

# Carlisle City Council

## Report to Executive

### Report details

Meeting Date:	20 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Yes: Recorded in the Notice Ref: KD.10/21
Policy and Budget Framework	Yes
Public / Private	Public
Title:	BUDGET UPDATE – REVENUE ESTIMATES 2022/23 TO 2026/27
Report of:	CORPORATE DIRECTOR OF FINANCE & RESOURCES
Report Number:	RD 52/21

### Purpose / Summary:

This report provides an update to RD46/21, with a summary of the Council's revised revenue base estimates for 2021/22, together with base estimates for 2022/23 and forecasts up to 2026/27 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 2021/22 and base estimates for 2022/23;
- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement due in December 2021;
- (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 2022/23 budget process;
- (v) Approve the release of amounts from the Operational Risk Reserve for Treasury Management (£600,000) and Covid costs (£500,000) as outlined in paragraph 5.2

- (vi) 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:	20 December 2021
Scrutiny:	BTSP 6 January 2022
Council:	1 February 2022 (Budget Resolution)

## **1. INTRODUCTION**

- 1.1. This report considers the revised base estimates for 2021/22 together with the estimates for 2022/23. 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 14 September 2021:
  - ◆ 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 2021;
  - Further expected changes in government grant e.g. New Homes Bonus, Housing Benefit Admin Grant;
  - Future borrowing requirements;
  - Commercial and investment opportunities;
  - Local Government Reorganisation.
- 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 2022.

## **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 2021/22 and 2022/23 with projections to 2026/27. The 2021/22 variance reflects the use of

earmarked reserves approved since the MTFP was approved in September.

Table 1 – Base Budget Summary

		2021/22 Original £000	2021/22 Revised £000	2022/23 Original £000	2023/24 Proj £000	2024/25 Proj £000	2025/26 Proj £000	2026/27 Proj £000
Net Base Budget Parish Precepts (PP)		13,381 708	16,063 708	12,864 726	12,959 744	13,127 763	13,434 782	13,679 802
<b>Total</b>		<b>14,089</b>	<b>16,771</b>	<b>13,590</b>	<b>13,703</b>	<b>13,890</b>	<b>14,216</b>	<b>14,481</b>
Original MTFP Projections		14,089	15,901	13,590	13,703	13,890	14,216	14,481
<b>Variance</b>		<b>0</b>	<b>870</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Analysis of Variance:</b>								
Non-Recurring:								
Cremator Replacement Reserve			(41)					
Revenue Grants Reserve			380					
Planning Services Reserve			(19)					
Economic Recovery Reserve			50					
LGR Reserve			500					
<b>Total Variance</b>		<b>0</b>	<b>870</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 2.3 Members will be aware from the revenue monitoring report that there continues to be some income streams that have not fully recovered from the effects of the pandemic and there may be other cost pressures or savings which may have a recurring impact; many of these are in relation to the recovery from the COVID-19 pandemic and the impact it is continuing to have on Council services.

### 3. OUTSTANDING KEY ISSUES

#### 3.1 Spending Review

The Spending Review (and Budget) for 2022/23 was announced on 27 October. There was confirmation that there would be additional funding available to the Local Government sector of £4.8billion over the forthcoming 3-year period (£1.6billion per year) for social care and other services. Allocations for this funding will likely be included in the Local Government Finance Settlement.

There will also be additional funding of £639million to tackle rough sleeping allocated through the Homelessness Prevention Grant.

There will be £300million funding for local government to implement free, separate food waste collections in every local authority in England from 2025.

## **Government Settlement Funding Assessment**

The Council receives core funding allocations from the Government in relation to Business Rates Baseline Funding and other specific grants. 2021/22 once again saw a one-year settlement so the figures incorporated into this report for 2022/23 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 yet again been put on hold. The draft Local Government Finance Settlement will be announced, as usual, in December and will provide an indication of the funding the Council will receive for 2022/23; it is uncertain whether a 3-year settlement will be provided.

## **Retained Business Rates**

The Business Rate Baseline figure is assumed at an inflationary increase for 2022/23 with reduced projections for growth and pooling built into the MTFP from 2022/23 on the basis that the Business Rates Reforms would have been announced. However, as mentioned above, the reforms of the Retained Business Rates Retention Scheme have again been deferred and DLUHC announced on 10 November that the government has now abandoned plans to allow councils to retain 75% of their business rates as it would conflict with their agenda for 'levelling up'. Instead, the government will now look at the mechanism for redistributing funding to the authorities most in need.

The Council is able to continue to be a member of the Cumbria Business Rates Pool for 2022/23, subject to the agreement of all participating members. The financial aspects of continuing with the Pooling arrangements for 2022/23 are set out further in this report.

The Spending review announced that there will be a freezing of the Business Rates Multiplier for 2022/23 so that there will be no inflationary increase in the amount of rates that are payable by businesses. This multiplier increase is also applied to the Business Rate Baseline level the Council budgets for. It is anticipated that this 'loss' in baseline will be compensated for via a 'Multiplier Grant' as part of the Local Government Finance Settlement.

There will also be a 50% Business rate relief in 2022/23 for retail, hospitality and leisure sector up to a cap of £110,000. The Council will be compensated for this loss of income through a fully funded S31 grant.

The Council will also receive new burdens funding for administrative and IT costs relating to the implementation of the changes announced in the Spending Review.

## **Council Tax**

The Spending Review indicated that the referendum limit will remain as is for Council Tax increases. Currently, district councils are usually given the option of raising Council Tax by the greater of 2% or £5; however, this will be confirmed in December.

## **Pay Award 2021/22 & 2022/23**

The MTFP currently assumes a 2% pay award increase from 2021/22 onwards; however, for 2021/22 there has yet to be an agreement on the level of the pay award. For 2022/23, the Spending Review announced that the freeze on Public Sector pay increases was to be lifted from April 2022. An increase of 1% equates to an additional £161,000 per annum.

The Spending Review confirmed that the National Living Wage was to increase from £8.91 to £9.50 per hour. The Council adopted the foundation living wage and have been paying its grade A staff £9.50 since January 2021. The annual foundation living wage increase has been announced and is now set at £9.90 which the Council will implement in January 2022.

## **Resource Assumptions**

Contributions from balances include all approvals to date but make no assumptions on further contributions from balances to support the budget from 2022/23 onwards. The current resources projections assume:

- A £5 (Band D equivalent) Council Tax increase for 2022/23 onwards.
- A Council Tax deficit for 2022/23 and 2023/24 of £41,000, with a £50,000 surplus from 2024/25. The actual figure for 2022/23 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 2022/23;
- An assumed tax base of 35,013.07 for 2022/23. The final tax base for 2022/23 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2022/23 is for a total of £726,000. 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 £35,000 increase or decrease in expenditure impacts on the Council Tax requirement by £1.

### **Climate Change**

The Council's update Local Environment (Climate Change) Strategy was approved by full Council in the Spring of 2021 following the usual consultation process; the Strategy is supported by an action plan for addressing climate change issues as well individual actions required by the Council for reducing 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 within 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.

## **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.

**The figures contained within the table overleaf will be subject to review to determine the recurring/non-recurring nature of the pressures in terms of economic recovery. The Treasury Management estimates, which assumes a significant level of external borrowing, will also be reviewed in the light of the Council's cash position, the capital programme expenditure profile and the impact of Local Government Reorganisation in order to mitigate any unnecessary debt liability falling on the new Authority. If any figures are amended these will be reported via the Executive's budget proposals issued for consultation purposes and/or as part of the January suite of budget reports.**

Detail		2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
<b>Recurring</b>						
ICT	4.2	150	150	150	150	150
Car Parking Income Shortfalls	4.3	300	200	200	150	150
Pest Control Income Shortfalls	4.4	12	13	15	16	18
Developer Contributions	4.5	19	0	0	11	(41)
Lanes Income Shortfalls	4.6	500	400	330	120	50
Gateway 44 Income Shortfalls	4.7	523	487	342	262	262
City Centre Property Income Shortfalls	4.8	0	0	0	190	190
Energy Costs	4.9	180	123	123	123	123
Revenue Financing Capital Programme	4.10	26	26	26	26	26
Treasury Management	4.11	277	430	383	214	126
<b>Total Recurring Pressures</b>		<b>1,987</b>	<b>1,829</b>	<b>1,569</b>	<b>1,262</b>	<b>1,054</b>
<b>Non Recurring</b>						
District Centre Business Support Fund	4.12	40	0	0	0	0
Homelessness Accommodation Income Shortfalls	4.13	102	0	0	0	0
Leisure Contract	4.14	?	?			
<b>Total Non Recurring Pressures</b>		<b>142</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### 4.2 ICT – Additional Expenditure - £150,000 recurring bid

This proposal seeks additional revenue funding to invest in ICT and includes additional resources for the IT Helpdesk (£28,600), licence costs for wi-fi improvements (£5,600), network security (£2,700) and telephony (£24,000). A base budget review has also been undertaken that has identified a net budgetary shortfall for current IT costs (£49,300) and a savings requirement of £40,100 that cannot be achieved.

#### 4.3 Car Parking income shortfalls - £300,000 - recurring pressure, reducing to £150,000 recurring pressure

Car parking income is not achieving its budgeted expected levels as a result of lower usage of the car parks.

#### 4.4 Pest Control - £12,000 recurring pressure, rising to £18,000 recurring pressure

This pressure is as a result of removing the domestic charge for the treatment of rats from the Council's charging policy as detailed in report GD55/21 considered by the Executive in November.



**4.5 Developer Contributions - £19,000 reprofiling pressure**

The MTFP assumes an income stream from developers, particularly from the establishment of the Garden Village. A re-profiling exercise has been undertaken to ensure the MTFP reflects the level of income that can actually be achieved.

**4.6 Lanes Income - £500,000 recurring pressure reducing to £50,000 recurring pressure**

The economic impact on the high street, both pre-COVID and post COVID and the vacation of Debenhams has resulted in income from the Lanes being severely diminished. There will be a period where increased holding costs of vacant units will be incurred and therefore the Council's share of income will be reduced. This pressure anticipates a slow return to the income levels currently included in the MTFP.

**4.7 Gateway 44 - £523,000 recurring pressure, reducing to £262,000 recurring pressure**

Covid-19 has had a major impact on the retail sector and although out of town big box retail has fared better than traditional town centre retailing there has still been a hit on rental levels and potential tenants have suffered financial difficulties.

Agreements have been reached with tenants however rental levels are lower than originally anticipated and the extended marketing period has resulted in a longer void period than originally anticipated. The overall income now anticipated to be achieved by 2025/26 taking into account these pressures will still be £615,000, which represents an 11.2% return on the capital investment made.

**4.8 City Centre Property Income – Income Shortfall - £190,000 recurring bid from 2025/26**

To recognise the loss of rental income from City Centre properties on a recurring basis. The income was removed from the budget in 2021/22 for the years 2021/22 to 2024/25 with an expectation that this income could be recovered from the Borderlands Project, however, this is now unlikely.

**4.9 Gas and Electricity Costs – £180,000 – Recurring pressure reducing to £123,000 recurring pressure from 2023/24**

This additional cost arising due to the current global situation with wholesale energy costs. The Council procures its energy through the County Council framework and has received notification of a potential 55% increase in gas costs for 2022/23 and 38% in electricity costs, with both reducing to a 25% increase (on 21/22 levels) from April 2023.

**4.10 Direct Revenue Financing of capital programme - £26,000 recurring pressure**

The waste service contributes revenue financing for the replacement of vehicles, however, there is a shortfall on the available budget that cannot be achieved.

**4.11 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. It is proposed to release the amount held in the Operational Risk Reserve (£600,000) to partially cover this additional pressure.

**4.12 District Centre Business Support Fund – Additional Expenditure - £40,000 - Non-Recurring**

This proposal involves the continuation of the pilot project for a further year and will be extended to the district centres and will address the issue of empty shops, which is becoming an increasing problem in the market towns and neighbourhood parades.

**4.13 Homeless Accommodation – Income shortfall - £102,000 non-recurring pressure**

There is a shortfall in income from homeless accommodation mainly due to reduced capacity and restrictions placed upon the accommodation as a result of COVID-19.

**4.14 Leisure Contract - £? non-recurring pressure**

This relates to additional subsidy to the Leisure provider as result of delays to the Sands project.

**5. SAVINGS AND ADDITIONAL INCOME PROPOSALS**

**5.1 Further savings/additional income have been identified in the budget process for 2022/23 as follows:**

Detail	Note	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
<b>Changes to Funding</b>						
Released from Earmarked Reserve - Operational Risk Reserve (Treasury Mgt)	5.2	(277)	(323)	0	0	0
Release from Earmarked Reserve - Operational Risk Reserve (Covid)	5.2	(500)	0	0	0	0
Business Rate Income	5.3	(1,800)	(1,000)	(1,000)	(1,000)	(1,000)
<b>Total Changes to Funding</b>		<b>(2,577)</b>	<b>(1,323)</b>	<b>(1,000)</b>	<b>(1,000)</b>	<b>(1,000)</b>
<b>Savings Proposed</b>						
Flare Data Management System	5.4	(16)	(16)	(16)	(16)	(16)
<b>Total of Savings</b>		<b>(16)</b>	<b>(16)</b>	<b>(16)</b>	<b>(16)</b>	<b>(16)</b>
<b>Total Recurring</b>		<b>(16)</b>	<b>(16)</b>	<b>(16)</b>	<b>(16)</b>	<b>(16)</b>
<b>Total Non-Recurring</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 5.2 Released from Earmarked Reserves

It is recommended to release the amounts held in the Operational Risk Reserve for Treasury Management (£600,000) and COVID costs (£500,000). The Treasury Management amount was set aside from savings on interest payments in 2020/21 to be utilised for any additional borrowing costs. It is recommended to release this in line with the Treasury Pressure identified at 4.1.

The amount set aside in the reserve for COVID costs was to be utilised if there were any additional costs incurred in 2021/22 for COVID. However, the additional costs are currently being contained within the overall agreed budget for 2021/22 and the additional funding received from Government. It is therefore recommended to release this reserve to offset the increased pressures identified in 4.1.

## 5.3 Business Rates Income (including Pooling)

It is recommended that the Council continue to be part of the Cumbria Pooling arrangements in 2022/23 now that the DLUHC has agreed not to revoke the current legislation, and all participating members have initially agreed that the pool continues in its current format. The current MTFP assumes the baseline level of funding from Business Rates as set by Government. On top of this, a recurring £900,000 is included for additional income retained over and above the baseline. Based on historic income levels and those projected in the NNDR1 forms, there is scope to increase this amount. By participating in the pool for 2022/23, there is an expectation of a benefit of approximately £800,000. The level of retained income per the NNDR1 submissions also provides scope to increase the base budget (over the baseline level) by a further £1,000,000 per year. For 2022/23 there would

therefore be an expectation of an additional £1.8m above the current assumptions in the MTFP.

**5.4 Replacement of Flare Data Management System – Saving - £16,000 recurring**

The capital programme includes provision of £150,000 for the replacement of the system used in regulatory services. However, with Local Government Reorganisation on the horizon, it is deemed not necessary to replace this system at this time. Therefore, there is a saving on the additional revenue costs that would have been incurred from implementing the system.

**6. PROJECTED IMPACT ON RESERVES AND 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	2021/22 Original £000	2021/22 Revised £000	2022/23 Original £000	2023/24 Proj £000	2024/25 Proj £000	2025/26 Proj £000	2026/27 Proj £000
Total Projected Expenditure	13,381	16,063	12,864	12,959	13,127	13,434	13,679
Total Projected Resources	(13,381)	(16,063)	(12,393)	(12,721)	(13,146)	(13,486)	(13,832)
<b>Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending</b>	<b>0</b>	<b>0</b>	<b>471</b>	<b>238</b>	<b>(19)</b>	<b>(52)</b>	<b>(153)</b>
<b>Less:</b>							
New Saving Proposals							
- Recurring	0	0	(16)	(16)	(16)	(16)	(16)
- Non Recurring	0	0	0	0	0	0	0
- Business Rates	0	0	(1,800)	(1,000)	(1,000)	(1,000)	(1,000)
- Released from Earmarked Reserves	0	0	(777)	(323)	0	0	0
<b>(See Para 6)</b>							
<b>Add:</b>							
New Spending Pressures							
- Recurring	0	0	1,987	1,829	1,569	1,262	1,054
- Non Recurring	0	0	142	0	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>0</b>	<b>7</b>	<b>728</b>	<b>534</b>	<b>194</b>	<b>(115)</b>
Potential (Surplus) / Shortfall Analysis:							
- Recurring	0	0	414	778	344	194	(115)
- Non Recurring	0	0	(407)	(50)	190	0	0

## 7. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2022/23 to 2026/27

- 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 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 2022/23 also adds to the challenges of securing a balanced 5-year MTFP.

- 7.3 In terms of expenditure pressures, the significant issue affecting the budget is the uncertainty regarding local government funding in terms of the transfer of any new burdens.
- 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 2023/24 onwards; however, the scope to remain within the Cumbria Pooling arrangements for 2022/23 will 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.
- 7.7 **Local Government Reorganisation**  
Local Government Reorganisation for Cumbria is now progressing, and the Programme Board have agreed that there will be a requirement to establish funding for the transition costs. For the six District Council's this could be as much as £1.576m each. Although the Council set aside £500,000 in earmarked reserves for LGR at the end of 2020/21, this will be retained in order to fund any costs which the Council may incur itself and therefore outwith the eligibility criteria for the Cumbria Wide Implementation Reserve. Therefore £1.6million is needed to ensure that funds are available to support the implementation work and it is proposed that this be funded from existing earmarked reserves – this will be subject to approval by full Council in January 2022.

The Council will be approving its budget for 2022/23 in February 2022, so any information provided in this report for 2023/24 onwards is for illustrative purposes only, which will become the responsibility of the new Cumberland Council.

## **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 6 January 2022, and their views fed back to the Executive on 19 January. Public consultation will take place between 20 December and 18 January and the budget resolution will then be issued by the Executive on 19 January.

## **10. CONCLUSION AND REASONS FOR RECOMMENDATIONS**

- 10.1 The Executive is requested to:
- (i) note the revised base estimates for 2021/22 and base estimates for 2022/23;
  - (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2021;
  - (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 2022/23 budget process;
  - (v) Approve the release of amounts from the Operational Risk Reserve for Treasury Management (£600,000) and Covid costs (£500,000) as outlined in paragraph 5.2
  - (vi) note the draft 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 details:**

Contact Officer: Steven Tickner

Ext: 7280

### **Appendices attached to report:**

- Appendix A – Council Reserves
- Appendix B – Draft Statutory report of S.151 Officer

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

- None

## **Corporate Implications:**

Legal - The Council has a fiduciary duty to manage its resources properly and for the benefit of its community. In doing so it is required to take account of the advice it receives from its 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 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	Projected 31 March 2027 £000
<b>Revenue Reserves</b>							
General Fund Reserve	(3,100)	(3,100)	(3,100)	(2,728)	(2,194)	(2,000)	(2,115)
Projects Reserve	(1,708)	(363)	(356)	0	0	0	0
Carry Forward Reserve	(628)	(628)	(628)	(628)	(628)	(628)	(628)
	<b>(5,436)</b>	<b>(4,091)</b>	<b>(4,084)</b>	<b>(3,356)</b>	<b>(2,822)</b>	<b>(2,628)</b>	<b>(2,743)</b>
Cremator Replacement Reserve	(1,196)	(887)	13	13	13	13	13
Economic Recovery Reserve	(50)	0	0	0	0	0	0
Operational Risk Reserve - Covid19	(500)	(500)	0	0	0	0	0
Operational Risk Reserve - Treasury Mgt	(600)	(600)	(323)	0	0	0	0
Operational Risk Reserve - Savings	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)	(1,600)
Operational Risk Reserve - LGR	(500)	0	0	0	0	0	0
Building Control Reserve	(24)	(24)	(24)	(24)	(24)	(24)	(24)
Planning Services Reserve	(206)	(225)	(225)	(225)	(225)	(225)	(225)
Waverley Viaduct Reserve	(30)	(30)	(30)	(30)	(30)	(30)	(30)
Revenue Grants Reserve	(2,141)	(1,761)	(1,761)	(1,761)	(1,761)	(1,761)	(1,761)
Council Tax Hardship Grant Reserve	(359)	0	0	0	0	0	0
Council Tax Income Guarantee Scheme Reserve	(69)	0	0	0	0	0	0
Business Rates S.31 Grant Reserve	(9,463)	0	0	0	0	0	0
Prosecutions Fund Reserve	(35)	(35)	(35)	(35)	(35)	(35)	(35)
City Centre Reserve	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Flood Reserve	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Apprentice Reserve	(96)	(96)	(96)	(96)	(96)	(96)	(96)
<b>Total Revenue Reserves</b>	<b>(22,314)</b>	<b>(9,858)</b>	<b>(8,174)</b>	<b>(7,123)</b>	<b>(6,589)</b>	<b>(6,395)</b>	<b>(6,510)</b>
<b>Capital Reserves</b>							
Usable Capital Receipts	0	0	0	0	0	0	0
Unapplied capital grant	(126)	(3)	(3)	(3)	(3)	(3)	(3)
Lanes Capital Reserve	(90)	(105)	(120)	(135)	(150)	(165)	(180)
<b>Total Capital Reserves</b>	<b>(216)</b>	<b>(108)</b>	<b>(123)</b>	<b>(138)</b>	<b>(153)</b>	<b>(168)</b>	<b>(183)</b>
<b>Total Usable Reserves</b>	<b>(22,530)</b>	<b>(9,966)</b>	<b>(8,297)</b>	<b>(7,261)</b>	<b>(6,742)</b>	<b>(6,563)</b>	<b>(6,693)</b>
<b>Other Technical Reserves (i)</b>	<b>(105,815)</b>						
<b>Total All Reserves</b>	<b>(128,345)</b>						

**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 £0.5million by 2021/22, increasing by £0.700million in 2022/23 and a further £0.850million 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, there may be further savings required. This will ensure that a balanced 5-year budget is produced and where Council reserves are replenished over the longer term (subject to the impact of LGR).
- 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 outcome of Spending Review 2021 and likely one-year settlement for 2022/23. The implementation of Local Government Reorganisation in Cumbria will also impact on the level of earmarked reserves held by the Council, and the 5-year MTFP has been prepared in order to achieve financial sustainability for the new organisation post April 2023.**

**There will be a requirement to use reserves in the short term; however, proposals must put in place to ensure 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 2022/23 budget pressures in setting the 2022/23 budget and principles to be adopted.

**Based on current projections, Council Reserves as at 31<sup>st</sup> March 2023 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.**

## 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 2022/23 to 2026/27 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. The financial sustainability and level of debt for the new Unitary Authority will be a consideration especially in terms of the timing of any external borrowing undertaken.**

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## **EXCERPT FROM THE MINUTES OF THE EXECUTIVE HELD ON 20 DECEMBER 2021**

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### **EX.153/21 BUDGET UPDATE - REVENUE ESTIMATES 2022/23 TO 2026/27**

(Key Decision KD.10/21)

**Portfolio** Finance, Governance and Resources

#### **Relevant Scrutiny Panel**

Health and Wellbeing; Economic Growth; Business and Transformation

#### **Subject Matter**

Pursuant to Minute EX.128/21, the Finance, Governance and Resources Portfolio Holder submitted report RD.52/21 providing an update to the Corporate Director of Finance and Resources' report to the Executive of 22 November 2021 (RD.46/2).

Summarised within the report were the revised revenue base estimates for 2021/22, together with the base estimates for 2022/23 and forecasts up to 2026/27 for illustrative purposes.

The report drew Members' attention to the fact that a number of significant factors affecting the budget were currently unresolved. In particular, the following were key to the budget process and details thereon would be considered as the budget progressed.

- Ongoing impact of COVID-19
- Local Government Finance Settlement – announcement due by December 2021
- Further expected changes in government grant e.g. New Homes Bonus, Housing Benefit Administration Grant
- Future borrowing requirements
- Commercial and investment opportunities
- Local Government Reorganisation

Set out at Section 3 was an overview of the outstanding key issues and resource assumptions, with details of the potential new spending pressures/bids that needed to be considered also provided at Section 4.

The Council's current levels of balances set out at Appendix A included any impact of the proposed pressures and savings outlined in the report. The Projects Reserve would be used as a first call for any projected revenue budget deficit however, maintaining the current level of reserves was dependent upon the achievement of the transformation savings. A risk-based review of reserve levels had been undertaken and showed that the minimum level of General Fund Reserves should remain at £3.1million due to uncertainties around future funding from Business Rates; however that would be reviewed during the budget process.

The Finance, Governance and Resources Portfolio Holder concluded by moving the recommendations as detailed within the report. The Leader seconded them.

## **Summary of options rejected** none

### **DECISION**

That the Executive:

- (i) noted the revised base estimates for 2021/22 and base estimates for 2022/23;
- (ii) noted that the estimates in the report were draft and would be subject to the confirmation of Local Government Finance Settlement due in December 2021;
- (iii) noted the current MTFP projections, which would continue to be updated throughout the budget process as key issues become clearer and decisions were taken;
- (iv) noted the budget pressures, bids and savings which needed to be taken into account as part of the 2022/23 budget process;
- (v) Approved the release of amounts from the Operational Risk Reserve for Treasury Management (£600,000) and Covid costs (£500,000) as outlined in paragraph 5.2 of report RD.52/21
- (vi) notes 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.

### **Reasons for Decision**

To ensure that a balanced budget is set.

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## **EXCERPT FROM THE MINUTES OF THE BUSINESS AND TRANSFORMATION SCRUTINY PANEL HELD ON 6 JANUARY 2022**

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### **(3)(a) BUDGET UPDATE - REVENUE ESTIMATES 2022/23 TO 2026/27**

The Corporate Director of Finance and Resources submitted report RD.52/21 which provided an update to report RD.46/21. The report summarised key budget considerations, the Council's revised revenue base estimates for 2021/22, together with base estimates for 2022/23, forecasts up to 2026/27 for illustrative purposes. Potential new spending pressures, bids and savings were also set out in the report in an indicative manner, the final position being subject to decisions taken further in the budget process.

The Executive had considered the matter on 13 December 2021 (EX.153/21 refers) and decided:

"That the Executive:

- (i) Noted the revised estimates for 2021/22 and base estimates for 2022/23;
- (ii) Noted the estimates in the report are draft and will be subject to the confirmation of the Local Government Finance Settlement due in December 2021;
- (iii) Noted the current MTFP projections, which would continue to be updated throughout the budget process as key issues become clearer and decisions were taken;
- (iv) noted the budget pressures, bids and savings which needed to be taken into account as part of the 2022/23 budget process;
- (v) Approved the release of amounts from the Operational Risk Reserve for Treasury Management (£600,000) and Covid costs (£500,000) as outlined in paragraph 5.2 of report RD.52/21
- (vi) notes 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."

In considering the report, Members raised the following comments and questions:

- Why had additional subsidy for the Leisure contract been included in the budget? Was it a local or national issue?

The Corporate Director of Finance and Resources explained that additional subsidy had been removed from the budget. The amount was not yet known and would therefore be dealt with outwith the budget process. The additional subsidy was unique to Carlisle due to the delay in the redevelopment of the Sands Centre.

- Would the increase in car parking during the recovery from Covid and the Christmas period improve the car parking shortfall income?

The Corporate Director of Finance and Resources clarified that the figures used for the shortfall were based on pre covid figures and there was a shortfall at that time. The shortfall would go forward as a recurring pressure.

- Did the level of external debt figures include the value of Gateway 44?

The Corporate Director of Finance and Resources confirmed that Gateway 44 had been included in the balance sheet from 2020/21.

RESOLVED - That the Panel had scrutinised report RD.52/21 and made comments on the revised base estimates for 2021/22 and the proposed overall budgetary position for 2022/23.