

Resources Overview and Scrutiny Panel

Agenda Item:

**A.3(3)
(a)**

Meeting Date: 5 January 2017
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD21/16
Within Policy and Budget Framework YES
Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2017/18 TO 2021/22
Report of: CHIEF FINANCE OFFICER
Report Number: RD40/16

Purpose / Summary:

This report provides a draft summary of the Council's revised revenue base estimates for 2016/17, together with base estimates for 2017/18 and updated projections to 2021/22. It includes the impact of the new savings and new spending pressures currently under consideration and the potential impact on the Council's overall revenue reserves.

Recommendations:

Members of the Resources Overview and Scrutiny Panel are asked to note the report and make comments on the proposed budgetary position are asked to note and comment on the overall budgetary position for 2017/18 to 2021/22.

Tracking

Executive:	19 December 2016
Overview and Scrutiny:	ROSP 05/01/17
Council:	

Report to Executive

Agenda
Item:

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Within Policy and Budget Framework YES
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Title: BUDGET UPDATE – REVENUE ESTIMATES 2017/18 TO 2021/22
Report of: CHIEF FINANCE OFFICER
Report Number: RD40/16

Purpose / Summary:

This report provides an update to RD35/16 together with a summary of the Council's revised revenue base estimates for 2016/17, together with base estimates for 2017/18 and forecasts up to 2021/22 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 2016/17 and base estimates for 2017/18;
- (ii) note that the RSG estimates in the report are draft (although are based on the acceptance of the 4-yearly Local Government Finance settlement) and will be subject to the confirmation December 2016;
- (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 2017/18 budget process;

- (v) Note the Statutory Report of the Chief Finance 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.

Tracking

Executive:	19 December 2016
Overview and Scrutiny:	ROSP 05/01/17
Council:	

1. INTRODUCTION

- 1.1. This report considers the revised base estimates for 2016/17 together with the estimates for 2017/18 as previously outlined in report RD35/16. 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 13 September 2016:
 - ◆ 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 currently unresolved. In particular the following are key to the budget process and details on these are considered further in the report:
 - Government Finance Settlement - RSG and Business Rate Retention
 - Welfare Reform Act
 - Transformation
 - Stock issue loan refinancing in 2020
 - Future borrowing requirements
- 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 2017.

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 2016/17 and 2017/18 with projections to 2021/22. The 2016/17 variance reflects the use of

earmarked reserves approved since the MTFP was approved in September.

Table 1 – Base Budget Summary

		2016/17 Original £000	2016/17 Revised £000	2017/18 Original £000	2018/19 Proj £000	2019/20 Proj £000	2020/21 Proj £000	2021/22 Proj £000
Net Base Budget		13,062	13,227	10,734	10,602	10,685	11,812	12,179
Parish Precepts (PP)		557	557	544	504	517	530	543
Total		13,619	13,784	11,278	11,106	11,202	12,342	12,722
Original MTFP Projections		13,619	13,619	11,278	11,106	11,202	12,342	12,722
Variance		0	165	0	0	0	0	0
Analysis of Variance:								
Non-Recurring:								
IT Renewals Reserve			48					
Leisure Reserve			17					
Economic Inv Reserve			13					
Cremator Reserve			(42)					
Energy Efficiency Advice Reserve			42					
Carry Forward Reserve			87					
Total Variance		0	165	0	0	0	0	0

2.3. Members will be aware from the Charges Review reports considered elsewhere on this agenda that some income streams are either above or below projected levels in the current financial year. This will be kept under review as part of the budget monitoring process for 2016/17 with the position for 2017/18 onwards being considered as part of the budget process.

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-Recurring Commitments £000	Carry Forwards £000	Transfers Between Reserves £000	Total £000
2016/17	1,241	172	528	0	1,941
2017/18	465	(987)	56	0	(466)
2018/19	(152)	(333)	10	0	(475)
2019/20	363	(666)	0	0	(303)
2020/21	137	391	0	0	528
2021/22	247	391	0	0	638

- 3.2 The revised estimates for 2016/17 will be recommended to Council as part of the budget process.

4. OUTSTANDING KEY ISSUES

4.1. Revenue Support Grant (RSG)

The figures incorporated into this report are based on the 2016/17 Local Government Finance Settlement confirmed by the Secretary of State in January 2016 and are based upon the acceptance of the offer of a four-year funding settlement. It is still unclear as to whether there may be any further changes to these figures but confirmation of the figures is expected in December 2016.

4.2. Retained Business Rates and Council Tax Reduction Scheme

The draft budget assumes that the Council will continue to be a member of the Cumbria Business Rates Pool for 2017/18 and that the Council Tax Reduction Scheme parameters will continue as outlined elsewhere on this agenda.

Further details on the Government announcement that Local Authorities will retain 100% of Business Rates from 2020 are still unknown although more details are slowly emerging. It is likely 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 2% or £5.

4.3. Welfare Reform Act

The Government has announced that there will be significant changes to the Welfare State as part of the current Parliament and this will involve radical changes to the way benefits are managed and distributed. There will be significant changes to the way Carlisle City Council manages benefits, with housing benefit absorbed into DWP Universal Credit arrangements (staggered between 2014 and 2017). Housing Benefit Admin Grant is therefore likely to reduce over the life of the MTFP.

4.4. Transformation

The current MTFP includes budgeted recurring savings of £3.475million for the transformation programme, to be found by 2018/19.

4.5. Resource Assumptions

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2017/18 onwards. The resources projections assume:

- A continued reduction in Government Grant allocation in 2017/18 onwards as a result of the acceptance of the four-year settlement.
- A 1.95% Council Tax increase for 2017/18 onwards.
- A Council Tax Surplus for 2017/18 onwards of £50,000. The actual figure for 2017/18 will be available in January.
- Retained business rates are assumed at the Baseline level with an additional £700,000 to be achieved through growth/section 31 grants and from the benefits of Pooling in 2017/18 rising to £900,000 in 2019/20.
- An draft taxbase of 32,544,08 for 2017/18. The final taxbase for 2017/18 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2017/18 is for a total of £544,000 (including approximately £24,000 in Government Grant for Council Tax reduction scheme.) 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		2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Recurring						
Treasury Management	5.2	136	154	378	128	26
Salary Turnover Savings	5.3	119	119	119	119	119
Pension Fund Revaluation	5.4	23	210	231	231	231
Civic Centre Income	5.5	158	158	158	158	158
Homelife	5.6	75	75	75	75	75
Car Parking	5.7	96	96	96	96	96
Clean Up Carlisle	5.8	91	91	91	91	91
Funding Officer	5.9	31	31	31	31	31
Economic Regeneration Team	5.10	24	24	24	24	24
Enterprise Centre Income	5.11	47	47	47	47	47
IT Strategy	5.12	51	177	254	210	210
Total Recurring Pressures		851	1,182	1,504	1,210	1,108
Non Recurring						
Lanes Income	5.13	140	0	0	0	0
Community Infrastructure Levy	5.14	30	0	0	0	0
Carlisle South Masterplan	5.15	115	135	135	65	0
Total Non Recurring Pressures		285	135	135	65	0

5.2 Treasury Management

The Treasury Management projections have been updated to take account of the revised capital programme, including changes to funding. The projections have also taken into account the latest projections for interest rates, including the long term investment in the property fund and re-financing of the stock issue in 2020. Treasury Projections will be recalculated as decisions made during the budget process with regard to contributions to and from reserves which impact on the level of cash forecasts.

5.3 Salary Turnover Savings

Salary Turnover savings target of £412,000 represents 3.5% of staffing costs. Salary Turnover levels have historically been set at 2.5%. With reductions in staffing numbers and VR/ER initiatives, this pressure reduces the target to a realistic level of 2.5%

5.4 Pension Fund Revaluation

The triennial revaluation of the Pension Fund will increase the cost of pension contributions payable by the Council from April 2017. Contributions will rise by 2%,

however, a saving can be made by paying the three-yearly deficit funding upfront and this is factored into the net pressure shown above.

5.5 Civic Centre Rental Income

This pressure reflects the loss of income from the County Council and other tenants vacating the Civic Centre unless other tenants are found the shortfall will become a recurring pressure.

5.6 Homelife

This pressure reflects the gross costs of the core staffing team required to provide and continue the Homelife scheme.

5.7 Car Parking

There is an expectation that income will not achieve the MTFP projections by £60,000 and additional costs in relation to Business Rates on Council owned car parks will increase by £36,000.

5.8 Clean Up Carlisle

This pressure reflects the costs required to continue the Clean Up Carlisle initiative.

5.9 Funding Officer

This represents the cost of appointing a Funding Officer to identify sources of potential external funding in order to increase the sources of grants that can be utilised. This can be funded from the recurring savings on inflation as outlined below.

5.10 Economic Regeneration Team

This represents the additional costs of appointing to the economic regeneration team to increase capacity for regeneration projects and initiatives. This can be funded from the recurring savings on inflation as outlined below

5.11 Enterprise Centre Income

The enterprise centre has not achieved the budgeted level of income for the past couple of years and this pressure will reduce the budget to a more achievable level

5.12 IT Strategy

There have been some increased costs associated with the delivery of a robust and sustainable IT strategy. Additional budget pressures from increased Microsoft Licence costs from 2018/19 and maintenance costs for the IT Computer room.

5.13 Lanes Income

This pressure reflects expected levels of income from the Lanes for 2017/18 only. Estimates are that from 2018/19 the levels of income should return to the current budgeted projections.

5.14 Community Infrastructure Levy

This pressure is to establish the Community Infrastructure Levy (CIL) arrangements for future development activity within the City. There is an expectation that this initial cost can be recovered once CIL's are in place and this is shown in the savings/additional income table below.

5.15 Carlisle South Masterplan

This pressure represents contributions to develop a masterplan for Carlisle South including feasibility studies into a southern relief road. This pressure is offset by additional grant funding anticipated to be received as part of a Garden City bid to government which is shown in the table below.

6. SAVINGS AND ADDITIONAL INCOME PROPOSALS

- 6.1 The current MTFP includes a savings requirement to be found by 2018/19 of £3.475million. This savings requirement takes no account of the pressures identified above or the additional savings identified below. 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 2017/18 to date.

Detail	Note	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Changes to Funding						
Council Tax - £5 increase	6.3	(38)	(72)	(105)	(136)	(163)
Council Tax - Tax Base	6.3	(63)	(66)	(67)	(69)	(71)
Total Changes to Funding		(101)	(138)	(172)	(205)	(234)
Savings Proposed						
Inflation	6.4	(104)	(104)	(104)	(104)	(104)
Base Budget Review	6.5	(403)	(403)	(403)	(403)	(403)
MRP Review	6.6	(363)	(353)	(397)	(394)	(389)
Carlisle South	6.7	(50)	(50)	(50)	(50)	0
Community Infrastructure Levy	6.8	0	0	(30)	0	0
Savings achieved in advance	6.9	(135)	0	0	0	0
New Homes Bonus	6.10	0	0	0	(498)	(563)
Homelife	6.11	(30)	(30)	(30)	(30)	(30)
Total of Savings		(1,085)	(940)	(1,014)	(1,479)	(1,489)
Total Recurring		(900)	(890)	(934)	(931)	(926)
Total Non-Recurring		(185)	(50)	(80)	(548)	(563)

6.3 Council Tax

The referendum limit for Council Tax increases is being proposed to include the ability for District Council's to increase by the greater of 2% or £5. This additional yield therefore represents the additional income that could be generated by increasing from current 1.95% Council Tax increases included in the MTFP to £5. It is likely that confirmation of this proposal to increase by £5 will be received as part of the Local Government Finance Settlement in late December 2016.

The draft tax base calculation has highlighted that the tax base will increase over previous estimates in the MTFP from 32,228.34 to £32,544.08 which will yield additional Council Tax.

6.4 Inflation

The MTFP assumes inflation on general expenditure of 2.0% and 3.0% for income. The cash amount included in the MTFP for inflation has been reduced significantly given reducing levels of expenditure and lower forecasts for inflation.

6.5 Base Budget Review

A review of recurrent under spends over the last three-years has identified some areas where recurring savings can be made from the base budget. These need

further investigation with Directors and Service Managers in order to determine the actual savings to be achieved.

6.6 Minimum Revenue Provision (MRP)

A review of the Council's MRP charges and policy has been undertaken by Capita, the Council's treasury management advisors and has identified the potential for savings to be made in order to counteract the over-provision of MRP charges in previous years. Final details are still to be confirmed as to how these savings can be best achieved and discussions are also being held with the Council's external auditors. The amounts shown above represent amounts of MRP that have been overpaid in previous years in relation to Assets Under Construction and additional Voluntary MRP that was charged between 2003/04 and 2007/08 which can now be utilised to reduce the amounts payable going forward. This accounts for £226,000 per year for five years.

Also included in the saving is the proposal to adjust the MRP policy for amounts chargeable into the future. The current policy is to charge 4% on a reducing balance basis of the Capital Financing Requirement. The statutory guidelines for MRP are that a prudent amount must be charged each year in respect of debt repayment. One of the problems identified with a reducing balance method of charge is that the debt never gets fully repaid. Capita suggest switching to a charge based on a 2% or 3% straight line method. A 3% charge would assume that any debt liability is assumed to be matched to an average asset life of 33 years, which given the Council's asset portfolio is not unrealistic given it has a mix of short life assets, e.g. vehicles with 5-8 year lives and long life assets, e.g. land and buildings with a typical life of 50 years plus. Switching to a 3% Straight Line charge therefore reduces the MRP charge in the earlier years, but increases the MRP charge in later years as the debt liability moves closer to being repaid. The balance of the saving included in the budget represents the switch from a 4% reducing balance method to a 3% straight line method which is seen to be a more accurate reflection of repaying debt liabilities and matched more closely to the assets acquired.

6.7 Carlisle South

This represents the funding anticipated to be received to undertake studies into development of Carlisle South and Southern Relief Road and is from the Garden City application made by the Council.

6.8 Community Infrastructure Levy

This represents the expectation that costs in setting up the Community Infrastructure Levy will be recouped from fees on developers once established.

6.9 Savings achieved in advance

Savings targets for 2015/16 and 2016/17 were overachieved therefore the amount required to be found for 2017/18 is reduced by this amount.

6.10 New Homes Bonus

The 2016/17 budget process assumed that New Homes Bonus would not continue beyond 2019/20. Further information has since suggested that New Homes Bonus may continue and this additional income shown here reflects the continuation of the allocations from 2016/17 on a four yearly cycle rather than the current six-yearly cycle. No provision is made for new allocations from 2019/20 and any awarded will be budgeted once known.

6.11 Homelife

This represents additional fee income that can be generated from administering the grants schemes under the DFG scheme and off sets the additional costs highlighted in 5.6.

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.

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 any 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 £2million.

Summarised Position	2016/17 Original £000	2016/17 Revised £000	2017/18 Original £000	2018/19 Proj £000	2019/20 Proj £000	2020/21 Proj £000	2021/22 Proj £000
Total Projected Expenditure	13,619	13,784	11,278	11,106	11,202	12,342	12,722
Total Projected Resources	(13,619)	(13,784)	(11,744)	(11,581)	(11,505)	(11,814)	(12,084)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	(466)	(475)	(303)	528	638
Less:							
New Saving Proposals							
- Recurring	0	0	(900)	(890)	(934)	(931)	(926)
- Non Recurring	0	0	(185)	(50)	(80)	(548)	(563)
- Funding - Tax base	0	0	(63)	(66)	(67)	(69)	(71)
- Funding - £5 increase	0	0	(38)	(72)	(105)	(136)	(163)
(See Para 6)							
Add:							
New Spending Pressures							
- Recurring	0	0	851	1,182	1,504	1,210	1,108
- Non Recurring	0	0	285	135	135	65	0
- Funding	0	0	0	0	0	0	0
(See Para 5)							
Potential Budget Shortfall	0	0	(516)	(236)	150	119	23
Potential Shortfall Analysis:							
- Recurring	0	0	315	2	761	211	195
- Non Recurring	0	0	(831)	(238)	(611)	(92)	(172)

Balance as at:	Projected Reserves £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000	Transfer to Earmarked Reserve £000
31/03/2017	(1,570)	315	(831)	0
31/03/2018	(2,086)	2	(238)	0
31/03/2019	(2,322)	761	(611)	0
31/03/2020	(2,172)	211	(92)	0
31/03/2021	(2,053)	195	(172)	0
31/03/2022	(2,030)			0

8. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2017/18 to 2021/22

- 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 In terms of expenditure pressures, the significant issue affecting the budget is the continuing falling levels of income being received by the Council.
- 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 CONSULTATION

- 9.1 The Resources Overview and Scrutiny Panel will consider this report on 5 January 2017, and their views fed back to the Executive on 18 January. Public consultation will take place between 19 December and 16 January and the budget resolution will then be issued by the Executive on 18 January.

10 RECOMMENDATIONS

The Executive is requested to:

- (i) note the revised base estimates for 2016/17 and base estimates for 2017/18;
- (ii) note that the estimates in the report are draft (although are based on the acceptance of the 4-yearly Local Government Finance settlement) and will be subject to the confirmation December 2016
- (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 2017/18 budget process.

- (v) Note the Statutory Report of the Chief Finance 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.

Contact Officer: Steven Tickner Ext: 7280

Appendices
attached to report: Appendix A – Council Reserves
Appendix B – Draft Statutory Report of Chief Finance Officer

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers:

- **None**

CORPORATE IMPLICATIONS/RISKS:

Chief Executive's – not applicable

Deputy Chief Executive's – not applicable

Economic Development – not applicable

Governance – 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 Chief Finance Officer. The Council must have a balanced budget to deliver its services and also achieve and sustain an appropriate level of reserves.

Resources – contained within the body of the report

APPENDIX A

COUNCIL RESERVES

Analysis of Council Reserves	Outturn 31 March 2016 £000	Projected 31 March 2017 £000	Projected 31 March 2018 £000	Projected 31 March 2019 £000	Projected 31 March 2020 £000	Projected 31 March 2021 £000	Projected 31 March 2022 £000
Revenue Reserves							
General Fund Reserve	(2,000)	(1,570)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Projects Reserve	(1,511)	0	(86)	(322)	(172)	(53)	(30)
Carry Forward Reserve	(1,078)	0					
Flood Reserve	(500)	0					
Conservation Reserve	(117)	0					
Transformation Reserve	(348)	0					
EEAC Reserve	(43)	0					
Building Control Reserve	(137)	0					
Cremator Reserve	(479)	0					
Leisure Reserve	(118)	0					
Economic Investment Reserve	(108)	0					
Car Parking Reserve	(113)	0					
City Centre Reserve	(42)	0					
Welfare Reform Reserve	(200)	0					
Repairs & Renewals Reserve	(502)	0					
Business Rates Volatility Reserve	(110)	0					
Total Revenue Reserves	(7,406)	(1,570)	(2,086)	(2,322)	(2,172)	(2,053)	(2,030)
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	(191)	(191)	(191)	(191)	(191)	(191)	(191)
Asset Investment Reserve	(48)	(48)	(48)	(48)	(48)	(48)	(48)
CLL Reserve (i)	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Lanes Capital Reserve	(15)	(30)	(45)	(60)	(75)	(90)	(105)
Total Capital Reserves	(776)	(791)	(806)	(821)	(836)	(851)	(866)
Total Usable Reserves	(8,182)	(2,361)	(2,892)	(3,143)	(3,008)	(2,904)	(2,896)
Other Technical Reserves (ii)	(103,725)						
Collection Fund (Carlisle Share only)	227						
Total All Reserves	(111,680)						

(i) This reserve relates to CLL assets which may need to be replaced at the end of the contract.

(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 CHIEF FINANCE 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 (Chief Finance Officer) 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 £3.475million between 2016/17 and 2018/19, 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. 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 base rates, investment income returns in the medium term are very difficult to predict. 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 proposed reductions in central government grant and how the 100% retention of business rates will be phased in. Once the Local Government Finance Settlement is known in December 2016, these risks may become clearer and will be incorporated into the final budget proposals.

Minimal use of reserves will be necessary to fund this budget; however the proposals put in place continue to maintain reserve levels at an acceptable level in the following 5 years.

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 an external borrowing requirement in 2018/19 to fund new leisure facilities which is an invest to save initiative. However, no capital reserves are available to fund new capital projects other than invest to save initiatives funded from revenue reserves.

- 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 £2.0m 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 2017/18 budget pressures in setting the 2017/18 budget and principles to be adopted when preparing the 2018/19 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 devolution of 100% business rates to local authorities. This devolution 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 2017/18 to 2021/22 may 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.