the face of the coronavirus pandemic.
- 1.11 In view of the continuing financial uncertainties about our future levels of funding, a one year budget is proposed for 2021/22.

The Medium Term Financial Plan

- 1.12 At this point in time, the Medium Term Financial Plan shows that although we can achieve a balanced budget in 2021/22, in each of the following two years we will have a budget shortfall which will need to be supported by reserves to achieve a balanced budget. However, this is prior to receiving the Lincolnshire District Councils confirmation of Council Taxbases and Collection Fund positions, and prior to expected reforms to local government funding affecting Business Rates and Revenue Support Grant from 2022/23.
- 1.13 Our key assumptions within the Medium Term Financial Plan are shown in Appendix A and will be amended as new information on our future funding is received. Currently, in 2021/22 there will be a budget surplus of £1.921m, in 2022/23 this becomes a budget shortfall of £5.734m, and in 2023/24 there will be a budget shortfall of £8.766m. The main driver for the increasing budget shortfall over the three years is the impact of lower inflation assumptions on Business Rates. The Financial Volatility reserve currently stands at £52.683m, which is sufficient to support the deficits in the two future years however, as stated above, these figures will change once we know our Council Taxbase and Collection Fund positions. At this point in time, the three year view indicates that a total of £14.500m would need to be drawn from the Financial Volatility reserve to balance the budget over the medium term and this would leave £38.183m remaining in the reserve.

1.14 The current position for 2021/22 is shown in Table A:

Table A – Summary Revenue Budget

SUMMARY REVENUE BUDGET	2021/22 £m
EXPENDITURE:	
Net Base Budget	489.894
Cost Pressures (<i>including inflation</i>)	26.717
Savings & Additional Income	-14.645
Other Movements (PH Grant & BCF Grant)	0.817
Total Expenditure	502.783
Use of Reserves	1.921
Transfer to/from General Reserve	0.200
Budget Requirement	504.904
INCOME:	
Business Rates Local Retention	120.353
Revenue Support Grant	20.580
Other Grants	44.416
County Precept	319.555
Total Income	504.904

Revenue Budget 2021/22

1.15 Table A above shows our overall proposed budget for 2021/22 at this point in time, with a budget requirement of £504.904m assuming that the current surplus is transferred to reserves (the budget requirement was £492.615m in 2020/21 so this is an increase of 2.5%). The changes in our anticipated funding are explained in paragraphs 1.20 to 1.31 below.

1.16 Inflation has been added into the 2021/22 totalling £2.737m. Part of this sum relates to the adjustment required to budgets to allow for the 2.75% pay award in 2020, which was above the level budgeted for.

1.17 A number of unavoidable cost pressures have been added into the proposed budget, totalling £26.717m, and these are summarised in Appendix B. The most significant of these are:

Adult Care and Community Wellbeing

- £2.856m in respect of the financial rate paid to providers of mental health and learning disability services, which increases each year to reflect changes in inflation, national living wage etc. The rate is encompassed in the three year residential contracts and/or the homecare prime provider contracts.
- £3.094m in respect of the financial rate paid to providers of older peoples care and physical disability services, which increases each year to reflect changes in inflation, National Living Wage etc. The rate is encompassed in the three year residential contracts and/or the homecare prime provider contracts.
- £1.931m reflecting that demand for adult specialties continues to increase with between 2.3% - 2.9% for learning disability and mental health long term care respectively.

- £1.801m in respect of inflation and demographic growth for Homecare, Direct Payment and Day Care placements, and for National Living Wage increases.
- £1.163m - the Executive received a report in February 2020 detailing the Mental Health Section 75 agreement. Based on demand to date and projected forward, this agreement included cost projections of £9.600m. The Executive agreed to fund £1.400m in addition to the £1.163m funded through the Better Care Fund. This increased cost pressure is therefore funded via Better Care Fund income shown below.
- All of the Adult Care and Community Wellbeing cost pressures will be funded by either increased income, increased grant funding or by re-designating existing budgets.

Children's Services

- £2.000m for Looked After Children: contributing factors include an increase in looked after children; a shift in placement compositions from internal foster carer arrangements to more external placements, some of which are specialist placements that incur a significantly greater unit cost, and market forces within the external looked after children sector. The position is reflective of pre-Covid-19. The cost pressure is to re-base the budget to current spending levels (pre-Covid-19). Steps continue to be in place to mitigate and manage escalation of needs, and further work is underway on placement planning to mitigate further cost rises, which is managed through the Valuing Care project within the transformation programme. Lincolnshire's benchmarked looked after children numbers per 10,000 of the population is at 43 per 10,000, compared to nationally in the prior year of 65 (March 2020). CIPFA LAC benchmarking for Local Authority participants showed Lincolnshire's average looked after child placement costs (2019) to be £41,555 p.a. compared to the average of other Local Authorities of £53,287.
- £2.000m for Home to School Transport - rebase of budget to planned spending levels in 2019/20 academic year. The increased costs related to contractual inflationary pressures within mainstream transport; increase in SEND pupils resulting in increased eligibility for transport to mainstream school, and an increase in complexity of pupils requiring more specialised and lone transport.
- £1.000m for Home to School transport re Special Schools – the One School One Operator (OSOP) model: the specifics of the contract (payment mechanism) and changing pupil requirements (both in terms of needs and their location) has resulted in the Local Authority undertaking a review of the payment mechanism.
- £2.189m for Home to School transport – various items, including: Public Service Vehicle Accessibility Regulations (PSVAR): vehicles need to be compliant with Schedule 1 of the Regulations which require the vehicle to be wheelchair accessible when Local

Authorities sell spare seats on transport vehicles (£0.600m); anticipated growth in SEND transport costs for 2021/22. A review is taking place within this area through the transformation programme, as well as the Building Communities of Specialist Provision Strategy, which are both anticipated to make a positive impact on transport spending from 2022/23, i.e. cost avoidance, however time is required to embed these new practices (£0.250m); Inflationary rises in the delivery of general transport provision (2%) (0.428m); National Living Wage increase for drivers. The NLW has been updated to reflect the April 2021 rate of £8.91 (£0.281m).

Place

- £1.100m for the increased cost of the Mixed Dry Recycling Contract reflecting market conditions on the award of the new contract effective from July 2020.

Other Budgets

- £1.300m for the Local Government Pension Scheme Lump Sum Deficit.
- £1.400m in respect of reduced investment income due to interest rates falling.

1.18 Budgetary savings and increased specific grant income are also summarised in Appendix B, and total £13.828m. The most significant of these relate to:

Adult Care and Community Wellbeing

- £3.368m - winter pressures funding forms core improved Better Care Fund grant from 2020/21. These monies are proposed to support the underlying rate and demand pressures for adult social care contained in the pressures section above.
- £1.601m for the proportionate increase of income from service user contributions in relation to annual uplift of benefits.
- £1.500m relating to moving existing service users across to the minimum income guarantee for non-residential care as well as all new entrants to adult social care commencing on the minimum income guarantee rate.
- £1.205m for the increase in Public Health grant in 2020/21 not previously budgeted for.
- £1.163m - underlying demand levels funded recurrently from Better Care Fund. Additional funding received Dec 2019 and not adjusted for in base budget. To fund Mental Health costs within Community Care Packages shown in cost pressures.

Other Budgets

- £4.332m in capital financing charges. This is a one year only saving reflecting slippage on the capital programme in 2019/20 and 2020/21.

1.19 The table below shows the Net Revenue Budget by service area for 2021/22 at this point in time, with comparative budgets for 2020/21.

Table B – Net Revenue Budgets by Service

REVENUE EXPENDITURE			
2020/21 BUDGET	REVENUE BUDGETS	2021/22 BUDGET CHANGES	2021/22 PROPOSED BUDGET
£		£	£
SERVICE DELIVERY			
40,123,628	Children's Education	5,265,385	45,389,013
73,869,447	Children's Social Care	2,926,044	76,795,491
118,876,574	Adult Frailty & Long Term Conditions	1,148,971	120,025,545
81,006,840	Adult Specialities	5,328,051	86,334,891
28,468,066	Public Health & Community Wellbeing	153,565	28,621,631
46,174,210	Communities	1,707,655	47,881,865
340,689	Lincolnshire Local Enterprise Partnership	3,416	344,105
3,609,951	Growth	27,801	3,637,752
22,627,119	Highways	191,931	22,819,050
21,821,169	Fire and Rescue & Emergency Planning	490,811	22,311,980
3,545,107	Public Protection	943,613	4,488,720
22,849,505	Resources	562,640	23,412,145
37,382,606	Commercial	1,214,712	38,597,318
2,865,384	Corporate Services	90,603	2,955,987
-32,340,600	Public Health Grant Income	-1,205,537	-33,546,137
-47,022,878	Better Care Funding	-5,210,463	-52,233,341
424,196,817	Total Delivery Hierarchy	13,639,198	437,836,015
SCHOOLS BUDGETS			
454,763,789	Schools Block	0	454,763,789
91,982,435	High Needs Block	0	91,982,435
3,728,205	Central School Services Block	0	3,728,205
42,131,646	Early Years Block	0	42,131,646
-595,281,990	Dedicated Schools Grant	0	-595,281,990
-2,675,915	TOTAL SCHOOLS BUDGETS	0	-2,675,915
OTHER BUDGETS			
3,000,000	Contingency	0	3,000,000
45,694,177	Capital Financing Charges	-4,032,231	41,661,946
19,679,208	Other	3,282,323	22,961,531
68,373,385	TOTAL OTHER BUDGETS	-749,908	67,623,477
489,894,287	TOTAL NET EXPENDITURE	12,889,290	502,783,577
2,572,245	Transfer to/from Earmarked Reserves	-651,362	1,920,883
150,000	Transfer to/from General Reserves	50,000	200,000
492,616,532	BUDGET REQUIREMENT	12,287,928	504,904,460
MET FROM:			
123,271,058	Business Rates Local Retention	-2,917,323	120,353,735
20,466,718	Revenue Support Grant	113,180	20,579,898
34,016,803	Other Non Specific Grants	10,399,314	44,416,117
314,861,953	County Precept	4,692,757	319,554,710
492,616,532	TOTAL MET FROM	12,287,928	504,904,460

Note: detailed budgets are still being worked on so there may be some changes on individual lines in the above table. These will be finalised in the Council Budget 2021/22 report to the Executive in February.

Revenue Support Grant 2021/22

1.20 Our Revenue Support Grant, which is the Government's General Grant funding for councils, will be £20.580m in 2021/22.

Other Revenue Government Grants 2021/22

1.21 The table below summarises our other non-ringfenced Revenue Grants and the amounts confirmed for these in 2021/22. As stated in paragraph 1.5 above, some new specific grants were announced in the Spending Review statement, however these are not shown in the table below and the amounts are not yet known.

Table C – Other Government Grants

Other Government Grants	Amount 2020/21 £000's	Amount 2021/22 £000's
Social Care Support Grant	20,485	25,849
Rural Services Delivery Grant	6,935	7,277
Local Council Tax Support Grant	0	5,354
Independent Living Fund	1,554	1,515
New Homes Bonus Grant	2,091	1,469
Fire Pensions	1,437	1,437
School Improvement Grant	649	649
Extended Rights to Free Travel	639	639
Inshore Fisheries Conservation	128	128
Virtual School Head	98	98
Other Government Grants	34,016	44,415

Council Tax 2021/22

1.22 It is assumed at this point in time that Council Tax will be increased by 1.99% in 2021/22 for general council tax. The referendum threshold limit for 2021/22 is 2.00%, which will be confirmed in the Final Local Government Finance Settlement, so this is within the proposed referendum limit. We will have the ability to raise an Adult Care Precept of up to 3.00% in 2021/22 but we can also defer this to 2022/23.

1.23 It is estimated that a Council Tax increase of 1.99% will generate additional income of £6.203m based on the Council Taxbase for the current year. The assumed increase in Council Taxbase will generate a further £1.683m of income. Together these increases total £7.886m in 2021/22. By way of illustration, a 1.0% increase in Council Tax would generate £3.132m of additional income based on the Council Taxbase for the current year.

- 1.24 The final figures on the Council Taxbase and any surpluses or deficits on the Council Tax element of the Collection Fund will not be received from Lincolnshire District Councils until 31 January 2021. We have received indicative Taxbase figures from six of the seven District Councils and have assumed a marginal increase in Taxbase for 2021/22, which is lower than our usual assumption of Taxbase growth. This is due to the likely impact of Covid-19 on the collectability of Council Tax in 2020/21 which will impact on 2021/22. The effect of this reduction in Taxbase is included in the figures for additional Council Tax income in paragraph 1.23.
- 1.25 The Council Tax Collection Fund surplus in 2020/21 was £3.193m but we have assumed that there will be no surplus in 2021/22 as a result of the Covid-19 impact described in the preceding paragraph. The final information on Taxbase changes and any surplus or deficit on the Council Tax Collection Fund will be reported to the Executive at its meeting on 2 February 2021, together with the impact on funding that this will have. We are expecting a loss to be reported but have not yet factored this into the Medium Term Financial Plan due to uncertainty about the likely impact. The Provisional Local Government Finance Settlement confirmed that the government will provide grant funding in 2021/22 to cover 75% of irrecoverable council tax losses, but it is not yet known how this scheme will work. The government had previously announced that councils would spread a Council Tax Collection Fund loss in 2021/22 over three years. The Provisional Local Government Finance Settlement also confirmed that we would receive £5.354m of Local Council Tax Support grant next year.
- 1.26 An Equality Impact Analysis will be completed for the proposed increase in Council Tax. This will be reported back to the Executive at its meeting on 2 February 2021.

Business Rates 2021/22

- 1.27 The District Councils have until 31 January 2021 to provide business rates returns showing:
- the position on the business rates element of the collection funds; and
 - the value of the section 31 compensation grant due to the County Council.

At the time of preparing this report, the Council had not received notification of provisional Business Rates Collection Fund positions from any of the seven District Councils. Any surplus or deficit from business rates collection will only have a one off effect on the 2021/22 budget. The current working assumption within the budget presented in this report is that there will be neither a surplus nor a deficit for the total business rates collection fund, however it is likely that the Covid-19 pandemic will have negatively affected the collectability of Business Rates in 2020/21 which will impact on 2021/22. The Provisional Local Government Finance Settlement announcement confirmed that the government will provide grant funding in 2021/22 to cover 75% of irrecoverable Business Rates losses, but it is not yet known how this scheme will work. We have an earmarked reserve for Business Rates

Volatility, which stands at £6.152m and this could also be used to help cover any loss.

- 1.28 It is expected that the Government will compensate local authorities in full for the continuation of the business rates cap, small business rates relief and rural rate relief by way of a section 31 grant, as in previous years. The Spending Review announcement also confirmed that the business rates multiplier (which is the factor by which business rates increase each year) will be frozen for 2021/22 but local authorities will be compensated in full for this loss by way of a section 31 grant.
- 1.29 At the time of preparing this report the Council had not received provisional notification from any of the District Councils in respect of section 31 grants. An assumption has been made that the total of business rates section 31 grants for 2020/21 will be in the region of £7.297m but the actual amount cannot be confirmed until the end of January.
- 1.30 A Business Rates Pool will continue to operate in 2021/22, but we have assumed for now that there will be no pooling gain next year due to the uncertainties around the impact of the pandemic on Business Rates as a whole.
- 1.31 An update will be tabled at the Executive meeting on 2 February 2021 on all aspects of business rates funding once returns have been received from all of the Lincolnshire District Councils.

Financial Risks

- 1.32 There are a number of risks which may impact on the budget for 2021/22 and we have taken a realistic, but prudent approach to our estimates. Appendix A shows the key assumptions we have used and gives an indication of what the financial impact would be if our assumptions were different by 1%.
- 1.33 The assumptions which currently pose the most significant risks are:
- We have assumed cost neutral Collection Fund positions i.e. neither a surplus or deficit at this stage – this is a significant risk;
 - The final figures for Council Taxbase and Business Rates, which will be received from the District Councils by 31 January 2021 – this is a significant risk;
 - We expect that some cost pressures related to Covid-19 will continue into 2021/22 and our assumption is that these will be fully covered by the government grant announced and detailed in paragraph 1.9. We will aim to include more information about these on-going pressures in the report to the Executive on 2 February 2021, including a quantification of the estimated total amount.
 - Our ability to deliver on savings in future years. Although such savings are not shown in this report, they are included in the Medium Term Financial Plan.

Reserves

- 1.34 Our General Reserves currently stand at £16.050m. The purpose of our General Reserves is to cover known financial risks and our strategy is to maintain these reserves at a level which is between 2.5% and 3.5% of the budget requirement each year. Our budget proposals currently include a contribution to reserves of £0.200m which would take the level of General Reserves up to £16.250m (3.2% of the budget requirement at this point in time). Some last minute adjustments may be required when our funding for 2021/22 is confirmed.
- 1.35 The Financial Volatility earmarked reserve position is covered in paragraph 1.13 above.
- 1.36 A review of Adult Care and Community Wellbeing reserves has confirmed £23.000m of uncommitted funding which can be used to support volatility in future Adult Care budgets, recognising the continuing demands in this area.

The Capital Strategy

- 1.37 A Capital Strategy 2020/21 was approved last year, and has supported our budget setting process for the capital programme this year. The Strategy is being refreshed for 2021/22 and will be included with the report for the meeting of the Executive on 2 February 2021.

Capital Programme

- 1.38 A ten year Capital Programme has been compiled in line with the principles set out in our Capital Strategy, including the principle of Affordability. The full Gross Programme is shown at Appendix C and totals £204.302m for 2021/22 plus a further £322.097m for future years. After grants and contributions are taken into consideration, we have a Net Programme of £111.283m for 2021/22 plus a further £282.808m for future years.
- 1.39 The capital programme net budget has increased since last year's budget process. The main areas of change are set out below, with the most significant increases in the gross programme for 2021/22 covered by re-phasing uncommitted budget on some other schemes into future years (details set out below).
- SEND Provision. The planned capital spending commitment reflects the latest position on the Building Communities of Specialist Provision Strategy individual schemes for 2021/22. The strategy is to deliver an increase in places for Lincolnshire special schools including providing young people with SEND the ability to access high quality all needs education, health and care provision in their local community. The whole life costs of the programme have risen to £86.794m from £56.556m based on actual scheme costs for those which have entered main works contracts and forecast scheme costs on those still to be confirmed post-feasibility. There are a number of reasons for the increased budget requirement: the addition to the programme of the Lincoln new school site solution following the department

declining the Local Authority's free school application (c.£12.000m); design solutions including improved site access to address travel and traffic concerns; addressing the extremely poor school site conditions, and enhanced health and therapy spaces.

Additional funding has been secured to deliver the revised programme. Funding is made up of government grants secured (£69.724m), LCC capital / other (£1.470m), and £15.600m reallocation of LCC capital funding for new school requirements currently within the 10 year programme to the SEND programme, due to a downward revision of requirements by taking account of many factors, for example, delays in planning applications, alternative solutions.

- As reported in the current year capital budget monitoring reports, a number of risks associated with the Lincoln Eastern Bypass (LEB), Grantham Southern Relief Road (GSRR) and Spalding Western Relief Road section 5 (SWRR) have resulted in significant increases in forecast costs. For 2021/22 we have added an additional budget of £5.847m for the LEB, an additional budget of £1.951m for the GSRR and a reduction in budget of £0.095m for the SWRR. For future years we have added an additional budget of £3.000m for the LEB, an additional budget of £9.192m for the GSRR and an additional budget of £0.762m for the SWRR. The revised capital programme has been updated to reflect these pressures and fund the overspends in 2021/22. Further risk still remains which could change these forecasts, but these will continue to be monitored and reported as these scheme progress.
 - To ensure our capital programme for 2021/22 is affordable and to recognise the risks and potential increased costs identified in the forecast of the major highway schemes currently in progress, we have re-phased into later years some programme budgets in areas where spend has not yet been committed. The 2021/22 uncommitted budgets for the Boston Development Schemes (Infrastructure and Economic) and Local Highways Improvements (Pinch points) – Coastal Route Schemes have been re-phased into 2022/23 to better reflect likely spend and to reduce the impact of increased spend on schemes that have already commenced.
 - Separated Paper and Card Recycling Scheme. This is a new project in the capital programme with a budget of £1.206m in 2021/22 and budgets totalling £4.171m in future years. This scheme is for the implementation of separated collections of paper and cardboard for households across Lincolnshire in order to realise economic and environmental benefits by reducing transportation and the degradation that occurs in mixed recycling collections.
- 1.40 The Department for Transport has now confirmed £110.000m of capital grant funding for the North Hykeham Relief Road scheme, following our outline business case bid. We currently have a £48.000m budget in the ten year capital programme to fund the net costs of this scheme, and the next

step is to complete a detailed business case. The scheme is due to start in 2025.

- 1.41 The revenue impact of the Capital Programme (capital financing charges to the Revenue Budget) fluctuates from year to year and it was agreed last year that fluctuations above and below the base budget would be dealt with by using an Earmarked Reserve for Capital Financing. The balance in this earmarked reserve currently stands at £5.150m and is likely to increase to around £13.000m after the 2020/21 outturn position is confirmed.

Development Fund Initiatives

- 1.42 Last year's budget process included a review of earmarked reserves, which resulted in funding identified for a number of new initiatives. The funding was allocated to a new earmarked reserve called the Development Fund and bids were made against this reserve for various schemes requiring a one-off investment. Some of these schemes have already started, with others planned to start in 2021/22. Appendix D shows these initiatives, and how the expenditure for each scheme is likely to be phased from the current year onwards. There remains a balance in the Development Fund earmarked reserve of £1.444m which has not yet been allocated.

Flexible Use of Capital Receipts Strategy

- 1.43 The Council previously approved the strategy of using Capital Receipts flexibly to fund revenue transformation projects from 2016/17 to 2019/20, in line with the Government's amended policy. Last year this was changed so that the strategy from 2020/21 is that capital receipts will only be used to repay loans or fund new capital expenditure. Transformation projects will instead be funded by using existing revenue budgets or earmarked reserves. This amended strategy will continue into 2021/22.
- 1.44 The statutory guidance relating to the flexible use of capital receipts requires councils to approve annually a Flexible Use of Capital Receipts Strategy. The proposed strategy for 2021/22 will be presented to the Executive on 2 February 2021 and will confirm that the Council has not identified any transformation projects in 2021/22 to be funded using this flexibility.

2. Legal Issues:

2.1 Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act.
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.

- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation.

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic.
- Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it.
- Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

Compliance with the duties in section 149 may involve treating some persons more favourably than others.

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process.

These equality considerations do not preclude changes in services being made, but do require that these be fully appreciated. It is clear that the current and future financial challenges facing local authorities and the need for budget savings may result in changes to service provision and to some reduction in Council services. These may apply to services accessed by all people in Lincolnshire as well as services provided to specific groups. It is possible that there may be an adverse impact on some people and communities including those with a protected characteristic.

In order to meet its obligations, Equality Impact Analyses will be carried out in relation to any proposed changes to services on an individual basis. The specific impacts on people with a protected characteristic will be

investigated and the potential mitigation, if any, will be made clear, so that the implications of decisions are fully understood as they affect specific groups and communities. These have been and will continue to be regularly reported to the Executive as part of the decision making processes. Individual proposals will only be implemented after due regard to the legal matters that must be considered, including the public sector equality duty.

As part of its decision-making, the Executive will need to consider whether any alternative approaches could alleviate or at least mitigate the impact of the decision; such as making reductions in other areas which do not have the same impacts, including, particularly, equality impacts. The result could be to require additional resources to be used in certain areas than has been budgeted for.

Consideration of the public sector equality duty and/or consultation may be necessary at the budget setting stage where a decision to reduce spending is significant, sufficiently focussed, and in financial terms, apparently rigid.

It is not considered that this applies to any of the proposed reductions set out in this Report and its Appendices.

In particular, in the event that any of the proposed reductions cannot be achieved, the usual budget management processes such as the use of Earmarked Reserves, or virement, would be followed, and approval sought at the appropriate levels in accordance with Financial Regulations, including full Council where necessary. Furthermore, a contingency has been built into the budget proposals in the form of the Financial Volatility Reserve (the balance is currently £52.683m) and the annual Contingency budget of £3.000m for 2021/22, for when additional funding cannot be found by way of Earmarked Reserves or virement from other service areas.

A full Equality Impact Analysis will be developed in respect of the final budget proposal and in particular any Council Tax proposals in the light of feedback received during the consultation process.

Joint Strategic Needs Analysis (JSNA and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision.

Individual proposals will only be implemented after due regard to the legal matters that must be considered, including the Joint Strategic Needs Assessment and Joint Health and Wellbeing Strategy.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area.

Individual proposals will only be implemented after due regard to the legal matters that must be considered, including the duty under section 17 of the Crime and Disorder Act 1998.

3. Conclusion

- 3.1 These budget proposals reflect the level of Government funding available to the Council and a proposal to increase general Council Tax in 2021/22 by 1.99%.
- 3.2 A thorough review of Council services was carried out during this year's budget process. Unavoidable cost pressures as well as savings have been identified, and the Capital Programme has been reviewed. The budget proposals aim to reflect the Council's priorities whilst operating with the resources available to it.
- 3.3 The budget proposals have been developed alongside, and in accordance with, the draft Medium Term Financial Strategy and a proposed final version of this Strategy will be reported to Executive in February. Final budget proposals will be reported to the Executive on 2 February 2021.

4. Legal Comments:

The Executive is responsible for publishing initial budget proposals for the budget for the purposes of consultation before determining the budget it will recommend to the full Council.

The matters to which the Executive must have regard in reaching its decision are set out in the body of the report.

The recommendations are within the remit of the Executive and are lawful. The Executive has the power to accept the Recommendation, or to agree one of the alternative approaches referred to in the report, subject to the limits on Council Tax increases referred to in the report.

5. Resource Comments:

These budget proposals incorporate the level of funding available to the Council from central Government plus an increase in Council Tax of

1.99% for general Council Tax.

Although the budget proposals are estimated at this stage, the funding assumed is in line with the Provisional Local Government Finance Settlement received in December 2020, and we propose a surplus budget at this stage, which will be a balanced budget once all remaining budgetary information has been incorporated.

The Medium Term Financial Plan from 2022/23 onwards still shows an underlying deficit position. We expect to be able to resolve this once our future funding is known and further savings are built into the budget after a number of development initiatives, including transformational projects, are delivered.

6. Consultation

a) Has Local Member Been Consulted?

N/A

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

There are no scrutiny comments at this stage in the budget process.

d) Risks and Impact Analysis

An Equality Impact Analysis will be complete for the proposed increase in Council Tax. This will be reported to the Executive at its meeting on 2 February 2021.

Further Equality Impact Analyses will need to be undertaken on a service by service basis.

7. Appendices

These are listed below and attached at the back of the report	
Appendix A	Key Assumptions in the Medium Term Financial Plan
Appendix B	Cost Pressures and Savings for 2021/22
Appendix C	Capital Programme 2021/22 and Future Years
Appendix D	Development Fund Initiatives

8. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Provisional Local Government Finance Settlement	https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2021-to-2022
Council Budget 2020/21	https://www.lincolnshire.gov.uk/directory-record/61670/budget-and-financial-strategy

This report was written by Michelle Grady, who can be contacted on 01522 553235 or michelle.grady@lincolnshire.gov.uk .