

Report to Executive

Agenda
Item:
9(1)
(iv)

Meeting Date: 15 December 2014
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD25/14
Within Policy and Budget Framework YES
Public / Private Public

Title: BUDGET UPDATE REVENUE AND CAPITAL 2015/16 – 2019/20
Report of: DIRECTOR OF RESOURCES
Report Number: RD41/14

Purpose / Summary:

This report provides an update to the Director of Resources report of 10 November (RD37/14) and outlines changes made since that report. This report also highlights the outstanding issues that will still affect the budget and also provides information in relation to the Business Rate Retention Scheme Cumbria Pool and the Local Support for Council Tax Scheme for 2015/16.

Recommendations:

The Executive is requested to:

- (i) note the changes to the current revenue and capital budget projections for 2014/15 to 2019/20 and make recommendations, in the light of the budget pressures, bids and savings submitted to date, together with the potential use of balances and reserves, for budget consultation purposes;
- (ii) Approve, for recommendation to Council as part of the budget process, the 2015/16 Local Support for Council Tax scheme as set out in paragraph 5.1.
- (iii) Approve the continuation of involvement in the Cumbria Business Rate Pool arrangements for 2015/16 subject to the continuing involvement of the other partners which will be agreed on 9 January 2015 and that the final decision on participation is delegated to the Director of Resources.

Tracking

Executive:	15 December 2014
Overview and Scrutiny:	ROSP 05/01/15;

Council:	
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1. INTRODUCTION

- 1.1. This report provides an update to report RD37/14 which was considered by the Executive on 10 November. It provides details of changes since that report and the impact on the current budget projections.
- 1.2. Details of decisions required by Members in relation to the Cumbria Business Rate Pool and the Local Support for Council Tax (LSCT) scheme for 2015/16 are also outlined in this report.
- 1.3. There continues to be issues affecting the budget that are not yet known but assumptions have been made within the budget projections. These are considered further in the report.
- 1.4. The Executive will issue its budget for consultation purposes on 15 December 2014. Following this, it will consider the final consultation feedback, together with the final Government Grant figure (if available) on 14 January 2015 and will subsequently recommend a budget to Council on 3 February 2015.

2. REVISIONS TO CURRENT BUDGET PROJECTIONS

- 2.1 The following changes have been made that affect the current revenue budget projections.

Detail		2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Recurring						
Reprofiling of Transformation Savings	2.2	628	(623)	82	(397)	(397)
Small Scale Community Projects	2.3	52	52	52	52	52
Total Recurring Pressures		680	(571)	134	(345)	(345)
Treasury Management	2.4	(167)	(446)	(587)	(729)	(572)
Neighbourhood Forum Grant	2.5	(24)	(24)	(24)	(24)	(24)
Total Recurring Savings		(191)	(470)	(611)	(753)	(596)
Asset Management Plan	2.6	150	0	0	0	0
Total Non Recurring Pressures		150	0	0	0	0

2.2 Transformation Saving Re-profiling

The savings proposed within RD37/12 have been re-profiled. The savings from the Revenues and Benefits Shared Service have been delayed by a year to 2016/17 in order to allow time to implement the required changes.

The updated transformation savings expectations are now as follows:

	Cumulative Savings identified as part of 2014/15 Budget £000	Reprofiled savings £	Additional Cumulative Savings Required £000	Revised Cumulative Savings required £000	Revised in Year Savings Required £000
2015/16	(1,839)	628	0	(1,211)	(1,211)
2016/17	(1,839)	(623)	(350)	(2,812)	(1,601)
2017/18	(2,939)	82	(350)	(3,207)	(395)
2018/19	(3,939)	(397)	(350)	(4,686)	(1,479)
2019/20	(3,939)	(397)	(350)	(4,686)	0

2.3 Small Scale Community projects

A recurring budget is being established for Small Scale Community Projects that will give a £1,000 to each Councillor to spend on community projects in their ward.

2.4 Treasury Management Projections

In light of revised interest rate forecasts and the impact of revisions on the use of reserves, projections of Treasury Management budgets have been revised.

2.5 Neighbourhood Forum Grant

The grant to the neighbourhood forums is being replaced with a recurring revenue budget for small scale community projects for each Councillor.

2.6 Asset Management Plan

This relates to expenditure required to deliver the outcomes of the Asset Management Plan.

3. GENERAL FUND BUDGET PROJECTIONS 2014/15 REVISED TO 2019/20

- 3.1. The budget projections as outlined in RD37/14 have been amended to reflect the changes shown above:

Summarised Position	2014/15 Original £000	2014/15 Revised £000	2015/16 Original £000	2016/17 Proj £000	2017/18 Proj £000	2018/19 Proj £000	2019/20 Proj £000
Total Projected Expenditure	13,747	13,745	11,256	12,568	12,626	13,049	13,921
Total Projected Resources	(13,747)	(13,745)	(12,362)	(12,612)	(12,764)	(12,921)	(13,080)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	(1,106)	(44)	(138)	128	841
Less:							
New Saving Proposals							
- Recurring	0	0	(335)	(1,134)	(1,275)	(1,417)	(1,260)
- Non Recurring	0	0	0	0	0	0	0
Add:							
New Spending Pressures							
- Recurring	0	0	1,536	278	963	464	444
- Non Recurring	0	0	580	430	0	0	0
- Funding	0	0	54	54	54	54	54
Potential Budget Shortfall	0	0	729	(416)	(396)	(771)	79
Potential Shortfall Analysis:							
- Recurring			255	(846)	(396)	(771)	79
- Non Recurring			474	430	0	0	0

3.2 It should be noted that the potential shortfall projected above is the projected position that would occur only if all of the new Savings and Spending Pressures were accepted. The Executive are asked to consider the issues in this report and make proposals on the savings, new spending pressures and use of reserves as set out in this report in order to issue a draft budget for consultation purposes.

3.3 The resources projections assume:

- The MTFP assumes a reduction in Government Grant allocation from 2015/16 onwards. However indications are that there will be further reductions to these figures from 2016/17 onwards.
- No Council Tax increase for 2015/16 with an increase of 1.99% thereafter. A Council Tax freeze grant is on offer from the Government for 2015/16 and will be included in RSG settlements from 2016/17.
- A Council Tax Surplus for 2015/16 onwards of £35,000. The actual figure for 2015/16 will be available in January.

- Retained business rates are assumed at the Baseline level with an additional £500,000 to be achieved through growth and from the benefits of Pooling.
- An assumed taxbase of 31,100.82. The final taxbase for 2015/16 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2015/16 is for a total of £490,000 (including approximately £54,000 in Government Grant for Council Tax reduction scheme.) The actual Parish Precept requirement for each Parish will be reported to the Executive in January.

For information, broadly:

- Each 1% (£1.95) movement in Council Tax impacts on the Council by £67,000
- Each 1% movement in RSG will impact by £91,000.
- Each £35,000 increase or decrease in expenditure impacts on the Council Tax requirement by £1.

3.5 The Council's overall level of reserves are set out at **Appendix A** and have been adjusted assuming withdrawal to support all of the current budget proposals.

3.6 Under section 25 of the Local Government Act 2003 the Section 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**. At this stage it should be noted that the current projected revenue deficit requires further savings to be identified to meet the ongoing projected shortfall and that the impact on reserves is not sustainable.

4. BUSINESS RATE POOLING

4.1 The Cumbria Business Rate Pool was established at the start of 2014/15 to allow Cumbria to benefit from any growth in business rates. The participants of the pool are Cumbria County Council, Carlisle City Council, Eden District Council, Allerdale Borough Council, South Lakeland District Council and Barrow Borough Council. Close monitoring of the performance of each authority's business rate collection is necessary and as at 30 September, the combined benefit of the Pool stood at £2.705m. The City Council share of this benefit is £612,000. In its 2014/15 budget the Council anticipated the benefit from pooling would be approximately £500,000. However, as the Council brought forward a deficit on the collection fund from 2013/14 (£163,430), the overall benefit may be slightly lower than was originally anticipated but the final position will not be known until March. The monitoring of the

performance is highly volatile due to the potential for new appeals to be made to rateable values and as such close monitoring is undertaken.

- 4.2 The pool does not have to notify DCLG of its intention to continue operating for 2015/16, however, the deadline for letting DCLG know the Pool will not continue is 14 January. A meeting is arranged for 9th January at which time all participants of the Pool will be required to confirm their involvement. It is therefore recommended that the pooling arrangements continue for 2015/16 in order that any levies that would be payable to Central Government without participating in the pool are retained and Carlisle benefits from this income.

5. LOCAL SUPPORT FOR COUNCIL TAX

- 5.1 The Local Support for Council Tax Scheme ("The Council Tax Reduction Scheme" or CTRS) is required to be approved annually as part of the Budget Process. It is not proposed to make any changes to the reductions given to recipients of the discount scheme for 2015/16, proposed to make any revisions or replace the current scheme and as such the continuation of the current scheme is requested.
- 5.2 The estimated cost the Council absorbing the 10% reduction in CTRS is £93,000. This is funded from technical changes to discount rates for empty properties and Council Tax Base growth (i.e. number of Band D equivalent properties). The table below shows the performance through 2014/15 with the amounts applicable to the City Council.

	30.06.2014 £	31.08.2014 £	30.09.2014 £	31.10.2014 £	Forecast 31.03.2015 £
Total raised under technical reforms	94,953	95,667	95,375	95,247	93,059
Total cost of CTRS at 10%	90,236	87,941	87,251	86,787	87,130
Surplus(+) or deficit (-)	4,718	7,726	8,124	8,460	5,929

6. CAPITAL PROGRAMME 2015/16 TO 2019/20

- 6.1 There are no changes to report RD38/14 which the Executive considered in November with regard to the Provisional Capital Programme for 2015/16 to 2019/20.

7. CONSULTATION

- 7.1 The Resources Overview and Scrutiny Panel will consider this report on 5 January 2015, and their views fed back to the Executive on 14 January.

8. RECOMMENDATIONS

8.1 The Executive is requested to:

- (i) note the changes to the current budget projections for 2014/15 to 2019/20 and make recommendations, in the light of the budget pressures and savings submitted to date, together with the potential use of balances and reserves, in order to issue a draft budget for consultation purposes;
- (ii) Approve, for recommendation to Council as part of the budget process, the 2015/16 Local Support for Council Tax scheme as set out in paragraph 5.1.
- (iii) Approve the continuation of involvement in the Cumbria Business Rate Pool arrangements for 2015/16 subject to the continuing involvement of the other partners which will be agreed on 9 January 2015 and that the final decision on participation is delegated to the Director of Resources.

CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

To ensure that a balanced budget is set.

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Appendices

Appendix A – Council Reserves

attached to report:

Appendix B – Draft Statutory Report of Director of Resources

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 Director of Resources. The Council must have a

balanced budget to deliver its services and also achieve and sustain an appropriate level of reserves.

Local Environment – not applicable

Resources – contained within the body of the report

COUNCIL RESERVES

Analysis of Council Reserves	Outturn 31 March 2014 £000	Projected 31 March 2015 £000	Projected 31 March 2016 £000	Projected 31 March 2017 £000	Projected 31 March 2018 £000	Projected 31 March 2019 £000	Projected 31 March 2020 £000
Revenue Reserves							
General Fund Reserve	(3,945)	(2,559)	(1,230)	(1,646)	(2,042)	(2,600)	(2,600)
Projects Reserve	0	0	0	0	0	(213)	(134)
Conservation Reserve	(117)	(117)	(117)	(117)	(117)	(117)	(117)
Collection Fund (Carlisle Share only)	112						
Residents Parking Reserve	116						
Transformation Reserve	(436)	(438)	(1,038)	(1,038)	(1,038)	(1,038)	(1,038)
EEAC Reserve	(52)	0					
Building Control Reserve	(20)						
Cremator Reserve	(212)						
Welfare Reform Reserve	(200)	(200)	(200)	(200)	(200)	(200)	(200)
Total Revenue Reserves	(4,754)	(3,314)	(2,585)	(3,001)	(3,397)	(4,168)	(4,089)
Capital Reserves							
Usable Capital Receipts	(5,273)	(1,738)	(2,539)	(1,344)	(257)	(78)	275
Asset Disposal Reserve	(370)	(360)	(360)	(360)	(360)	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	(369)	(284)	(399)	(414)	(429)	(444)	(459)
Total Capital Reserves	(6,773)	(3,143)	(4,059)	(2,879)	(1,807)	(1,283)	(945)
Total Usable Reserves	(11,527)	(6,457)	(6,644)	(5,880)	(5,204)	(5,451)	(5,034)
Other Technical Reserves (ii)	(104,055)						
Total All Reserves	(115,582)						

(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 DIRECTOR OF RESOURCES

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 (Director of 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 Joint Management Team 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, until recently 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 £4.686million between 2015/16 and 2019/20, in order to meet the expected cuts in grants from central government and other budgetary pressures identified in this budget process. 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. Coupled with this is the increasing cost of Minimum Revenue Provision through the reduction in the amount of available capital receipts the Council has. Both of these factors place a significant pressure on the Revenue budget over the next 5 year period.

The main risks to the robustness of the estimates is the impact of the Transformation programme. The use of reserves will be necessary to fund this budget in the short term however it is not acceptable in the longer term and should only be seen as a short term fix. The proposals to be put in place need to bring reserve levels back to an acceptable level in the following 5 years. This is dependant upon the necessary steps being taken to resolve the ongoing projected deficit, as part of the Transformation programme. Specifically it will require the delivery of the savings proposals identified and continuing work to deliver further savings. 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 other than the 2018/19 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 £2.6m 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. However, given the short term commitments highlighted in the budget proposals, it is necessary that the current General Fund reserve be used to fund the short term deficits. Stringent plans will be required in order to replenish the level of reserves in the following years and the budget proposed must identify the steps necessary to do this.

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 deficit projections must therefore be addressed and the Executive must set out in its Budget Discipline and Saving Strategy how it expects Officers to address the situation in setting the 2015/16 budget and preparing for the 2016/17-budget cycle.

Based on current projections, Council Reserves will fall to below minimum recommended levels in the years 2014/15 to 2017/18. Necessary steps are being taken to resolve the ongoing projected deficit by the delivery of savings proposals currently identified and identification of further savings via the Transformation Programme. It is accepted that the level of reserves will need to reduce until the impact of the transformation is effective and that the £2.6m General Fund Reserve is breached in the short term but that this is replenished over the following 5 years through a stringent savings strategy.

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 2015/16 to 2019/20 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.