

Report to Business & Transformation Scrutiny Panel

Agenda Item:
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Meeting Date: 7 January 2021
 Portfolio: Finance, Governance and Resources
 Key Decision: Yes: Recorded in the Notice Ref: KD.25/20
 Within Policy and Budget Framework YES
 Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2021/22 TO 2025/26
 Report of: CORPORATE DIRECTOR OF FINANCE & RESOURCES
 Report Number: RD 42/20

Purpose / Summary:

This report provides a draft summary of the Council’s revised revenue base estimates for 2020/21, together with base estimates for 2021/22 and updated projections to 2025/26. 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 Business & Transformation Scrutiny Panel are asked to scrutinise the report and make comments on the revised base estimates for 2020/21 and the proposed overall budgetary position for 2021/22 to 2025/26.

Tracking

Executive:	14 December 2020
Scrutiny:	BTSP 07 January 2021
Council:	2 February 2021 (Budget Resolution)

Report to Executive

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Title: BUDGET UPDATE – REVENUE ESTIMATES 2021/22 TO
2025/26
Report of: CORPORATE DIRECTOR OF FINANCE & RESOURCES
Report Number: RD 42/20

Purpose / Summary:

This report provides an update to RD32/20, with a summary of the Council's revised revenue base estimates for 2020/21, together with base estimates for 2021/22 and forecasts up to 2025/26 for illustrative purposes.

Potential new spending pressures, bids 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 2020/21 and base estimates for 2021/22;
- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2020;
- (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, bids and savings which need to be taken into account as part of the 2021/22 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:	14 December 2020
Scrutiny:	BTSP 07 January 2021
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1. INTRODUCTION

- 1.1. This report considers the revised base estimates for 2020/21 together with the estimates for 2021/22. 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 8 September 2020:
 - ◆ 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 will be considered as the budget process progresses:
 - Ongoing impact of COVID-19;
 - Local Government Finance Settlement – announcement due by December 2020;
 - Further expected changes 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 potential use of reserves, to enable a balanced budget position to be recommended to Council in February 2021.

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 2020/21 and 2021/22 with projections to 2025/26. The 2020/21 variance reflects the use of

earmarked reserves approved since the MTFP was approved in September.

Table 1 – Base Budget Summary

	2020/21 Original £000	2020/21 Revised £000	2021/22 Original £000	2022/23 Proj £000	2023/24 Proj £000	2024/25 Proj £000	2025/26 Proj £000
Net Base Budget	14,653	17,532	12,753	12,594	12,960	13,183	13,670
Parish Precepts (PP)	688	688	705	723	741	760	779
Total	15,341	18,220	13,458	13,317	13,701	13,943	14,449
Original MTFP Projections	15,341	17,972	13,176	13,205	13,494	13,707	13,949
Variance	0	248	282	112	207	236	500
Analysis of Variance:							
Sands Project			282	112	207	153	345
Developer Contributions			0	0	0	83	155
Non-Recurring:							
Planning Services Reserve		(23)					
Revenue Grants Reserve		286					
Cremator Reserve		(24)					
Building Control Reserve		9					
Total Variance	0	248	282	112	207	236	500

2.3. Members will be aware from the revenue monitoring reports that there are a number of income streams that 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; many of these are in relation to the ongoing COVID-19 pandemic and the impact it is having on Council services. These shortfalls are being reported to MHCLG on a monthly basis to ensure that government is aware of the losses being incurred. It is likely some or all of these pressures may continue into 2021/22, but these are being closely monitored and dialogue is ongoing with MHCLG to ensure that any losses are recovered where possible through grant or compensation from central government.

3. OUTSTANDING KEY ISSUES

3.1. Government Settlement Funding Assessment

The Council receives core funding allocations from the Government in relation to Business Rates Baseline Funding and other specific grants. 2020/21 saw a one-year

settlement so the figures incorporated into this report for 2021/22 onwards are only estimations of the government funding that the Council may receive. Due to the COVID-19 pandemic, reform to the local government funding model (Fair Funding Review & Business Rates Retention) has been delayed and the Chancellor has recently announced his Spending Review (SR) for 2021/22 in order to prioritise the response to COVID-19 and to focus on supporting jobs. This will, therefore, provide departmental resources for 2021/22 only. In terms of public services, the SR focused on “giving enhanced support to continue to fight against the virus alongside delivering first class frontline services”. The SR also confirmed multi-year capital spending for key programmes. This one-year settlement makes it extremely difficult for the Council to undertake any medium to long term financial planning, with the allocations for 2021/22 expected in mid-December.

3.2. Retained Business Rates and Council Tax

The Business Rate Baseline figure is assumed at an inflationary increase for 2021/22 with reduced projections for growth and pooling built into the MTFP from 2021/22 on the basis that the Business Rates Reforms would be implemented in 2021/22. However, as mentioned above, the reforms of the Retained Business Rates Retention Scheme have again been deferred and as a result of this deferral, the MHCLG has decided not to revoke the existing legislation governing pooling arrangements, and therefore the Council is able to continue to be a member of the Cumbria Business Rates Pool for 2021/22, subject to the agreement of all participating members. The financial aspects of continuing with the Pooling arrangements for 2021/22 are set out further in this report.

It is expected that the referendum limit will remain for Council Tax increases, however, District Councils are usually given the option of raising Council Tax by the greater of 3% or £5. This will be confirmed in mid-December.

3.3. Pay Award 2021/22

The MTFP currently assumes a 2% pay award increase from 2021/22 onwards; with the agreed pay award for 2020/21 being 2.75%. However, the Spending Review in November 2020 outlined plans to freeze public sector pay for public sector workers earning over £24,000. Those earning below this threshold will be guaranteed at least a £250 increase. There is also an exemption from the freeze for doctors and nurses. Therefore, there is likely to be a small saving on the amounts included in the MTFP. A decrease of 0.75% equates to a saving of £100,000 per annum.

3.4. Resource Assumptions

Contributions from balances include all approvals to date but make no assumptions on further contributions from balances to support the budget from 2021/22 onwards. The current resources projections assume:

- A £5 (Band D equivalent) Council Tax increase for 2021/22 onwards.
- A Council Tax Surplus for 2021/22 onwards of £50,000. The actual figure for 2021/22 will be available in January.
- Retained business rates are assumed at the Baseline level with an inflationary increase, with an additional sum to be achieved through growth/section 31 grants and from the benefits of Pooling in 2021/22;
- An assumed tax base of 34,911.93 for 2021/22. The final tax base for 2021/22 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2021/22 is for a total of £705,000. 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.

4. POTENTIAL NEW SPENDING PRESSURES/BIDS

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

There may be other pressures on the revenue budget as highlighted within the revenue monitoring reports, 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 budgetary provisions and also contribute towards the savings target.

Detail		2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Recurring						
Leisure Contract	4.2	617	198	2	2	2
Energy Monitoring System	4.3	3	3	3	3	3
Replacement of Flare Data Management System	4.4	0	16	16	16	16
Industrial Estate Income	4.5	55	55	55	55	55
Pay Award	4.6	93	93	93	93	93
Project Officer Post	4.7	132	132	132	132	132
Total Recurring Pressures		900	497	301	301	301
Non Recurring						
City Centre Properties Income	4.8	190	190	190	190	0
Digital Marketing Officer	4.9	27	0	0	0	0
Total Non Recurring Pressures		217	190	190	190	0

4.2 Leisure Contract Variation – Additional Expenditure - £617,000 recurring bid reducing to £2,000

This relates to additional subsidy to the Leisure provider agreed as part of the Sands project by Council in July 2019.

4.3 Energy Monitoring System – Additional Expenditure - £3,000 recurring bid

This is the annual maintenance cost of a new energy monitoring system that is included as a new capital project in RD43/20. The system will allow the Council to monitor and manage its energy usage across its properties and will help to deliver commitments around becoming carbon neutral as well as generating a recurring saving of approximately £20,000 per year.

4.4 Replacement of Flare Data Management System – Additional Expenditure - £16,000 recurring bid

This is the annual cost associated with a new Data Management system to be used by Regulatory Services. The capital costs are included in the Capital report (RD43/20) considered elsewhere on this agenda.

4.5 Industrial Estate Income – income shortfall £55,000 recurring

To recognise the shortfall of income from industrial estates in line with the Council's asset disposal programme.

4.6 Pay Award – Additional Expenditure - £93,000 recurring

The 2020/21 pay award was higher than that included in the Medium-Term Financial Plan. This pressure recognises the increased cost of the 2020/21 pay award on the overall wage bill.

4.7 Project Officer Post – Additional Expenditure - £132,000 recurring

The Council has some significant capital schemes in the pipeline, e.g. new leisure facilities, civic centre refurbishment, Borderlands projects etc. This pressure is therefore to provide dedicated experienced officers who can manage these projects.

4.8 City Centre Property Income – Income Shortfall - £190,000 reducing to £0 non-recurring bid

To recognise the loss of rental income from City Centre properties; with the assumption that this funding gap will be replaced by funding received from the Borderlands Project.

4.9 Digital Marketing Officer – Additional Expenditure - £27,000 non-recurring

This is to create a fixed term role with the use of a capacity funding bid (£20,000) to lead on engagement through social media and digital channel. The role will continue to develop innovate approaches to engagement and consultation for the key strategic projects and new strategies/policies.

4.10 COVID-19 Income and Budget Monitoring Shortfalls

The on-going pressures as a result of COVID-19 are being closely monitored and dialogue is ongoing with MHCLG to ensure that any losses are recovered where possible through grant or compensation from central government.

4.11 Climate Change

The Council's update Local Environment (Climate Change) Strategy will be subject to a report to full Council in the Spring of 2021 following the usual consultation process; the Strategy will be supported by an action plan for addressing climate change issues as well individual actions required by the Council for reducing the its own carbon footprint. The Council is committed to becoming carbon neutral in the future and there may be a requirement for significant investment in achieving this goal, with recovery through the achievement of efficiency savings and/or by maximising any external grants and contributions available to support the strategy and action plan through the Council's Funding Strategy. However, any carbon reducing schemes will initially have to be funded from resources currently contained with the Council's existing Revenue and Capital budgets; with any new climate change initiatives, following the formal adoption and approval of the Local Environment (Climate

Change) Strategy, being supported by robust business cases with a cost benefit analysis provided.

As well as the base budgets used to support the Environmental Quality function (£232,700), the revenue budget also includes a proposal in relation to an Energy Monitoring System outlined at 4.3 above which will enable the Council to have closer scrutiny of the energy it uses which should help to reduce its climate footprint. The Council has also introduced a concept of fleet challenge, with all vehicle replacements being subject to a review and options undertaken on the type of replacement vehicle, currently within existing budgets.

5. SAVINGS AND ADDITIONAL INCOME PROPOSALS

5.1 Further savings/additional income have been identified in the budget process for 2021/22 as follows:

Detail	Note	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Changes to Funding						
Business Rate Income	5.2	(1,200)	0	0	0	0
Total Changes to Funding		(1,200)	0	0	0	0
Savings Proposed						
Capacity Funding Bid	5.3	(20)	0	0	0	0
Energy Savings	5.4	(20)	(20)	(20)	(20)	(20)
Treasury Management	5.5	(315)	(280)	(355)	(327)	(317)
Budget Savings	5.6	(200)	(200)	(200)	(200)	(200)
Total of Savings		(555)	(500)	(575)	(547)	(537)
Total Recurring		(535)	(500)	(575)	(547)	(537)
Total Non-Recurring		(20)	0	0	0	0

5.2 Business Rates Pooling

It is recommended that the Council continue to be part of the Cumbria Pooling arrangements in 2021/22 now that the MHCLG has agreed not to revoke the current legislation, and all participating members have initially agreed that the pool continues in its current format. A potential additional sum of £1,200,000 may be factored into the budget as a result on a non-recurring basis.

5.3 Digital Marketing Officer – Additional Income - £20,000 non-recurring

This is the use of a Capacity Funding bid to support the creation of the Fixed Term post for a Digital Marketing Officer as outlined in 4.9 above.

5.4 **Energy Monitoring System – Saving - £20,000 recurring**

This is the annual expected saving from the installation of a new energy monitoring system that is included as a new capital project in RD43/20.

5.5 **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 projection 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.

5.6 **Budget Savings – Saving - £200,000 recurring**

The current MTFP includes a recurring savings requirement to be found by 2021/22 of £1million rising to £1.850million in 2023/24. This additional saving requirement will increase the savings needed for 2021/22 to £1.2million and the total savings required being £2.050million by 2023/24. Savings will need to be identified by a combination of reviewing:

- base budgets and specifically, non-staffing budgets such as transport costs, supplies and services costs;
- reviewing recurring grants receivable that aren't base budgeted;
- reviewing discretionary services and payments to third parties;
- service and efficiency reviews

6. **PROJECTED IMPACT ON REVENUE BALANCES**

6.1 It should be noted that if all of the potential new Savings and Spending Pressures were accepted then reserves may fall below acceptable minimum levels over the five-year period.

6.2 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'.

6.3 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 will be used as a first call for any projected revenue budget deficit however, 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 be £3.1million due to uncertainties around future funding from Business Rates; however, this level will be reviewed during this budget process.

Summarised Position	2020/21 Original £000	2020/21 Revised £000	2021/22 Original £000	2022/23 Proj £000	2023/24 Proj £000	2024/25 Proj £000	2025/26 Proj £000
Total Projected Expenditure	14,653	17,532	12,753	12,594	12,960	13,183	13,670
Total Projected Resources	(14,653)	(17,532)	(12,220)	(12,544)	(12,874)	(13,210)	(13,552)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	533	50	86	(27)	118
Less:							
New Saving Proposals							
- Recurring	0	0	(535)	(500)	(575)	(547)	(537)
- Non Recurring	0	0	(20)	0	0	0	0
- Business Rates	0	0	(1,200)	0	0	0	0
(See Para 6)							
Add:							
New Spending Pressures							
- Recurring	0	0	900	497	301	301	301
- Non Recurring	0	0	217	190	190	190	0
(See Para 5)							
Potential Budget (Surplus) / Shortfall	0	0	(105)	237	2	(83)	(118)
Potential (Surplus) / Shortfall Analysis:							
- Recurring	0	0	(336)	92	(188)	(273)	(118)
- Non Recurring	0	0	231	145	190	190	0

7. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2021/22 to 2025/26

- 7.1 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, notwithstanding the on-going impact of COVID-19, within available resources over the lifetime of the MTFP.
- 7.2 Notification of Government general and specific grants is received on an individual basis late in the budget process which makes forward planning difficult. The impact

of a further one-year settlement for 2021/22 also adds to the challenges of securing a balanced MTFP.

- 7.3 In terms of expenditure pressures, again notwithstanding the impact of COVID-19 on the Council's budgets and economic recovery in general, the significant issue affecting the budget is the uncertainty regarding local government funding in terms of business rate retention and any burdens which may transfer as a result.
- 7.4 The deferral of the Fair Funding Review and the Business Rate Retention Reviews increases the uncertainty in terms of future funding especially from 2022/23 onwards; however, the scope to remain within the Cumbria Pooling arrangements for 2021/22 (if all participating authorities agree) may provide an opportunity, albeit temporary, in terms of increased financial support to the revenue budget from pooling and growth.
- 7.5 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.
- 7.6 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.

8. RISKS

- 8.1 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.

9. CONSULTATION

- 9.1 The Business and Transformation Scrutiny Panel will consider this report on 7 January 2021, and their views fed back to the Executive on 13 January. Public consultation will take place between 15 December and 12 January and the budget resolution will then be issued by the Executive on 13 January.

10 RECOMMENDATIONS

- 10.1 The Executive is requested to:
- (i) note the revised base estimates for 2020/21 and base estimates for 2021/22;
 - (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2020;

- (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, bids and savings which need to be taken into account as part of the 2021/22 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.

11 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

11.1 To ensure that a balanced budget is set.

Contact Officer: Alison Taylor **Ext:** 7290
Appendix A – Council Reserves
Appendices **Appendix B – Draft Statutory Report of S.151 Officer**
attached to report:

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 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.

Property Services – There are no Property implications

Finance – contained within the body of the report

Equality – This report raises no explicit issues relating to the public sector Equality Duty.

Information Governance – There are no information governance implications.

COUNCIL RESERVES

Analysis of Council Reserves	Outturn 31 March 2020 £000	Projected 31 March 2021 £000	Projected 31 March 2022 £000	Projected 31 March 2023 £000	Projected 31 March 2024 £000	Projected 31 March 2025 £000	Projected 31 March 2026 £000
Revenue Reserves							
General Fund Reserve	(3,100)	(2,502)	(2,607)	(2,370)	(2,368)	(2,451)	(2,569)
Projects Reserve	(907)	0	0	0	0	0	0
Carry Forward Reserve	(654)	(632)	(632)	(632)	(632)	(632)	(632)
	(4,661)	(3,134)	(3,239)	(3,002)	(3,000)	(3,083)	(3,201)
Flood Reserve	(1,948)	(4)	(4)	(4)	(4)	(4)	(4)
Building Control Reserve	(100)	(91)	(91)	(91)	(91)	(91)	(91)
Cremator Reserve	(1,080)	(1,135)	(785)	115	115	115	115
City Centre Reserve	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Revenue Grants Reserve	(1,939)	(1,209)	(1,209)	(1,209)	(1,209)	(1,209)	(1,209)
Planning Services Reserve	(196)	(205)	(205)	(205)	(205)	(205)	(205)
Apprentices Reserve	(78)	(78)	(78)	(78)	(78)	(78)	(78)
Waverley Viaduct Reserve	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Prosecutions Reserve	(36)	(36)	(36)	(36)	(36)	(36)	(36)
Total Revenue Reserves	(10,073)	(5,927)	(5,682)	(4,545)	(4,543)	(4,626)	(4,744)
Capital Reserves							
Usable Capital Receipts	0	0	0	0	0	0	0
Unapplied capital grant	(136)	(112)	(112)	(112)	(112)	(112)	(112)
Lanes Capital Reserve	(75)	(90)	(105)	(120)	(135)	(150)	(165)
Total Capital Reserves	(211)	(202)	(217)	(232)	(247)	(262)	(277)
Total Usable Reserves	(10,284)	(6,129)	(5,899)	(4,777)	(4,790)	(4,888)	(5,021)
Other Technical Reserves (i)	(90,488)						
Total All Reserves	(100,772)						

(i) 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 Savings programme was expected to achieve savings of £1million by 2021/22, increasing by £0.850million to £1.850million in 2023/24 in order to meet the expected cuts in grants from central government and other budgetary pressures identified in the previous budget process. However, based upon the pressures and savings identified within this draft budget, a further savings requirement of £0.200million will be required increasing the overall target to £1.200million by 2021/22, and to £2.050million in 2023/24. 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 risk to the robustness of the estimates is the uncertainty regarding the Fair Funding Review and how, and when, the 75% retention of business rates will be implemented, and the outcome of one-year spending review and financial support for the on-going impact of COVID-19.

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 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 Savings 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. 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 into 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 £3.1million 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 2021/22 budget pressures in setting the 2021/22 budget and principles to be adopted when preparing the 2022/23 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 reserve levels will continue to be monitored closely and will be dependent upon the final outcome of the devolvement of 75% business rates to local authorities and the fair funding review and any risks associated with this devolvement.

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 2021/22 to 2025/26 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.