

Report to Executive

Agenda
Item:

A.1(a)

Meeting Date: 16 December 2019
Portfolio: Finance, Governance and Resources
Key Decision: Yes: Recorded in the Notice Ref: KD.22/19
Within Policy and Budget Framework YES
Public / Private Public

Title: BUDGET UPDATE – REVENUE ESTIMATES 2020/21 TO 2024/25
Report of: CORPORATE DIRECTOR OF FINANCE & RESOURCES
Report Number: RD 39/19

Purpose / Summary:

This report provides an update to RD29/19, with a summary of the Council's revised revenue base estimates for 2019/20, together with base estimates for 2020/21 and forecasts up to 2024/25 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 2019/20 and base estimates for 2020/21;
- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2019;
- (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 2020/21 budget process;
- (v) note the Statutory Report of the S.151 Officer outlining the risks associated with the draft budget figures and that minimum reserves may need to be reviewed in the future depending upon the outcome of the Local Government Finance review.

Tracking

Executive:	16 December 2019
Scrutiny:	BTSP 2 January 2020
Council:	4 February 2020 (Budget Resolution)

1. INTRODUCTION

- 1.1 This report considers the revised base estimates for 2019/20 together with the estimates for 2020/21 as previously outlined in report RD29/19. 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 10 September 2019:
 - Medium Term Financial Plan and Charging Policy
 - Capital Investment 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:
 - Local Government Finance Settlement – announcement of the one-year settlement sum following the 2019 Spending Round;
 - Pension Fund Triennial Revaluation;
 - Further reductions in government grant e.g. New Homes Bonus, Housing Benefit Admin Grant;
 - Future borrowing requirements;
 - Commercial and investment opportunities.
- 1.4 The report draws on information contained in a number of reports that are either considered elsewhere on this agenda or have been considered previously by the Executive.
- 1.5 Decisions will need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies, and probable use of reserves, to enable a balanced budget position to be recommended to Council in February 2020.

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 2019/20 and 2020/21 with projections to 2024/25. The 2019/20 variance reflects the use of

earmarked reserves approved since the MTFP was approved in September.

	2019/20 Original £000	2019/20 Revised £000	2020/21 Original £000	2021/22 Proj £000	2022/23 Proj £000	2023/24 Proj £000	2024/25 Proj £000
Net Base Budget Parish Precepts (PP)	14,028 638	15,323 638	12,814 644	11,808 660	12,251 677	12,397 694	12,764 711
Total	14,666	15,961	13,458	12,468	12,928	13,091	13,475
Original MTFP Projections	14,666	14,666	13,458	12,468	12,928	13,091	13,475
Variance	0	1,295	0	0	0	0	0
Analysis of Variance:							
Non-Recurring:							
GLL Reserve		273					
Planning Services Reserve		(38)					
Revenue Grants Reserve		274					
Flood Reserve		31					
Building Control Reserve		37					
Cremator Reserve		(45)					
Asset Investment Reserve		48					
Carry Forward Reserve		(19)					
Use of Additional Business Rates Income (para 2.3)		734					
Total Variance	0	1,295	0	0	0	0	0

2.3 Members will be aware from the revenue monitoring report considered at the November meeting that a number of income streams are reporting variances against projected levels in the current financial year and there may be other cost pressures or savings which may have a recurring impact; however, officers are reviewing the existing base budget provisions to ensure that the services can be provided within these provisions with the position for 2020/21 onwards being considered during this budget process. The monitoring report also identified that income from Business Rates will be overachieved for 2019/20 and it is proposed to revise the 2019/20 budget by £734,100 to reflect this, subject to formal approval by Council in January 2020.

2.4 The revised estimates for 2019/20 will be recommended to Council as part of the budget process and include the virement for additional business rates income highlighted above.

3 OUTSTANDING KEY ISSUES

3.1 Government Settlement Funding Assessment

The Council receives core funding allocations from the Government in relation to Business Rates Baseline Funding and other specific grants. 2019/20 was the final year of a four-year funding settlement so the figures incorporated into this report are only estimations of the Business Rates baseline funding level and specific grants that the Council may receive in 2020/21 onwards. Final figures will be received in late December; however, the MHCLG has issued a technical consultation document following the 2019 Spending Round, which sets out the assumptions that may form part of the one-year funding settlement for 2020/21 only.

3.2 Retained Business Rates and Council Tax

Given that the review into 75% Business Rates Retention Scheme has been deferred, the Business Rate Baseline figure baseline is assumed at an inflationary increase for 2020/21. The impact on the future baseline figures and any new burdens expected as a result of this review are still unknown, but details may be available for next year's budget process. As a result of this deferral, the MHCLG has decided not to revoke the existing legislation governing pooling arrangements, and therefore the Council will continue to be a member of the Cumbria Business Rates Pool for 2020/21, subject to the agreement of all participating members. The financial aspects of continuing with the Pooling arrangements for 2020/21 are set out further in this report.

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.

3.3 Pension Fund Triennial Revaluation

The triennial revaluation of the pension fund is underway and will be effective from April 2020. The Actuarial's draft results are now available and a further report will be presented to a future meeting on the Executive; however, there is one significant issue affecting the pension fund which is only estimated, and which may result in a further interim valuation within the 3-year process; this relates to the impact of the recent McCloud judgement.

3.4 Pay Award 2020/21

The MTFP currently assumes a 2% pay award increase from 2020/21 onwards; however, negotiations with the Unions are underway but at this point in time, we have no information to gauge what the outcome may be other than the recently agreed Teacher's pay award of 2.75%. An increase of 0.75% equates to an additional

£100,000 per annum. It is anticipated that any increased costs as a result of a pay award above 2% could be funded from additional salary turnover achieved.

3.5 Resource Assumptions

The current resources projections assume:

- A £5 (Band D equivalent) Council Tax increase for 2020/21 onwards.
- A Council Tax Surplus for 2020/21 onwards of £50,000. The actual figure for 2020/21 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 2020/21;
- An assumed tax base of 34,189.11 for 2020/21. The final tax base for 2020/21 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2020/21 is for a total of £644,000. 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.

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.

Detail		2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Recurring						
Borderlands Programme Management Office	4.2	7	80	80	80	80
St Cuthbert's Garden Village	4.3	75	60	60	60	60
Sexual Assault Referral Service	4.4	20	20	20	20	20
<u>Income and Budget Shortfalls</u>						
Business Interaction Centre	4.5	55	55	55	55	55
Lanes Rental Income	4.5	275	275	275	275	275
Rental Income - Other Properties	4.5	63	63	63	63	63
Land Charges Income	4.5	27	25	25	24	23
Market Hall Income	4.5	22	22	22	22	22
Loss of Supporting People Funding	4.5	70	70	70	70	70
Carlisle Southern Relief Road developer contributions	4.5	31	72	52	72	61
Income from Recyclates	4.5	183	183	183	183	183
Income from Advertising	4.5	18	18	18	18	18
Development Control Income	4.5	121	121	121	121	121
Local Plan Monitoring Fee	4.5	8	8	8	8	8
Car Parking Income	4.5	150	150	100	100	100
Gateway 44 Income	4.5	125	456	68	16	16
Key Cities Membership	4.6	10	10	10	10	10
Transformation Savings	4.7	1,130	1,130	1,130	1,130	1,130
New Homes Bonus	4.8	0	0	0	393	393
Total Recurring Pressures		2,390	2,818	2,360	2,720	2,708
Non Recurring						
City Centre Business Support	4.9	40	0	0	0	0
Borderlands Inclusive Growth Deal	4.10	50	0	0	0	0
<u>Income and Budget Shortfalls</u>						
St Cuthbert's Garden Village Developer Contributions	4.11	50	0	0	0	0
Carlisle Ambassadors	4.12	25	25	25	0	0
Civic Centre Portacabin Rental	4.12	111	0	0	0	0
Total Non Recurring Pressures		276	25	25	0	0

There may be other pressures on the revenue budget as highlighted within the revenue monitoring report, 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.

4.2 Borderlands Programme Management Office – Additional Expenditure - £7,000 increasing to £80,000 recurring bid

The development and establishment of the Borderlands Programme Management Office (PMO) is seen as best practice in the operation and delivery of growth deals and forms an integral part of the Deal's governance structure and procedures. Amongst other responsibilities, the PMO will be the primary point of contact with the Government Departments and with the Accountable bodies. The costs of running the PMO will be apportioned on the basis of the share of the Deal funding allocated to each area.

4.3 St Cuthbert's Garden Village – Additional Expenditure - £75,000 reducing to £60,000 recurring bid

To fund a formally adopted, appropriate and comprehensive masterplan and delivery strategy for St Cuthbert's Garden Village. In addition to the existing budget of £65,000, a further £75,000 is required in 2020/21 for examination costs associated with the adoption of the Local Plan including a planned joint examination of the Community Infrastructure Levy and the appointment of an independent programme officer (£60,000), external support on technical matters (£40,000), increased capacity within the Investment & Policy Team (£30,000) and an on-going operational budget (£10,000). A further £20,000 is required on an on-going basis to fund technical studies, external support or as match funding to support the Garden Village project.

4.4 Sexual Assault Referral Service – Additional Expenditure - £20,000 recurring pressure

This is to provide a permanent contribution towards the Sexual Assault Referral Service; a service led by the Cumbria Police and Crime Commissioner.

4.5 Income and Budget Monitoring Shortfalls – recurring pressures

The 2019/20 budget monitoring has identified areas where income targets are not being achieved and where there could be a recurring impact from these. These areas cover:

- Business Interaction Centre – rental income (£55,000)
- Lanes rental income (£275,000)
- Rental Income from other properties (£63,000)
- Land Charges Income (£27,000)
- Market Hall income (£22,000)
- Loss of Supporting People funding (£70,000)
- Carlisle Southern Relief Road developer contributions (£31,000)
- Reduced Income from Recyclates (£183,000)
- Income from advertising (£18,000)

- Development Control Income (£121,000)
- Local Plan Monitoring Fee (£8,000)
- Car Parking income (£150,000)
- Gateway 44 (£125,000)

4.6 There are also some items of additional expenditure that have been highlighted as additional recurring pressures:

- Key Cities Membership (£10,000)

4.7 **Transformation Savings**

This pressure removes the current recurring savings requirement to be found by 2020/21 of £1.130million. A new savings requirement which takes into account the pressures and bids and the additional savings identified is factored into the savings and additional income proposals later in this report.

4.8 **New Homes Bonus**

Recurring budget built in for previous New Homes Bonus allocations needs to be removed from the budget.

4.9 **City Centre Business Support – Additional Expenditure - £40,000 non-recurring bid**

This relates to a business support package to support business growth in the city centre, and to ensure the centre remains resilient to the changes on the high street. It comprises of a business rate relief scheme for vacant properties in Castle Street, Lowther Street and Victoria Viaduct with a rateable value of less than £51,000 with other eligibility criteria to be determined; a £5,000 allocation to enable the Council to support business in the development of a BID for the City Centre, if businesses express a wish to proceed with a BID; and a £25,000 allocation to fund a small grant scheme for businesses in the city centre which could be used to support capital works at business premises, with a maximum sum available per business.

4.10 **Borderlands – Additional Expenditure - £50,000 non-recurring bid**

As a participating member of the Borderlands Partnership, we will be required to contribute to the development and delivery of further work necessary to progress the Growth Deal to a Full Deal; this will include undertaking supporting evidence based work and studies; producing detailed business cases for projects and programmes; establishing future governance arrangements; establishing a communications protocol; and establishing a monitoring and evaluation framework. £50,000 will be required in 2020/21 to support this joint working of the various partners.

4.11 Income and Budget Monitoring Shortfalls – non-recurring pressures

The 2019/20 budget monitoring has identified areas where income targets are not being achieved and where there could be a non-recurring impact from these. These areas cover:

- St Cuthbert's Garden Village CIF developer contributions (Non-recurring) (£50,000)

4.12 There are also some items of additional expenditure that have been highlighted as additional non-recurring pressures:

- Carlisle Ambassadors (£25,000)
- Civic Centre Portacabin rental (£111,000) non-recurring

5 SAVINGS AND ADDITIONAL INCOME PROPOSALS

5.1 Further savings/additional income have been identified in the budget process for 2020/21 as follows:

Detail	Note	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Changes to Funding						
Business Rate Income	5.2	(1,500)	0	0	0	0
Empty Properties Council Tax Premium	5.3	(24)	(62)	(84)	(84)	(84)
Total Changes to Funding		(1,524)	(62)	(84)	(84)	(84)
Savings Proposed						
LED Footway Lighting Installation	5.4	(26)	(46)	(46)	(46)	(46)
Leisure Contract	5.5	0	0	0	0	(39)
External Audit Fees	5.6	(10)	(10)	(10)	(10)	(10)
Insurance Tender	5.6	(72)	(72)	(72)	(72)	(72)
Inflation	5.6	(100)	(100)	(100)	(100)	(100)
Salary Turnover Savings	5.6	(100)	(100)	(100)	(100)	(100)
Rural Services Delivery Grant	5.7	(184)	0	0	0	0
New Homes Bonus	5.8	(250)	0	0	0	0
Treasury Management	5.9	(298)	(350)	(324)	315	277
Pension Revaluation	5.10	(500)	(500)	(500)	(500)	(500)
Budget Savings to be found	5.11	0	(1,000)	(1,000)	(1,850)	(1,850)
Total of Savings		(1,540)	(2,178)	(2,152)	(2,363)	(2,440)
Total Recurring		(1,130)	(2,240)	(2,236)	(2,447)	(2,524)
Total Non-Recurring		(1,934)	0	0	0	0

5.2 Business Rates Pooling

The Council will continue to be part of the Cumbria Pooling arrangements in 2020/21 now that the MHCLG has agreed not to revoke the current legislation, and all

participating members have agreed that the pool continues in its current format. A potential additional sum of £1,500,000 may be factored into the budget as a result for two main reasons: the 2020/21 budget was originally reduced by £850,000 on the assumption that the Pooling arrangements would not continue given the uncertainty over the Fair Funding Review and the Business Rate Retention Review; and the Pool has consistently outperformed budget predictions since it commenced. Therefore £1,500,000 can be factored in on a non-recurring basis for 2020/21.

5.3 Empty Properties Council Tax Premium

Under the Local Government Finance Act 2012, Councils have the option to apply a Council Tax Premium of up to 100% of the council tax charge for properties that are classed as Long-Term Empty, that are unfurnished and unoccupied for two years or more. The Council introduced the premium, charging 150% council tax for relevant properties, from April 2014 onwards.

Under the Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018 from 1st April 2019 provisions relating to Long-Term Empty properties can be applied by Council's as follows:

- From 1st April 2019 a maximum premium of up to 100% for Long Term Empty properties.
- From 1st April 2020 for properties empty for 5 years or more, a premium of up to 200%
- From 1st April 2021 for properties empty for 10 years or more, a premium of up to 300%.

5.4 LED Footway lighting installation – Additional Income - £26,000 increasing to £46,000 recurring

The capital programme includes a proposal to install LED lighting at footways as an invest to save scheme and this is the estimated annual savings which will be realised as a result.

5.5 Leisure subsidy – Additional Income - £39,000 (2024/25)

The recurring impact of the subsidy achieved through the re-letting of the Leisure Services contract and the Sands Centre redevelopment. This is based upon the original contract and negotiations are still on-going in terms of assessing the impact of the contract variation as a result of the Sands Development.

5.6 Base Budget Review

The continuation of the base budget review has identified some further savings which can be included within the 2020/21 budget process on a recurring basis:

- External Audit Fees - £10,000
- Insurance Tender savings - £72,000
- Inflationary increases - £100,000
- Salary turnover - £100,000

5.7 Rural Services Delivery Grant

The technical consultation issued by the MHCLG recognises the additional cost pressures in rural areas and proposes to roll forward the 2019/20 Rural Services Delivery Grant (RSDG) totalling £81million into 2020/21. This amounts to a one-off grant of £183,700 for the Council in 2020/21.

5.8 New Homes Bonus

Similar to the RSDG above, the MHCLG is proposing to retain £900million to fund New Homes Bonus in 2020/21; as this roll forward is for one year only, with any funding beyond 2020/21 subject to the 2020 Spending Review (and possible revisions to the scheme), any allocation for 2020/21 will not result in legacy payments being made in subsequent years.

5.9 Treasury Management

Treasury Management projections have been updated to include updates to the Capital programme (contained elsewhere on this agenda) and updated for interest rate forecasts. This projection includes the potential impact on reserves for all the pressures and savings contained in this report together with the updated borrowing costs for the capital programme.

5.10 Pension Revaluation

Following receipt of the draft Actuarial results, a saving of £500,000 can be built into the MTFP due to a reduction in the deficit funding requirement; however current employer contribution rates are expected to increase from 15.6% to 19.9% which will partially offset any liabilities resulting from the McCloud judgement. A more detailed report will be prepared for consideration at a future Executive meeting once final figures have been issued and confirmed by the Actuary.

5.11 Budget Savings

The current MTFP includes a recurring savings requirement to be found by 2020/21 of £1.130million; however, a revised savings requirement has been calculated of a reduction to £0million in 2020/21; i£1million in 2021/22 increasing to £1.850million in

2023/24 which takes account of the pressures and bids and the additional savings identified in this report.

6. PROJECTED IMPACT ON REVENUE BALANCES

- 6.1 It should be noted that if all of the potential new Savings and Spending Pressures were accepted then reserves may fall below acceptable minimum levels over the five-year period.
- 6.2 The general principles on each of the Reserves are set out in the Medium-Term Financial Plan. In terms of meeting ongoing revenue expenditure, the general guiding principle which Council approved is that:

‘Wherever possible, reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit, and steps taken to address the situation in the following years’.

- 6.3 The Council’s current levels of balances are set out in **Appendix A** and include the 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 remain at £3.1million due to uncertainties around future funding from Business Rates; however, this will be reviewed once the Local Government funding reviews have been announced (possibly Summer/Autumn 2020).

Summarised Position	2019/20 Original £000	2019/20 Revised £000	2020/21 Original £000	2021/22 Proj £000	2022/23 Proj £000	2023/24 Proj £000	2024/25 Proj £000
Total Projected Expenditure	14,028	15,323	12,814	11,808	12,251	12,397	12,764
Total Projected Resources	(14,028)	(15,323)	(11,787)	(12,136)	(12,457)	(12,784)	(13,117)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	1,027	(328)	(206)	(387)	(353)
Less:							
New Saving Proposals							
- Recurring	0	0	(1,106)	(2,178)	(2,152)	(2,363)	(2,440)
- Non Recurring	0	0	(434)	0	0	0	0
- Business Rates	0	0	(1,500)	0	0	0	0
- Empty Properties	0	0	(24)	(62)	(84)	(84)	(84)
Council Tax Premium							
(See Para 6)							
Add:							
New Spending Pressures							
- Recurring	0	0	2,390	2,818	2,360	2,720	2,708
- Non Recurring	0	0	276	25	25	0	0
(See Para 5)							
Potential Budget (Surplus) / Shortfall	0	0	629	275	(57)	(114)	(169)
Potential (Surplus) / Shortfall Analysis:							
- Recurring	0	0	1,218	311	(12)	(114)	(169)
- Non Recurring	0	0	(589)	(36)	(45)	0	0

Balance as at:	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000	Released From Earmarked Reserves £000
31/03/2020	(1,218)	589	0
31/03/2021	(311)	36	0
31/03/2022	12	45	0
31/03/2023	114	0	0
31/03/2024	169	0	0
31/03/2025	0	0	0

7. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2020/21 to 2024/25

- 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.
- 7.3 In terms of expenditure pressures, the significant issue affecting the budget is the uncertainty regarding local government funding in terms of business rate retention and any burdens which may transfer as a result.
- 7.4 The deferral of the Fair Funding Review and the Business Rate Retention Reviews increases the uncertainty in terms of future funding especially from 2021/22 onwards; however, the scope to remain within the Cumbria Pooling arrangements for 2020/21 (if all participating authorities agree) may provide an opportunity, albeit temporary, in terms of increased financial support to the revenue budget from pooling and growth.
- 7.5 The City Council needs to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years, and the Executive will make recommendations in this respect in December.
- 7.6 Under section 25 of the Local Government Act 2003 the Council's S.151 Officer is required to prepare a statutory report which considers the robustness of the estimates and the adequacy of reserves and which determines levels of borrowing.

A full report will be prepared and included within the Executive's draft budget proposals for consultation purposes.

8 RISKS

- 8.1 As outlined above the Council has a statutory responsibility to set a balanced budget and failure to do this could lead to unfunded financial pressures on the Council.

9 CONSULTATION

- 9.1 The Business and Transformation Scrutiny Panel will consider this report on 2 January 2020, and their views fed back to the Executive on 15 January. Public consultation will take place between 16 December and 13 January and the budget resolution will then be issued by the Executive on 15 January.

10 RECOMMENDATIONS

The Executive is requested to:

- (i) note the revised base estimates for 2019/20 and base estimates for 2020/21;
- (ii) note that the estimates in the report are draft and will be subject to the confirmation of Local Government Finance Settlement in December 2019;
- (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 2020/21 budget process;
- (v) note the Statutory Report of the S.151 Officer outlining the risks associated with the draft budget figures and that minimum reserves may need to be reviewed in the future depending upon the outcome of the Local Government Finance review.

11 CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

- 11.1 To ensure that a balanced budget is set.

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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.

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 2019 £000	Projected 31 March 2020 £000	Projected 31 March 2021 £000	Projected 31 March 2022 £000	Projected 31 March 2023 £000	Projected 31 March 2024 £000	Projected 31 March 2025 £000
Revenue Reserves							
General Fund Reserve	(3,300)	(3,150)	(2,521)	(2,246)	(2,303)	(2,417)	(2,586)
Projects Reserve	(818)	0	0	0	0	0	0
Carry Forward Reserve	(512)	(531)	(531)	(531)	(531)	(531)	(531)
	(4,630)	(3,681)	(3,052)	(2,777)	(2,834)	(2,948)	(3,117)
Flood Reserve	(2,014)	(1,983)	(1,983)	(1,983)	(1,983)	(1,983)	(1,983)
Transformation Reserve	(150)	0	0	0	0	0	0
Building Control Reserve	(85)	(48)	(48)	(48)	(48)	(48)	(48)
Cremator Reserve	(964)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)	(1,009)
Economic Investment Reserve	(6)	(6)	(6)	(6)	(6)	(6)	(6)
City Centre Reserve	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Welfare Reform Reserve	(200)	0	0	0	0	0	0
Revenues & Benefits Reserve	(338)	0	0	0	0	0	0
Revenue Grants Reserve	(1,143)	(869)	(869)	(869)	(869)	(869)	(869)
Planning Services Reserve	(150)	(188)	(188)	(188)	(188)	(188)	(188)
Promoting Carlisle Reserve	(10)	(10)	(10)	(10)	(10)	(10)	(10)
Apprentices Reserve	(54)	(54)	(54)	(54)	(54)	(54)	(54)
Prosecutions Reserve	(36)	(36)	(36)	(36)	(36)	(36)	(36)
Total Revenue Reserves	(9,789)	(7,893)	(7,264)	(6,989)	(7,046)	(7,160)	(7,329)
Capital Reserves							
Usable Capital Receipts	0	0	0	0	0	0	0
Asset Disposal Reserve	0	0	0	0	0	0	0
Unapplied capital grant	(136)	(112)	(112)	(112)	(112)	(112)	(112)
Asset Investment Reserve	(48)	0	0	0	0	0	0
GLL Reserve	(273)	0	0	0	0	0	0
Lanes Capital Reserve	(60)	(75)	(90)	(105)	(120)	(135)	(150)
Total Capital Reserves	(517)	(187)	(202)	(217)	(232)	(247)	(262)
Total Usable Reserves	(10,306)	(8,080)	(7,466)	(7,206)	(7,278)	(7,407)	(7,591)
Other Technical Reserves (i)	(99,458)						
Total All Reserves	(109,764)						

(i) These reserves are of a technical nature and are not cash backed (i.e. they are not available either to fund expenditure or to meet future commitments.)

DRAFT STATUTORY REPORT OF S.151 OFFICER

1. In setting its Budget Requirement, the Council is required under the Local Government Act 2003 (Section 25) to consider:
 - (i) The formal advice of the statutory responsible financial officer (Corporate Director of Finance and Resources) on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
 - (ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the Prudential Code that governs local authority borrowing.

2. **Robustness of the Estimates**

Whilst relevant budget holders are responsible for individual budgets and their preparation, all estimates are scrutinised by Financial Services staff, the Senior Management Team and the Strategic Financial Planning Group prior to submission to members.

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates.

The Council has no history of overspending against budget, indeed, there has tended to be a degree of underspending. However improved budget monitoring backed up by specific action where appropriate and base budget procedures have proven effective in addressing this issue.

There are risks however involved in projecting budgets particularly over the medium term and the year-end position will never exactly match the estimated position in any given year. Areas of specific risk in the current five-year period under consideration are:

- The Transformation programme was expected to achieve savings of £1.130million by 2019/20, in order to meet the expected cuts in grants from central government and other budgetary pressures identified in the previous budget process. However, these have been identified for both 2019/20 and 2020/21. Revised transformation savings are expected totalling £1million in 2021/22 increasing by £0.850million to £1.850million in 2023/24. This will ensure that a balanced budget is produced and where Council reserves are replenished over the longer term.
- The level of interest receipts and return on Treasury Management activities are subject to market rates. Members are advised of this risk every year and it should be noted that in the current economic climate with low and relatively static base rates, investment income returns in the medium term continue to prove challenging. The Council is also having to deal with a reduced number of counterparties it is able to place deposits with.

The main risks to the robustness of the estimates are the impact of the Fair Funding Review and how, and when, the 75% retention of business rates will be implemented.

There will be a requirement to use reserves in the short term; however, the proposals put in place show that reserves will rise over the following 5-year period to minimum levels.

The delivery of the savings proposals identified and continuing work to deliver further savings will also be important to maintaining reserves at prudent levels.

Regular budget monitoring, particularly in the area of the 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. 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 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 £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 2020/21 budget pressures in setting the 2020/21 budget and principles to be adopted when preparing the 2021/22 budget cycle.

Based on current projections, Council Reserves will be maintained at prudent levels. It is accepted that the level of reserves is reliant on the delivery of the transformation savings and achievement of income targets and government funding.

Minimum reserve levels will continue to be monitored closely and will be dependent upon the final outcome of the devolvement of 75% business rates to local authorities and the fair funding review and any risks associated with this devolvement.

3. Determination of Borrowing

The new Prudential Accounting regime enables the Council to borrow subject to meeting criteria of affordability. The draft Prudential Indicators have been established and these will be finalised for Council approval once decisions on the overall Capital Programme have been made.

For the period under review the need for borrowing will be kept under consideration and will be dependent on the level of capital receipts being generated and the potential of future capital projects. Due to projects currently under consideration, the capital programme for 2020/21 to 2024/25 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.