

Report to Executive

Agenda
Item:

A.1(a)

Meeting Date: 10 December 2018
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD19/18
Within Policy and Budget Framework YES
Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2019/20 TO 2023/24
Report of: CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number: RD29/18

Purpose / Summary:

This report provides an update to RD22/18, with a summary of the Council's revised revenue base estimates for 2018/19, together with base estimates for 2019/20 and forecasts up to 2023/24 for illustrative purposes.

Potential new spending pressures and savings are also considered in this report. It should be noted that the figures in this report are indicative and the final position is subject to decisions being taken further in the budget process.

The report also provides an update on the key budget considerations.

Recommendations:

The Executive is requested to:

- (i) note the revised base estimates for 2018/19 and base estimates for 2019/20;
- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2018;
- (iii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken;
- (iv) note the budget pressures/savings needing to be taken into account as part of the 2019/20 budget process;
- (v) note the Statutory Report of the S.151 Officer outlining the risks associated with the draft budget figures and that minimum reserves may need to be reviewed in the future depending upon the outcome of the Local Government Finance review.

Tracking

Executive:	10 December 2018
Scrutiny:	BTSP 3 January 2019
Council:	

1. INTRODUCTION

- 1.1. This report considers the revised base estimates for 2018/19 together with the estimates for 2019/20 as previously outlined in report RD22/18. The report also sets out any known revisions to the Medium Term Financial Plan (MTFP) projections.
- 1.2. The base estimates have been prepared in accordance with the guiding principles for the formulation of the budget over the next five-year planning period as set out in the following Policy documents that were approved by Council on 11 September 2018:
 - ◆ Medium Term Financial Plan and Charging Policy
 - ◆ Capital Strategy
 - ◆ Asset Management Plan
- 1.3. Members should be aware that there are a number of significant factors affecting the budget that are still to be finalised. In particular the following are key to the budget process and details on these are considered, where relevant, further in the report:
 - Government Finance Settlement - Business Rate Retention and Fair Funding Review including the potential future re-set of the Business Rates baseline sum;
 - Achievement of the Savings Strategy;
 - Further reductions in government grant e.g. New Homes Bonus, Housing Benefit Admin Grant;
 - Future borrowing requirements;
 - Commercial and investment opportunities.
- 1.4. The report draws on information contained in a number of reports that are either considered elsewhere on this agenda or have been considered previously by the Executive.
- 1.5. Decisions will need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies (and probable use of reserves) to enable a balanced budget position to be recommended to Council in February 2019.

2. SUMMARY OF BASE BUDGET ESTIMATES

- 2.1. The base estimates are calculated on the assumption that core services will continue at approved levels incorporating decisions agreed by Council as part of the previous year's budget process and including all subsequent decisions made by Council.

2.2. The table below sets out the base level General Fund requirement for 2018/19 and 2019/20 with projections to 2023/24. The 2018/19 variance reflects the use of reserves approved since the MTFP was approved in September.

Table 1 – Base Budget Summary

	2018/19 Original £000	2018/19 Revised £000	2019/20 Original £000	2020/21 Proj £000	2021/22 Proj £000	2022/23 Proj £000	2023/24 Proj £000
Net Base Budget Parish Precepts (PP)	12,096 613	13,600 613	11,922 628	11,608 644	11,759 660	12,284 677	12,615 694
Total	12,709	14,213	12,550	12,252	12,419	12,961	13,309
Original MTFP Projections	12,709	12,709	12,550	12,252	12,419	12,961	13,309
Variance	0	1,504	0	0	0	0	0
Analysis of Variance:							
Non-Recurring:							
Central Plaza		650					
Planning Services Reserve		(58)					
Revenue Grants Reserve		701					
Prosecutions Reserve		15					
Building Control Reserve		35					
Cremator Reserve		(44)					
Car Park Enhancement Reserve		107					
Promoting Carlisle Reserve		10					
Carry Forward Reserve		55					
City Centre Reserve		33					
Total Variance	0	1,504	0	0	0	0	0
Changes to Funding							
Additional Business Rates Income		(400)					

2.3. Members will be aware from the revenue monitoring report considered elsewhere on this agenda that a number of income streams are reporting variances against projected levels in the current financial year and there may be other cost pressures or savings which may have a recurring impact; however, officers are reviewing the existing base budget provisions to ensure that the services can be provided within these provisions with the position for 2019/20 onwards being considered during this budget process. The monitoring report has also identified that income from Business Rates will be overachieved by £400,000 for 2018/19 and it is proposed to revise the 2018/19 budget to reflect this.

3. UPDATED MTFP PROJECTIONS

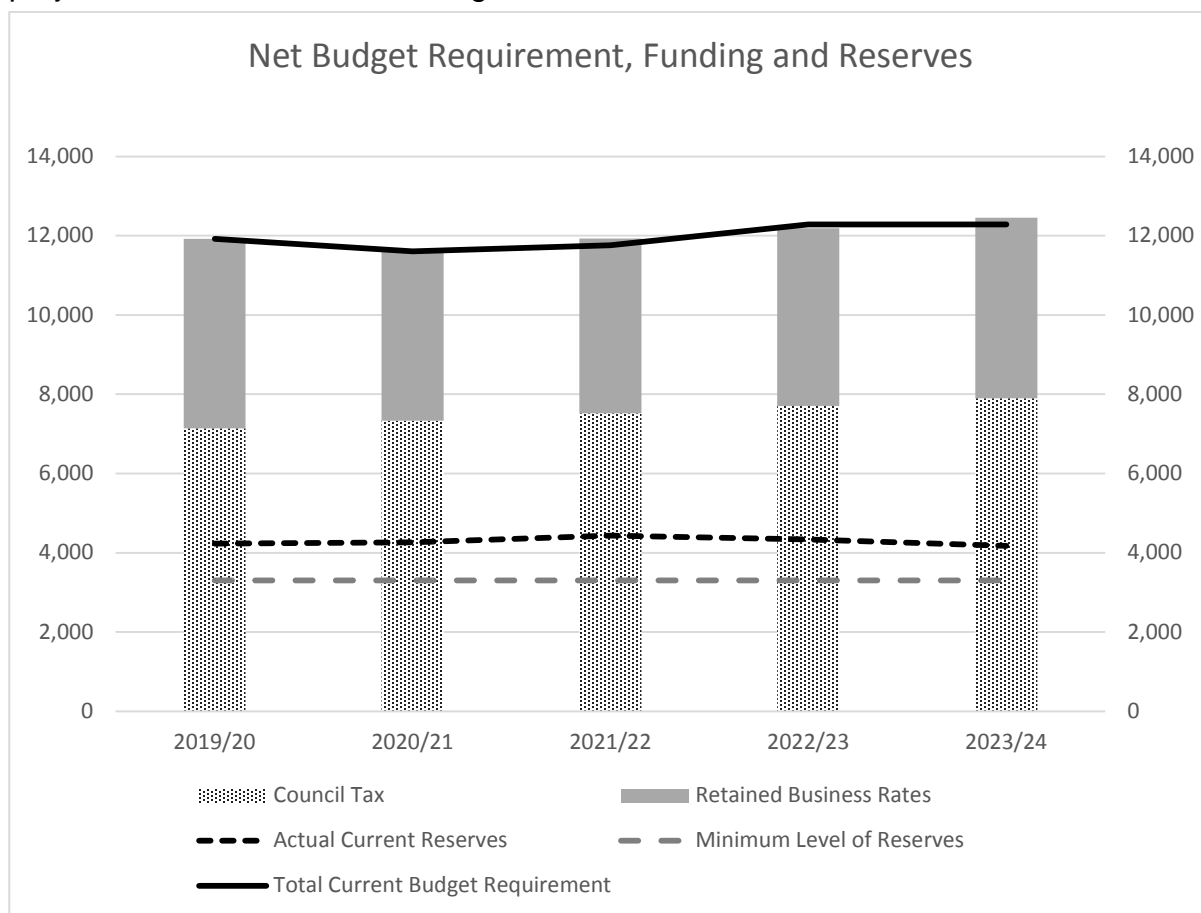
3.1 The budget projections as currently forecast in the MTFP are summarised in Table 2 below:

Table 2 – Current Budget projections

	Recurring Commitments (Surplus) £000	Non-Recuring Commitments £000	Carry Forwards £000	Transfers Between Reserves £000	Total £000
2018/19	(502)	(81)	711	0	128
2019/20	642	(641)	0	0	1
2020/21	664	(696)	0	0	(32)
2021/22	52	(223)	0	0	(171)
2022/23	58	36	0	0	94
2023/24	163	0	0	0	163

3.2 The revised estimates for 2018/19 will be recommended to Council as part of the budget process and include the amendment for additional business rates income highlighted above.

3.3 The chart below shows the current net budget position in relation to current funding projections and current levels of general fund reserves.



4. OUTSTANDING KEY ISSUES

4.1. Revenue Support Grant (RSG)

The figures incorporated into this report are based on the 2018/19 Local Government Finance Settlement confirmed by the Secretary of State in January 2018 and are based upon the acceptance of the offer of a four-year funding settlement. RSG has been phased out and is completely removed by 2019/20.

4.2. Retained Business Rates and Council Tax Reduction Scheme

The Council has successfully participated in the Cumbria Business Rate Pool arrangements since 2014/15. This allows the Council to benefit from the 50% business rate growth in Cumbria that would normally be passed back to Central Government as levy payments. The Council benefited by £683,933 in 2017/18 and £372,344 in 2016/17.

Further details on the Government announcement that Local Authorities will retain 75% of Business Rates from 2020 are still unknown although more details are slowly emerging with applications being sought from areas to participate in a pilot of 75% retention in 2019/20. Cumbria has submitted an application to be a part of this pilot with the outcome likely to be known in early December.

If the 75% Rates Retention pilot application is unsuccessful, it is again proposed that the Council continues to participate in the Cumbria Pool for 2019/20.

The Local Support for Council Tax Scheme ("The Council Tax Reduction Scheme" or CTRS) is required to be approved annually as part of the Budget Process. It is not proposed to make any changes to the reductions given to recipients of the discount scheme for 2019/20, nor is it proposed to make any revisions or replace the current scheme and as such the continuation of the current scheme will be recommended by the Executive.

It is expected that the referendum limit will remain for Council Tax increases, however, District Councils are being given the option of raising Council Tax by the greater of 3% or £5.

4.3. Transformation

The current MTFP includes budgeted recurring savings of £1.237million for the transformation programme, to be found in 2018/19. This also includes the savings required from the current base budget review.

4.4. Resource Assumptions

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2018/19 onwards. The resources projections assume:

- No Revenue Support Grant from 2019/20 onwards as a result of the phasing out as part of the four-year settlement.
- A £5 (Band D equivalent) Council Tax increase for 2019/20 onwards.
- A Council Tax Surplus for 2019/20 onwards of £50,000. The actual figure for 2019/20 will be available in January.
- Retained business rates are assumed at the Baseline level with an additional £1,400,000 to be achieved through growth/section 31 grants and from the benefits of Pooling in 2019/20 falling to £900,000 in 2020/21 due to uncertainties about how the revised Business Rate Retention Scheme will work.
- An assumed tax base of 33,419.44 for 2019/20. The final tax base for 2019/20 will not be available until January, however early calculations suggest that based upon previous years trends there is scope to increase the tax base forecasts for future years. Further details will be provided at the January Executive.
- Parish Precepts are currently being collated but the estimate for 2019/20 is for a total of £628,000. The actual Parish Precept requirement for each Parish will be reported to the Executive in December.

For information, broadly:

- Each 1% (£1.95) movement in Council Tax impacts on the Council by £67,000
- Each £35,000 increase or decrease in expenditure impacts on the Council Tax requirement by £1.

5. POTENTIAL NEW SPENDING PRESSURES

- 5.1 In light of the current position in the MTFP, there are some potential new spending pressures that need to be considered.

Detail		2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Recurring						
Tullie House ICT	5.2	60	60	60	60	60
Customer Service	5.3	14	14	14	14	14
ICT - Enhancement of Remote Access	5.4	15	15	15	15	15
Inflation / Pay Award Provision	5.5	136	276	276	276	276
Treasury Management	5.6	604	742	29	482	595
Housing Regeneration Post	5.7	38	38	38	38	38
Total Recurring Pressures		867	1,145	432	885	998
Non Recurring						
Economic Investment Initiatives	5.8	250	0	0	0	0
Borderlands Inclusive Growth Deal	5.9	50	0	0	0	0
Borderlands Project Officer	5.10	53	53	0	0	0
Asset Disposal Refresh	5.11	112	112	112	0	0
<i>Financed from Capital Receipts</i>		0	(112)	(112)	(112)	0
Elections	5.12	80	0	0	0	0
Transformation Savings	5.13	400	0	0	0	0
Total Non Recurring Pressures		945	53	0	(112)	0

5.2 Tullie House ICT

Tullie House no longer utilises the Council's ICT support, and the agreement with the Trust provides for the Council to contribute towards the costs of an external provider.

5.3 Customer Service

Following a restructure in Customer Services there is a requirement to provide additional resources for front-line staffing to improve the performance of the team and the service provided to customers.

5.4 ICT – Enhancement of Remote Access

It is proposed to enhance the Council's remote access infrastructure for improving mobile working arrangements and making them more secure.

5.5 Inflation / Pay Award Provision

The increase in the pay award provision for 2018/19 and 2019/20 to 2% was included in the 2018/19 budget on a non-recurring basis, however following confirmation of the pay deal, this has a recurring impact and the overall average pay increase amounted to 2.82% for both years.

5.6 Treasury Management

Treasury Management projections have been updated to include updates to the Capital programme (contained elsewhere on this agenda) and updated for interest rate forecasts. This pressure includes the potential impact on reserves for all the pressures and savings contained in this report together with the updated borrowing costs for the capital programme, some of which are offset by additional income, e.g. Gateway 44 and Leisure contract.

5.7 Housing Regeneration Post

To fund the recurring costs of the Housing Regeneration Officer which was previously funded from an external grant.

5.8 Economic Investment Initiatives

This pressure relates to economic investment initiatives that the Council wishes to pursue, such as Business Support, Carlisle Ambassadors, St Cuthberts Garden Village, Business Improvement District, promotion of Central Plaza redevelopment opportunities.

5.9 Borderlands Inclusive Growth Deal

In order to progress the schemes and detailed business cases for the development of the Borderlands Initiative, additional funding is required to support the joint working of the various partners.

5.10 Borderlands Project Officer

To fund the continuation of the Project Officer post, for a further 2 years, to support the development of the detailed business cases and progression of the growth deal.

5.11 Asset Disposal Refresh

The asset disposal programme has been refreshed and has identified assets the Council can dispose of. This will require additional staffing resource to manage this process and realise these sales. It is anticipated that these costs can be offset against the realised capital receipts (up to a maximum of 4% of the receipt) making the pressure self-financed once receipts are realised.

5.12 Elections

As the City Council will be holding a full election in May 2019. Additional expenditure will be incurred in administering this compared to the normal third of all seats contended.

5.13 Transformation Savings

For 2019/20 £400,000 can be offset by additional funding expected from Business Rate Retention on a non-recurring basis as outlined below. There is also an anticipated shortfall income of £837,000 across Council services that has been highlighted through the budget monitoring process, however these will be funded from a fundamental review of existing base budgets and further examination of the potential recurring impact these could have.

6. SAVINGS AND ADDITIONAL INCOME PROPOSALS

- 6.1 The current MTFP includes a savings requirement to be found by 2018/19 of £1.237million (£1.129million for Transformation and £0.107million for Base Budget Review). The net position of the final pressures and savings identified as part of this budget process may require changes to be made to the overall savings target.
- 6.2 Further savings/additional income have already been identified in the budget process for 2019/20 to date.

Detail	Note	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Changes to Funding						
Business Rate Income	6.3	(350)	0	0	0	0
Released from Earmarked Reserve	6.4	(688)	0	0	0	0
Total Changes to Funding		(1,038)	0	0	0	0
<u>Savings Proposed</u>						
Gateway 44 Income	6.5	0	(125)	(567)	(893)	(893)
Leisure Contract	6.6	0	0	0	0	(309)
Developer Contributions - Southern Relief Road	6.7	0	(31)	(72)	(83)	(144)
Total of Savings		0	(156)	(639)	(976)	(1,346)
Total Recurring		0	(156)	(639)	(976)	(1,346)
Total Non-Recurring		(1,038)	0	0	0	0

6.3 Business Rate Income

The Council has included additional income over and above the baseline level in the Medium Term Financial Plan and has consistently over achieved these targets since the introduction of rates retention at each outturn position. Forecasts for 2019/20 indicate that this growth will continue, therefore the level of funding in the budget can

be increased. As the outcome of the new rates retention scheme is unknown for 2020, it is not proposed to increase this income beyond 2019/20.

6.4 Released from Earmarked Reserves

It is proposed that the reserves highlighted below totalling £688,000 should be released to the General Fund as being no longer required for their original purpose:

- Revenues & Benefits Reserve - £338,000
- Transformation Reserve - £150,000
- Welfare Reform Reserve - £200,000

It is also proposed to re-designate the Asset Investment Reserve (£48,000) to be used towards property initiatives and that the carry forward reserve be re-designated for alternative use as outlined in report RD22/18. All changes to reserves (release and re-designation) will be included in the final budget proposals for Council approval.

6.5 Gateway 44 Income

The capital programme and treasury management budgets include the costs associated with the Gateway 44 development opportunity and this additional income is included to recognise the income to be generated once the development is fully let which is anticipated to be in 2022/23.

6.6 Leisure Contract

The recurring impact of the subsidy achieved through the re-letting of the Leisure Services contract and the Sands Centre redevelopment. This reflects the additional saving between 2022/23 and 2023/24 as agreed in the contract.

6.7 Developer Contributions – Southern Relief Road

The estimated contributions to be received from developers as a result of the construction of the Southern Relief Road.

7. PROJECTED IMPACT ON REVENUE BALANCES

7.1 It should be noted that if all of the potential new Savings and Spending Pressures were accepted then reserves are maintained at current minimum levels for 2019/20 however they are below minimum levels for the future years.

7.2 The general principles on each of the Reserves are set out in the Medium Term Financial Plan. In terms of meeting ongoing revenue expenditure, the general guiding principle which Council approved is that:

‘Wherever possible, reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit, and steps taken to address the situation in the following years’.

- 7.3 The Council's current levels of balances are set out in **Appendix A** and include the impact of the proposed pressures and savings outlined in this report. The Projects Reserve has been used as a first call for the current projected revenue budget deficit however, the maintaining the current level of reserves is dependent upon the achievement of the transformation savings. A risk-based review of reserve levels has been undertaken and shows that the minimum level of General Fund Reserves should remain at £3.3million.

Summarised Position	2018/19 Original £000	2018/19 Revised £000	2019/20 Original £000	2020/21 Proj £000	2021/22 Proj £000	2022/23 Proj £000	2023/24 Proj £000
Total Projected Expenditure	12,096	13,600	11,922	11,608	11,759	12,284	12,615
Total Projected Resources	(12,096)	(13,600)	(11,921)	(11,640)	(11,930)	(12,190)	(12,452)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	1	(32)	(171)	94	163
Less:							
New Saving Proposals							
- Recurring	0	0	0	(156)	(639)	(976)	(1,346)
- Non Recurring	0	0	0	0	0	0	0
- Funding Business Rates	0	(400)	(350)	0	0	0	0
- Released from Earmarked Reserves	0	0	(688)	0	0	0	0
(See Para 6)							
Add:							
New Spending Pressures							
- Recurring	0	0	867	1,145	432	885	998
- Non Recurring	0	0	945	53	0	(112)	0
(See Para 5)							
Potential Budget (Surplus) / Shortfall	0	(400)	1,463	1,010	(378)	(109)	(185)
Potential (Surplus) / Shortfall Analysis:							
- Recurring	0	0	1,159	1,653	(155)	(33)	(185)
- Non Recurring	0	(400)	304	(643)	(223)	(76)	0

Balance as at:	Projected Reserves £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000	Released From Earmarked Reserves £000
31/03/2019	4,630	(1,159)	(304)	688
31/03/2020	3,855	(1,653)	643	0
31/03/2021	2,845	155	223	0
31/03/2022	3,223	33	76	0
31/03/2023	3,332	185	0	0
31/03/2024	3,517			

8. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2019/20 to 2023/24

- 8.1 The current budget projections for the next five-year period are challenging and continue to show the requirement for substantial savings to be achieved in order to enable the Council to contain its ongoing commitments within available resources.
- 8.2 Notification of Government general and specific grants is received on an individual basis late in the budget process which makes forward planning difficult.
- 8.3 There is much uncertainty around Local Government funding beyond 2019/20 with the outcome of the Fair Funding Review and the reset of the Business Rate Retention scheme (including baselines and 75% retention) make financial planning beyond 2020 difficult.
- 8.4 The City Council needs to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years, and the Executive will make recommendations in this respect in December.
- 8.5 Under section 25 of the Local Government Act 2003 the Council's S.151 Officer is required to prepare a statutory report which considers the robustness of the estimates and the adequacy of reserves and which determines levels of borrowing. A full report will be prepared and included within the Executive's draft budget proposals for consultation purposes; however a draft is attached at **Appendix B**.

9 RISKS

- 9.1 As outlined above the Council has a statutory responsibility to set a balanced budget and failure to do this could lead to unfunded financial pressures on the Council.

10 CONSULTATION

- 10.1 The Business and Transformation Scrutiny Panel will consider this report on 3 January 2019, and their views fed back to the Executive on 16 January. Public consultation will take place between 11 December and 14 January and the budget resolution will then be issued by the Executive on 16 January.

11 RECOMMENDATIONS

The Executive is requested to:

- (i) note the revised base estimates for 2018/19 and base estimates for 2019/20;

- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2018
- (iii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken;
- (iv) note the budget pressures/savings needing to be taken into account as part of the 2019/20 budget process.
- (v) Note the Statutory Report of the S.151 Officer outlining the risks associated with the draft budget figures and that minimum reserves may need to be increased in the future depending upon the outcome of the Local Government Finance review.

13 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

13.1 To ensure that a balanced budget is set.

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Appendices
attached to report: Appendix A – Council Reserves
Appendix B – Draft Statutory Report of S.151 Officer

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

CORPORATE IMPLICATIONS:

LEGAL – The Council has a fiduciary duty to manage its resources properly and for the benefit of its community. In doing so it is required to take account of the advice it receives from its chief finance officer, the Corporate Director of Finance and Resources. The Council must have a balanced budget to deliver its services and also achieve and sustain an appropriate level of reserves.

FINANCE – Contained within the body of the report

EQUALITY – not applicable

INFROMATION GOVERNANCE – not applicable

APPENDIX A

COUNCIL RESERVES

Analysis of Council Reserves	Outturn 31 March 2018 £000	Projected 31 March 2019 £000	Projected 31 March 2020 £000	Projected 31 March 2021 £000	Projected 31 March 2022 £000	Projected 31 March 2023 £000	Projected 31 March 2024 £000
Revenue Reserves							
General Fund Reserve	(2,000)	(3,300)	(3,300)	(2,845)	(3,223)	(3,300)	(3,300)
Projects Reserve	(2,773)	(1,330)	(555)	0	0	(32)	(217)
Carry Forward Reserve	(927)	(620)	0	0	0	0	0
Total General Fund Reserves	(5,700)	(5,250)	(3,855)	(2,845)	(3,223)	(3,332)	(3,517)
Earmarked Reserves							
Flood Reserve	(2,014)	(2,014)	0	0	0	0	0
Transformation Reserve (i)	(150)	(150)	0	0	0	0	0
Building Control Reserve	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Cremator Reserve	(850)	(850)	(850)	(850)	(850)	(850)	(850)
Economic Investment Reserve	(6)	0	0	0	0	0	0
Car Parking Reserve	(107)	0	0	0	0	0	0
City Centre Reserve	(42)	0	0	0	0	0	0
Welfare Reform Reserve (i)	(200)	(200)	0	0	0	0	0
Revenues & Benefits Reserve (i)	(338)	(338)	0	0	0	0	0
Revenue Grants Reserve	(1,920)	(1,920)	(1,920)	(1,920)	(1,920)	(1,920)	(1,920)
Planning Services Reserve	(28)	(28)	(28)	(28)	(28)	(28)	(28)
Promoting Carlisle Reserve	(20)	(20)	0	0	0	0	0
Prosecutions Reserve	(41)	(41)	(41)	(41)	(41)	(41)	(41)
Total Earmarked Reserves	(5,866)	(5,711)	(2,989)	(2,989)	(2,989)	(2,989)	(2,989)
Total Revenue Reserves	(11,566)	(10,961)	(6,844)	(5,834)	(6,212)	(6,321)	(6,506)
Capital Reserves							
Usable Capital Receipts	0	0	0	0	0	0	0
Asset Disposal Reserve	0	0	0	0	0	0	0
Unapplied capital grant	(136)	(136)	(136)	(136)	(136)	(136)	(136)
Asset Investment Reserve (i)	(48)	(48)	(48)	(48)	(48)	(48)	(48)
GLL Reserve	(273)	(273)	(273)	(273)	(273)	(273)	(273)
Lanes Capital Reserve	(45)	(60)	(75)	(90)	(105)	(120)	(135)
Total Capital Reserves	(502)	(517)	(532)	(547)	(562)	(577)	(592)
Total Usable Reserves	(12,068)	(11,478)	(7,376)	(6,381)	(6,774)	(6,898)	(7,098)
Other Technical Reserves (ii)	(106,946)						
Total All Reserves	(119,014)						

(i) These reserves are proposed to be released or re-designated as part of the 2019/20 budget setting

(ii) These reserves are of a technical nature and are not cash backed (i.e. they are not available either to fund expenditure or to meet future commitments.)

DRAFT STATUTORY REPORT OF S.151 OFFICER

1. In setting its Budget Requirement, the Council is required under the Local Government Act 2003 (Section 25) to consider:
 - (i) The formal advice of the statutory responsible financial officer (Corporate Director of Finance and Resources) on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
 - (ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the Prudential Code that governs local authority borrowing.

2. **Robustness of the Estimates**

Whilst relevant budget holders are responsible for individual budgets and their preparation, all estimates are scrutinised by Financial Services staff, the Senior Management Team and the Strategic Financial Planning Group prior to submission to members.

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates.

The Council has no history of overspending against budget, indeed, there has tended to be a degree of underspending. However improved budget monitoring backed up by specific action where appropriate and base budget procedures have proven effective in addressing this issue.

There are risks however involved in projecting budgets particularly over the medium term and the year-end position will never exactly match the estimated position in any given year. Areas of specific risk in the current five-year period under consideration are:

- The Transformation programme is expected to achieve savings of £1.237million by 2019/20, in order to meet the expected cuts in grants from central government and other budgetary pressures identified in the previous budget process. No new transformation savings are expected over and above this target at this point in time. However, base budget savings of £837,000 must be identified and achieved to balance off the anticipated shortfalls in income. This will ensure that a balanced budget is produced and where Council reserves are replenished over the longer term.
- The level of interest receipts and return on Treasury Management activities are subject to market rates. Members are advised of this risk every year and it should be noted that in the current economic climate with low and relatively static base rates, investment income returns in the medium term continue to prove challenging. The Council is also having to deal with a reduced number of counterparties it is able to place deposits with.

The main risks to the robustness of the estimates are the impact of the Fair Funding Review and how the 75% retention of business rates will be implemented in 2020.

There will be a requirement to use reserves in the short term; however the proposals put in place show that reserves will rise over the following 5-year period although not to minimum levels.

The delivery of the savings proposals identified and continuing work to deliver further savings will also be important to maintaining reserves at prudent levels. Regular budget monitoring, particularly in the area of the Transformation programme is imperative during this period. The level of the Council's future Capital Programme in taking account of a significant reduction in capital receipts is fully funded but includes a borrowing requirement over the five-year period and specifically a potential external borrowing requirement in 2019/20 to fund new leisure facilities which is an invest to save initiative. The Capital Programme includes plans to sell further assets that can be utilised to reduce the overall borrowing requirement for future capital investment decisions.

- Central contingencies – there have been no contingency budgets built in to the existing estimates. This means that any unforeseen expenditure that cannot be contained within existing budgets will require a supplementary estimate to cover any costs. The budget proposals will significantly limit the capability to deal with any of these events and these may have to be found from within other budgets and reserves should the need arise.

2. Adequacy of Reserves

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

The appropriateness of the level of reserves can only be judged in the context of the Council's longer term plans and an exercise has been undertaken to review the level of reserves through the use of a risk assessment matrix. The findings of this exercise suggested that the minimum level should be set at £3.3m as a prudent level of General Fund Reserves which will be required as a general working capital/ contingency to cushion the Council against unexpected events and emergencies.

The Council's policy on reserves is that wherever possible reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit and steps taken to address the situation in the following years. The Executive sets out in its Budget Discipline and Saving Strategy on how it expects Officers to address the 2019/20 budget pressures in setting the 2019/20 budget and principles to be adopted when preparing the 2020/21 budget cycle.

Based on current projections, Council Reserves will be maintained at prudent levels. It is accepted that the level of reserves is reliant on the delivery of the transformation savings and achievement of income targets and government funding.

Minimum reserves may need to increase over the medium term depending upon the final outcome of the devolvement of 75% business rates to local authorities. This devolvement is likely to increase the risks to local authorities and as such it may be prudent to hold greater reserves to cope with these risks.

3. Determination of Borrowing

The new Prudential Accounting regime enables the Council to borrow subject to meeting criteria of affordability. The draft Prudential Indicators have been established and these will be finalised for Council approval once decisions on the overall Capital Programme have been made.

For the period under review the need for borrowing will be kept under consideration and will be dependent on the level of capital receipts being generated and the potential of future capital projects. Due to projects currently under consideration, the capital programme for 2019/20 to 2023/24 will require the use of Prudential

Borrowing (including internal borrowing) to sustain levels depending on the levels of capital receipts that can be generated in the future. If borrowing is required, full option appraisals will be carried out.