

# Business & Transformation Overview and Scrutiny Panel

Agenda  
Item:  
**A.3**  
(3) (a)

Meeting Date: 4 January 2018  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD23/17  
Within Policy and Budget Framework YES  
Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2018/19 TO 2022/23  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD35/17

## Purpose / Summary:

This report provides a draft summary of the Council's revised revenue base estimates for 2017/18, together with base estimates for 2018/19 and updated projections to 2022/23. 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 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 2018/19 to 2022/23.

## Tracking

Executive:	18 December 2017
Overview and Scrutiny:	BTSP 04/01/18
Council:	

# Report to Executive

Agenda  
Item:

Meeting Date: 18 December 2017  
Portfolio: Finance, Governance and Resources  
Key Decision: Yes: Recorded in the Notice Ref: KD23/17  
Within Policy and Budget Framework YES  
Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2018/19 TO 2022/23  
Report of: CHIEF FINANCE OFFICER  
Report Number: RD35/17

## Purpose / Summary:

This report provides an update to RD31/17, with a summary of the Council's revised revenue base estimates for 2017/18, together with base estimates for 2018/19 and forecasts up to 2022/23 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 2017/18 and base estimates for 2018/19;
- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2017;
- (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 2018/19 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:	<b>18 December 2017</b>
Scrutiny:	<b>BTSP 04/01/18</b>
Council:	

## **1. INTRODUCTION**

- 1.1. This report considers the revised base estimates for 2017/18 together with the estimates for 2018/19 as previously outlined in report RD31/17. 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 12 September 2017:
  - ◆ 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 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 2018.

## **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 2017/18 and 2018/19 with projections to 2022/23. The 2017/18 variance reflects the use of earmarked reserves approved since the MTFP was approved in September. It

should be noted that there is anticipated to be additional income received from Business Rates Retention in 2017/18 that will increase reserves by £500,000.

Table 1 – Base Budget Summary

		2017/18 Original £000	2017/18 Revised £000	2018/19 Original £000	2019/20 Proj £000	2020/21 Proj £000	2021/22 Proj £000	2022/23 Proj £000
Net Base Budget Parish Precepts (PP)		11,528 582	11,989 582	10,894 544	11,231 558	11,115 572	11,846 586	12,337 600
<b>Total</b>		<b>12,110</b>	<b>12,571</b>	<b>11,438</b>	<b>11,789</b>	<b>11,687</b>	<b>12,432</b>	<b>12,937</b>
Original MTFP Projections		12,110	12,110	11,438	11,789	11,687	12,432	12,937
<b>Variance</b>		<b>0</b>	<b>461</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Analysis of Variance:</b>								
Non-Recurring:								
IT Renewals Reserve		0	214	0	0	0	0	0
Leisure Reserve			31					
Revenue Grants Reserve			96					
Cremator Reserve			(41)					
Building Control Reserve			32					
Carry Forward Reserve			50					
GLL Reserve			69					
Promoting Carlisle Reserve			10					
<b>Total Variance</b>		<b>0</b>	<b>461</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Changes to Funding</b>								
Additional Business Rates Income (Funding)			(500)					

2.3. Members will be aware from the Charges Review reports that some income streams are reporting variances against projected levels in the current financial year which may have a recurring impact. This will be kept under review as part of the budget monitoring process for 2017/18 with the position for 2018/19 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**

	<b>Recurring Commitments (Surplus) £000</b>	<b>Non-Recurring Commitments £000</b>	<b>Carry Forwards £000</b>	<b>Additional Income from Funding £000</b>	<b>Total £000</b>
2017/18	151	(578)	490	(500)	(437)
2018/19	(75)	(323)	0	0	(398)
2019/20	616	(690)	0	0	(74)
2020/21	127	(585)	0	0	(458)
2021/22	108	(124)	0	0	(16)
2022/23	218	0	0	0	218

- 3.2 The revised estimates for 2017/18 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 2017/18 Local Government Finance Settlement confirmed by the Secretary of State in January 2017 and are based upon the acceptance of the offer of a four-year funding settlement.

##### **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 2018/19 and that the Council Tax Reduction Scheme parameters will continue.

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 with applications being sought from areas to participate in a pilot of 100% retention in 2018/19. Cumbria has submitted an application to be a part of this pilot with the outcome likely to be known in early December. 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 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 £3.878million (£3.475million for Transformation and £0.403million for Base Budget Review) for the transformation programme, to be found by 2018/19. This also includes the savings required from the base budget review.

#### **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 2018/19 onwards. The resources projections assume:

- A continued reduction in Government Grant allocation in 2018/19 onwards as a result of the acceptance of the four-year settlement.
- A £5 (Band D equivalent) Council Tax increase for 2018/19 onwards.
- A Council Tax Surplus for 2018/19 onwards of £50,000. The actual figure for 2018/19 will be available in January.
- Retained business rates are assumed at the Baseline level with an additional £750,000 to be achieved through growth/section 31 grants and from the benefits of Pooling in 2018/19 rising to £900,000 in 2019/20.
- An assumed tax base of 33,019.78 for 2018/19. The final tax base for 2018/19 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2018/19 is for a total of £544,000 (including approximately £14,000 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		2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
<b>Recurring</b>						
Homelessness Resources	5.2	60	60	60	60	60
Information Governance	5.3	56	56	56	56	56
Legal Services Support	5.4	29	29	29	29	29
Land Charges Income Shortfall	5.5	30	30	30	30	30
Information Technology	5.6	86	86	86	86	86
Leisure Contract Subsidy	5.7	106	385	60	(481)	(413)
Apprentices	5.8	60	60	60	60	60
Treasury Management	5.9	(183)	(300)	110	93	(126)
Potential Borrowing Costs Leisure Development (Interest)	5.10	0	384	369	353	338
<b>Total Recurring Pressures</b>		<b>244</b>	<b>790</b>	<b>860</b>	<b>286</b>	<b>120</b>
<b>Non Recurring</b>						
Pay Award Provision	5.11	136	140	0	0	0
Sexual Assault Referral Service	5.12	20	20	0	0	0
Economic Investment Initiatives	5.13	235	0	0	0	0
<i>Funded from Carry Forward Reserve</i>	5.13	(235)	0	0	0	0
<b>Total Non Recurring Pressures</b>		<b>156</b>	<b>160</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 5.2 Homelessness Additional Resources

This pressure will provide additional staff resources (2FTE) for the homelessness service to ensure effective and safe operational delivery of a 24-hour service.

## 5.3 Information Governance

New Data Protection Regulations come into force on 1 April 2018 with increased requirements to ensure information and data is managed securely and appropriately with increases in the potential for fines for data breaches. The new regulations place a statutory duty to have a designated officer responsible for data protection and information governance.

## 5.4 Legal Services Support

Additional resources are required to enable the legal services team to continue to support the growth activities the Council is undertaking. This will include contractual arrangements, external funding arrangements and management of assets and equates to a 0.60FTE post.



### **5.5 Land Charges Income Shortfalls**

The amount of income collected from Land Charge searches has reduced over the years due to the rise in the number of searches being carried out by Personal Search Companies who can use the Council's data to provide a cheaper service. Therefore, demand for the Council's own service has reduced.

### **5.6 Information Technology**

There are requirements to spend additional resources to ensure the Council's IT environment remains secure and compliant. This additional pressure will ensure that the Council complies with regulations around taking payments by debit and credit card, which if no action was taken could result in fines and banking facilities being removed. The pressure also provides for an IT security specialist post and associated security event management software.

### **5.7 Leisure Contract Subsidy**

The new leisure contract has recently been re-tendered and the new contract values agreed. The contract was signed at the end of November with the final agreed contract sums now being reflected in the budget. The MTFP includes a £329,000 recurring saving to be achieved in 2018/19 onwards, which reduces the annual subsidy budget to £465,000 per annum. However, until a new facility is built, there will continue to be a subsidy payable to the operators of £571,000 for 2018/19. Once built this subsidy will change to a net concession fee payable to the Council resulting in additional savings of £413,000 from 2022/23 which will increase further in future years.

### **5.8 Apprentices**

This provides a central resource to fund the salary costs of apprentices. The Council makes use of the Apprenticeship levy for the training of apprentices and presently staff costs are found from existing base budgets when required.

### **5.9 Treasury Management**

The Treasury Management projections are updated to take account of the revised capital programme, including changes to funding and use of revenue reserves and impact of potential external borrowing requirements. The projections will also consider 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 need to be recalculated as decisions made during the budget process regarding contributions to and from reserves which impact on the level of cash forecasts.

#### 5.10 Borrowing Costs – Leisure Development

Any borrowing costs associated with the leisure development are assumed to begin in 2019/20 as shown in report RD36/17 elsewhere on this agenda. Borrowing costs based on a 25-year loan of £12million using latest Public Works Loan Board rate forecasts (currently 3.2%) would be as follows:

##### Equal Instalments of Principal Loan

Principal Repaid each year -	£480,000
1 <sup>st</sup> year interest payment -	<u>£384,000</u>
Total 1 <sup>st</sup> year payment -	£864,000

**Overall Cost of Borrowing -       £16,992,000**

##### Interest Only Loan

1 <sup>st</sup> year interest payment -	£384,000
Minimum Revenue Provision (3%)	<u>£360,000</u> (illustrative)
Total 1 <sup>st</sup> year payment -	£744,000

**Overall Cost of Borrowing -       £21,600,000**

Once final costings for the scheme are known and spend profiles are planned, further consideration can be given to the overall amounts required to be borrowed externally, whether any internal borrowing can be undertaken and what the best repayment profiles will be to give the council security of payments together with flexibility of managing the debt. These considerations will be included in any report to Members outlining the proposed scheme.

#### 5.11 Increased Pay Award Provision

The MTFP includes provision for pay awards at 1% for 2018/19 and 2019/20, then 2% per annum thereafter. This pressure increases the provision to 2% for 2018/19 and 2019/20 following potential easing of the public sector pay cap.

#### 5.12 Sexual Assault Referral Service Grant

Continuation of the grant to match fund sexual assault referral service projects by Cumbria Police.

### 5.13 Economic Investment Initiatives

This pressure relates to economic investment initiatives that the Council wishes to pursue, such as Borderlands, Business Interaction Centre, Development Brief for Morton District Centre, Promotion of Central Plaza Redevelopment and promotion of City Centre redevelopment options. This amount will give resources to provide funding to develop these initiatives. It is proposed to fund this pressure from the carry forward reserve that was established in 2015/16.

## 6. SAVINGS AND ADDITIONAL INCOME PROPOSALS

- 6.1 The current MTFP includes a savings requirement to be found by 2018/19 of £3.878million (£3.475million for Transformation and £0.403million for Base Budget Review). 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 2018/19 to date.

Detail	Note	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2021/22 £000
<b>Changes to Funding</b>						
Business Rate Income	6.3	(500)	(500)	0	0	0
<b>Total Changes to Funding</b>		<b>(500)</b>	<b>(500)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Savings Proposed</b>						
Bring Sites	6.4	(18)	(49)	(49)	(49)	(49)
Tullie House Productivity Review	6.5	0	0	(300)	(300)	(300)
Building Control Income	6.6	(23)	(23)	(23)	(11)	(11)
Market Hall	6.7	0	0	0	(92)	(92)
<b>Total of Savings</b>		<b>(41)</b>	<b>(72)</b>	<b>(372)</b>	<b>(452)</b>	<b>(452)</b>
<b>Total Recurring</b>		<b>(29)</b>	<b>(60)</b>	<b>(360)</b>	<b>(452)</b>	<b>(452)</b>
<b>Total Non-Recurring</b>		<b>(12)</b>	<b>(12)</b>	<b>(12)</b>	<b>(12)</b>	<b>(12)</b>

### 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. It is forecasting that this growth will continue, therefore this income budget can be increased. As the outcome

of the full rates retention scheme is unknown for 2020, it is not proposed to increase this income beyond 2019/20.

#### **6.4 Bring Site Savings**

Funding that was set aside for the repayment of capital for a replacement vehicle is no longer required following the rethinking waste project and the budget realignment exercise that was undertaken. Therefore, this funding can be taken as a saving.

#### **6.5 Tullie House Productivity Review**

A recent productivity report, jointly commissioned with Tullie House Museum & Art Gallery Trust, identified that up to £300,000 per annum could be saved from the subsidy currently provided to the Trust, effective from 2020/21.

#### **6.6 Building Control Income**

The charges report (ED38/17) proposes new discretionary charges for building control that will generate additional income.

#### **6.7 Market Hall**

A revenue contribution was made to the capital programme for five years to repay the capital cost of the Market Hall Roof works. The capital is fully repaid from 2020/21 therefore a saving will accrue.

### **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	2017/18 Original £000	2017/18 Revised £000	2018/19 Original £000	2019/20 Proj £000	2020/21 Proj £000	2021/22 Proj £000	2022/23 Proj £000
Total Projected Expenditure	12,110	12,571	10,894	11,231	11,115	11,846	12,337
Total Projected Resources	(12,110)	(12,571)	(11,292)	(11,305)	(11,573)	(11,862)	(12,119)
<b>Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending</b>	<b>0</b>	<b>0</b>	<b>(398)</b>	<b>(74)</b>	<b>(458)</b>	<b>(16)</b>	<b>218</b>
<b>Less:</b>							
New Saving Proposals							
- Recurring	0	0	(29)	(60)	(360)	(452)	(452)
- Non Recurring	0	0	(12)	(12)	(12)	0	0
- Funding Business Rates	0	(500)	(500)	(500)	0	0	0
<b>(See Para 6)</b>							
<b>Add:</b>							
New Spending Pressures							
- Recurring	0	0	244	790	860	286	120
- Non Recurring	0	0	156	160	0	0	0
- Funding	0	0	0	0	0	0	0
<b>(See Para 5)</b>							
<b>Potential Budget (Surplus) / Shortfall</b>	<b>0</b>	<b>(500)</b>	<b>(539)</b>	<b>304</b>	<b>30</b>	<b>(182)</b>	<b>(114)</b>
Potential (Surplus) / Shortfall Analysis:							
- Recurring	0	0	(360)	846	627	(58)	(114)
- Non Recurring	0	(500)	(179)	(542)	(597)	(124)	0

Balance as at:	Projected Reserves £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000
31/03/2018	3,526	360	179
31/03/2019	4,065	(846)	542
31/03/2020	3,761	(627)	597
31/03/2021	3,731	58	124
31/03/2022	3,913	114	0
31/03/2023	4,027		

## 8. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2018/19 to 2022/23

- 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 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.
- 8.4 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 4 January 2018, and their views fed back to the Executive on 17 January. Public consultation will take place between 18 December and 15 January and the budget resolution will then be issued by the Executive on 17 January.

## 10 RECOMMENDATIONS

The Executive is requested to:

- (i) note the revised base estimates for 2017/18 and base estimates for 2018/19;

- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2017
- (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 2018/19 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 Appendix A – Council Reserves**

**attached to report: 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:**

**Corporate Support and Resources** – Contained within the body of the report

**Community Services** – not applicable

**Economic Development** – not applicable

**Governance & Regulatory Services** – 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.

## APPENDIX A

### COUNCIL RESERVES

Analysis of Council Reserves	Outturn 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	Projected 31 March 2023 £000
<b>Revenue Reserves</b>							
General Fund Reserve	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Projects Reserve	(1,089)	(1,526)	(2,065)	(1,761)	(1,731)	(1,913)	(2,027)
	<b>(3,089)</b>	<b>(3,526)</b>	<b>(4,065)</b>	<b>(3,761)</b>	<b>(3,731)</b>	<b>(3,913)</b>	<b>(4,027)</b>
Carry Forward Reserve	(1,105)	(870)					
Flood Reserve	(500)						
Conservation Reserve	0						
Transformation Reserve	(150)						
EEAC Reserve	0						
Building Control Reserve	(187)						
Cremator Reserve	(756)						
Leisure Reserve	(80)						
Economic Investment Reserve	(6)	(241)					
Car Parking Reserve	(107)						
City Centre Reserve	(42)						
Welfare Reform Reserve	(200)						
Repairs & Renewals Reserve	(214)						
Business Rates Volatility Reserve	(110)						
Revenues & Benefits Reserve	(338)						
Revenue Grants Reserve	(865)						
Promoting Carlisle Reserve	(30)						
Prosecutions Reserve	(21)						
<b>Total Revenue Reserves</b>	<b>(7,800)</b>	<b>(4,637)</b>	<b>(4,065)</b>	<b>(3,761)</b>	<b>(3,731)</b>	<b>(3,913)</b>	<b>(4,027)</b>
<b>Capital Reserves</b>							
Usable Capital Receipts	0	0	0	0	0	0	0
Asset Disposal Reserve	0	0	0	0	0	0	0
Unapplied capital grant	(794)	(794)	(794)	(794)	(794)	(794)	(794)
Asset Investment Reserve	(48)	(48)	(48)	(48)	(48)	(48)	(48)
GLL Reserve	(522)	(453)	(453)	(453)	(453)	(453)	(453)
Lanes Capital Reserve	(30)	(45)	(60)	(75)	(90)	(105)	(120)
<b>Total Capital Reserves</b>	<b>(1,394)</b>	<b>(1,340)</b>	<b>(1,355)</b>	<b>(1,370)</b>	<b>(1,385)</b>	<b>(1,400)</b>	<b>(1,415)</b>
<b>Total Usable Reserves</b>	<b>(9,194)</b>	<b>(5,977)</b>	<b>(5,420)</b>	<b>(5,131)</b>	<b>(5,116)</b>	<b>(5,313)</b>	<b>(5,442)</b>
<b>Other Technical Reserves (i)</b>	(103,627)						
<b>Total All Reserves</b>	<b>(112,821)</b>						

(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 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 by 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 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 proposed reductions in central government grant and how the 100% retention of business rates will be phased in.**

**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 a potential external borrowing requirement in 2019/20 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 2018/19 budget pressures in setting the 2018/19 budget and principles to be adopted when preparing the 2019/20 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 100% 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 2018/19 to 2022/23 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.