

Allerdale Borough Council

Executive – 19 February 2020

Council – 4 March 2020

## **Budget 2020-21 – Revenue and Capital**

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<b>The Reason for the Decision</b>	To present the Council's draft revenue and capital budget and the formal advice of the chief financial officer on the robustness of the estimates included in the budget and the adequacy of the reserves which support the Council's budgetary plans.
<b>Summary of options considered</b>	<p>The Council has a statutory requirement to approve a balanced budget.</p> <p>The draft budget proposes an increase in Council Tax of 1%.</p> <p>A number of growth bids and savings bids have been submitted and are considered in this report.</p> <p>A public consultation exercise relating to options included in the Council's draft budget proposals was carried out between December 2019 and January 2020.</p>
<b>Recommendations</b>	<p>It is recommended that:</p> <ol style="list-style-type: none"><li>1. The total planned revenue expenditure is £15,449,434 including parish precepts of £2,458,074.</li><li>2. £15,259,834 is approved as the Council's net Budget requirement for 2020-21.</li><li>3. Allerdale's share of council tax is increased, on properties in all Council Tax bands by 1%.</li><li>4. No changes are made to the Council's Council Tax Reduction discount scheme and that the current scheme remains in place for 2020-21.</li><li>5. The revenue estimates as approved are used in the calculation of the basic amount of tax under Section 31 of the Local Government Finance Act 1992.</li><li>6. The minimum level of non-earmarked general fund balances is set at £2.7m and that no maximum level is set.</li><li>7. That the capital budget of £11,439,691 (comprising £8,294,555 in 2020-21, £1,611,000 in 2021-22 and £1,534,000 in 2022-23) is approved.</li></ol>

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8. That the proposed capital budget for 2020-21 is financed as follows:
- grants and contributions .....£5,879,856
  - borrowing.....£1,787,174
  - leases.....£47,000
  - capital receipts .....£571,817
  - general fund balances .....£8,708

**Financial / Resource Implications**

As set out in the report. The revenue estimates will form part of the calculation of the overall council tax level to be set.

**Legal Implications**

Statutory requirement to set a balanced budget.

**Community Safety Implications**

None

**Health and Safety and Risk Management Implications**

The budget contains provision for the Council to discharge its obligations under health and safety legislation, and to maintain a reserve in order to manage risks.

There are also risks that the Council will not be able to operate within agreed budgetary provisions but this can be minimised by the financial monitoring process and by the prudent policy on the level of reserves and balances.

**Equality Duty considered / Impact Assessment completed**

As part of the budget growth bids and savings bids process.

**Wards Affected**

All

**The contribution this decision would make to the Council's priorities**

The revenue budget is set to support the Council in achieving priorities through the Council Plan and to facilitate control of expenditure on its activities.

**Is this a Key Decision**

Yes

**Portfolio Holder**

Councillor Jim Lister,  
Portfolio Holder for Finance and Legal

**Lead Officer**

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**Report Implications** (Please delete where applicable).

Community Safety	N	Employment (external to the Council)	Y
Financial	Y	Employment (internal)	Y
Legal	Y	Partnership	Y
Social Inclusion	Y	Asset Management	Y
Equality Duty	Y	Health and Safety	Y

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**1.0 Introduction**

- 1.1 The Council has a statutory responsibility to set a balanced budget for each financial year. In short, this means the Council's expenditure on services must be contained within the available funding envelope.
- 1.2 This report sets out the:
- outcome of the 2020-21 Budget Consultation exercise
  - proposed revenue budget for 2020-21, and
  - proposed capital budget for the three year period 2020-21 to 2022-23.
- 1.3 This report also sets out the chief finance officer's report to the Council (made under section 25 of the Local Government Act 2003) on:
- (a) the robustness of the estimates made for the purposes of the Council's budget calculations, and
  - (b) the adequacy (or otherwise) of the Council's financial reserves.
- 1.4 Members are required to have regard to the report made under s25 of the Local Government Act 2003 when making decisions about the Council's budget calculations.

## **2. Budget Consultation**

2.1 Consultation with the public and other key stakeholders is essential to informing the Council's priorities and the financial plans which underpin delivery of those priorities, including the Council's annual budget. Consultations informing the 2020-21 budget process comprised:

- the survey of residents undertaken during June and July 2018
- a consultation on the draft Council Strategy for 2020-30 undertaken between September and November 2019
- a budget consultation focusing on specific budget issues carried out during December 2019 and January 2020.

### Budget Consultation

2.2 The 2020-21 Budget consultation was held between 17 December 2019 and 20 January 2020. The consultation was accessible via the Council's website. Hard-copy versions of the consultation were also made available at Council offices. The consultation document was sent out to numerous partner organisations such as town and parish councils and other local bodies and was actively promoted through the local press, the Council's website and social media. Responses could be submitted on-line using the Cumbria-wide consultation portal, by email or in hard copy format.

2.3 The consultation document summarised the financial challenges facing the Council and the steps being taken by the Council to bridge the financial gap arising from the year on year reductions in central government grants.

2.4 The consultation gave an opportunity to residents, local businesses and partners to review and comment on the Council's approach to meeting the budget challenges ahead, including some possible changes to service delivery and changes to Council Tax. The online consultation asked questions on:

- our overall approach to meeting the financial challenge
- possible service change options relating to waste services
- options for setting next year's Council Tax

2.5 At the closing date the Council had received a total of 479 responses to the consultation. The majority of responses were received from local residents with a small number from local businesses and parish councils.

### Key messages from the Budget Consultation

2.6 On our overall approach to the financial challenge the clear majority of respondents were in agreement with eight of the 15 options presented. Highest agreement was with:

- 'finding other ways to generate additional income that will help to fund local services' (91% agreed);
- 'using our land and buildings to generate income' (91% agreed); and

- 'making more efficient use of council assets such as land and buildings' (93% agreed).
- 2.7 The majority of respondents did not agree with seven of the options presented. Highest disagreement was with:
- 'reducing the quality of some services provided' (87% disagreed);
  - 'scaling back some services' (78% disagreed); and
  - 'transferring services to other organisations like commercial companies' (65% disagreed).
- 2.8 Responses were split on the following approaches: 'transferring services to other organisations like community groups, social enterprises and town and parish councils' and 'changing the way some discretionary services are provided'.
- 2.9 The survey asked about some specific options that would achieve savings in the delivery of the waste and recycling service and therefore make a significant contribution to helping balance the budget in 2020/21 and beyond. Respondents were asked to rank three options:
- 1) Charging for garden waste collections;
  - 2) Charging for replacement bins;
  - 3) Moving to fortnightly bin collections for general household waste
- 2.10 Of these three options the most preferred option was charging for replacement bins' (43%). The least preferred option was 'moving to fortnightly bin collections' (50%), closely followed by 'charging for garden waste collections' (41%).
- 2.11 On options for next year's Council Tax, the majority of respondents supported an increase in Council Tax (69%). These respondents are fairly evenly split between supporting a 2% increase (36%) and a 1% increase (33%). 31% of respondents stated that they favoured no increase in Council Tax.
- 2.12 A summary of consultation responses can be found in Appendix H.

### **3. National and Local Context**

#### 2019 Spending Round

- 3.1 The conclusions of the 2019 Spending Round were presented to Parliament on 4<sup>th</sup> October. The 2019 Spending Round outlines spending limits for Government departments for the financial year 2020-21 and replaced the full three-year Spending Review, covering the period 2020-21 to 2022-23, originally planned for 2019. This full review has now been postponed until 2020 and if it remains a three-year review, will set out Governments spending plans out to 2023-24.
- 3.2 In the 2019 Spring Statement, the Government announced its intention to hold a new spending review in 2019 covering three years 2020-21 to 2022-23. However, this was conditional on a Brexit deal being agreed and, with the

subsequent political turbulence and financial uncertainty surrounding Brexit, it was later announced that a one-year Spending Round would be provided, covering the financial year 2020-21 only. This would be followed in 2020 by a full Spending Review, reviewing public spending as a whole and setting multi-year budgets.

- 3.3 The publication of a Spending Round which covers one financial year only is a departure from the norm that has been established over the last decade. This is also a Spending Round where there are no recent or updated forecasts from the Office for Budget Responsibility, and therefore, spending commitments are based on fiscal forecasts produced back in March 2019. The next forecasts are expected to be provided at the time of the next budget.
- 3.4 The Spending Round has been delivered within the current fiscal rules, as set out in the Charter for Budget Responsibility. These are to keep the cyclically adjusted deficit below 2% of GDP by 2020/21 (the borrowing rule) and have debt falling as a proportion of GDP in 2020/21 (the debt rule).
- 3.5. The government highlights that the deficit was 1.1% in 2018/19, compared to nearly 10% of GDP in 2010 and they therefore believe that it is now possible to spend more on public services. In its March 2019 forecast, the OBR set out that the government had headroom against its borrowing rule in 2020/21.
- 3.6 The government therefore announced an increase to current and capital spending by £13.4 billion in 2020/21, compared to the OBR's forecast at Spring Statement 2019. With this in mind, the SR has set out that Resource Departmental Expenditure Limits (DEL) (excluding depreciation) across government departments will increase from £330.8bn to £352.3bn, representing growth of 4.1%.
- 3.7 The government announced their top priorities in the Spending Round, to where much of the additional funding has been allocated, and these included Health and social care, Education and skills, Tackling crime and Brexit. It also announced that there would be no real terms decrease for any government department, and a real terms increase for most.
- 3.8 Announcements included in the 2019 Spending Round and of direct relevance to local government include:
  - a projected increase in local government Core Spending Power (CSP) of £2.9bn in 2020/21, a real terms increase of 4.3% (i.e. a cash increase of 6.3%). This compares to a cash increase in CSP of £1.7bn between 2015/16 to 2019/20. Within this, the government has indicated that there will be an additional £1bn for Social Care, which will be in addition to maintaining £2.5bn of existing social care grants
  - an increase in the Better Care Fund of 3.4% in real terms, as part of the increase to NHS funding
  - confirmation that business rates baseline funding will increase in line with inflation

- an implied Council Tax core referendum principle of 2% and 2% adult social care precept
- an additional £54m in 2020-21 to help reduce homelessness and rough sleeping to add to the funding already provided in 2019-20.
- £24m of additional funding for the Building Safety Programme
- confirmation that a total of £241m will be made available through the Towns Fund in 2020-21 to support the regeneration of high streets and town centres.
- £40m of additional funding for Discretionary Housing Payments to tackle affordability pressures in the private rented sector in England and Wales
- £23m to fund a range of other measures, including support for vulnerable claimants and people with complex needs migrating to Universal Credit, additional outreach activities to support those who are homeless, and increasing the number of Armed Forces champions to support veterans when entering the labour market.

### Spring Statement 2019

- 3.9 The Chancellor of the Exchequer presented his Spring 2019 Statement to the House of Commons on 13 March 2019. With uncertainty about the progression of Brexit, it had been largely trailed in advance that this Statement would focus on the latest projections from the Office of Budget Responsibility (OBR) which could be subject to significant revision, once greater certainty emerged around the future relationship with the European Union. The Spring Statement is primarily an opportunity to present updated economic forecasts for the UK economy and as such contained few specific new tax or spending announcements.

### Autumn Budget 2019

- 3.10 Following the delay to the UK's withdrawal from the EU beyond the previous 31 October deadline and subsequent announcement of a General Election in December, the Budget previously scheduled for 6 November did not take. The Government have since announced that the next Budget will take place on Wednesday 11 March 2020.

### Local Government finance report and provisional settlement 2020-21

- 3.11 The provisional local government finance settlement for 2020-21 was issued on 20 December 2019 and sets out the distribution of centrally allocated resources for local authorities in England. The provisional figures were confirmed within the final settlement expected to be announced in February 2020. In contrast to the multi-year settlements announced in previous years the 2020-21 local government finance settlement is for one year only. Future years' announcements will be dependent on a number of factors, including: Spending Review 2020, the outcome of the Fair Funding Review, the BRR Reset, the move to 75% BRR and any reform of the New Homes Bonus scheme. Figures included in the provisional (and final) local government

finance settlement for 2020-21 largely confirm the spending announcements and funding allocations included within Spending Round 2019 and the subsequent local government finance settlement technical consultation issued in October 2019.

3.12 Key announcements included in the provisional local government finance settlement for 2020-21 and relevant to the Authority include:

- **Council Tax** - as previously announced at Spending Round 2019, the council tax referendum limit for 2020-21 will be 2% with social care authorities being allowed a 2% social care precept of up to 2% (over the existing basic referendum threshold of 2%). The provisional settlement also confirmed districts will be allowed to apply the higher of the referendum limit or £5 (on a band D property), without triggering a referendum. Town and parish councils continue to be excluded from the referendum principles.
- **Business Rates Retention** - an increase in line with the September 2019 CPI inflation figure of 1.63%, to the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts).
- **Revenue Support Grant** - an increase in Revenue Support Grant in line with the Business Rates Retention system, of +1.63% on the amount received in 2019-20).
- **New Homes Bonus** - for 2020/21 the overall allocation for each authority is based on the legacy payments for 2017/18 to 2019/20 plus the 2020/21 allocations. However, as previously announced, there will be no legacy payments for the 2020/21 in year allocations. The threshold over which the bonus is paid is unchanged at 0.4%. The Government also announced a Spring 2020 consultation on the future of the New Homes Bonus Scheme.
- **Rural Services Delivery** - no changes to the Rural Services Delivery Grant funding allocation or to the methodology for distribution. Amounts receivable in 2020-21 will therefore be in line with the 2019-20 allocations.

3.13 The Settlement outlines the [provisional] Settlement Funding Assessment (SFA) (comprising Revenue Support Grant and retained business rates income (baseline funding)) for local authorities and the impact on the core spending power of local authorities. Core Spending Power is the Government's measure of the core components of local government funding. It comprises the aggregate of the Settlement Funding Assessment, assumed income from council tax, New Homes Bonus, Improved Better Care Fund funding and Rural Services Delivery Grant.

- 3.14 A summary of the Council's provisional Settlement Funding Assessment and Core Spending Power – over the spending review period - is set out in table 1.

**Table 1: Settlement Funding Assessment (SFA) & Core Spending Power**

	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Revenue Support Grant	2,523	1,700	1,061	652	196	199
Baseline funding	3,284	3,346	3,414	3,517	3,597	3,656
<b>Total – SFA</b>	<b>5,807</b>	<b>5,046</b>	<b>4,475</b>	<b>4,169</b>	<b>3,793</b>	<b>3,855</b>
Assumed Council tax	4,537	4,714	4,920	5,100	5,304	5,539
New Homes Bonus	1,079	1,533	1,612	1,004	838	606
Rural Services Delivery Grant	63	324	261	326	326	326
Other grants <sup>1</sup>	48	48	51	80	117	146
<b>Core spending power</b>	<b>11,534</b>	<b>11,665</b>	<b>11,319</b>	<b>10,679</b>	<b>10,378</b>	<b>10,472</b>
Annual change	-	1.1%	-3.0%	-5.7%	-2.8%	0.9%
Cumulative change	-	1.1%	-1.9%	-7.4%	-10.0%	-9.2%

<sup>1</sup>Compensation for under-indexing the business rates multiplier

- 3.15 Nationally, the government's figures indicate that Core Spending Power will increase by an average of +6.3% in 2020-21 (4.4% in real terms). This is based on the assumption that every council raises their council tax by the maximum permitted without a referendum, and that the annual growth in the council tax base remains consistent with the growth achieved by each local authority between 2015-16 and 2019-20. For the local government sector as a whole, the cumulative change in Core Spending Power over the period 2015-16 to 2020-21 is +10.0% in cash terms.
- 3.16 For Allerdale the figures in table 1 highlight a reduction in the Council's core spending power by around 9.2% in cash terms, from £11.53m to £10.47m between 2015-16 and 2020-21. This includes a reduction of approximately £2m (34%) in the Settlement Funding Assessment, offset by a projected increase of approximately £1m (22%) in council tax income (based on Governments assumptions regarding base growth and increases in council tax levels in line with the maximum permitted without a referendum) and a net increase of approximately £0.1m (9%) in the levels of New Homes Bonus, Rural Services Delivery Grant and other grants over the period. The revenue grant funding element of the Council's Settlement Funding Assessment has fallen from £2.523m in 2015-16 to £0.199m in 2020-21. Since the implementation of Business Rates retention in 2013-14 baseline funding amounts have increased in line with inflation.
- 3.17 The reductions in RSG, which underpin the reduction in the Settlement Funding Assessment over the spending review period, were timetabled to coincide with the planned transition to 100% local rates retention in 2019-20. However, following the snap 2017 General Election and the subsequent fall of the Local Government Finance Bill 2016-17, this policy was paused. The

Finance Bill would, amongst other things, have provided the legislative framework for the introduction of 100% Business Rates Retention (BRR). Without a change to primary legislation a move to 100% BRR is not possible. The Government used the 2019-20 settlement announcement to reaffirm its intention to move to 75% local retention in 2020-21 however this, along with the Fair Funding Review previously scheduled to take place in 2019 has since been pushed back. The impact of the fair funding review and changes to the Business Rates Retention scheme (75% business rates retention, full reset of business rates baselines or potential alternative business retention systems) are now expected to be implemented in 2021-22.

- 3.18 The provisional local government finance settlement for 2020-21 provided no update on progress of either the move to further business rates retention or the fair funding review.

#### **4. Local Government funding - resources available to support the 2019-20 Revenue Budget**

- 4.1 Following introduction of the Business Rate Retention Scheme (BRRS) in April 2013, central government support for local government (the Settlement Funding Assessment) now comprises two main funding streams:
- i. Revenue Support Grant (RSG), and
  - ii. amounts funded through the Business Rates Retention scheme (the (NNDR) baseline funding level).
- 4.2 The Settlement Funding Assessment represents the Authority's share of central government's local government spending control total. In addition to the Settlement Funding Assessment, there are also various specific grants (sometimes called targeted grants) distributed outside the settlement. The basis on which these grants are distributed varies from grant to grant. They include non-ringfenced grants, which have no accompanying restrictions on what councils can spend the money on, and ring-fenced grants where the expenditure is controlled to fund a particular service that is a national priority.
- 4.3 The Council's net revenue budget is funded from the following:
- Central Government grants
  - the Business Rate Retention Scheme (non-domestic rates)
  - Council Tax
  - Income from fees and charges
  - Interest and investment income.

#### Revenue Support Grant

- 4.4 Revenue Support Grant is a non-ringfenced central government grant that can be used to finance revenue expenditure on any service. The amount of Revenue Support Grant to be provided to local authorities is established through the local government finance settlement.

- 4.5 The Council's RSG settlement for 2020-21, included in the Provisional Finance Settlement for 2020-21 is £199,383. This represents an increase, in line with the September CPI inflation rate, of 1.63% on the £196,187 awarded in 2019-20. Despite the modest increase in RSG awarded in 2020-21 the total reduction in annual RSG paid to the Authority compared with the amount awarded in 2013-14 (£4.8m) is £4.6m. A reduction of (96%).

#### Rural Services Delivery Grant (RSDG)

- 4.6 Rural Services Delivery Grant (RSDG) is a non-ringfenced section 31 grant paid by central government to rural authorities in recognition of the extra costs of delivering public services in sparsely populated areas. The grant is paid to the upper quartile of authorities based on the super-sparsity indicator, a proxy for rurality which ranks authorities by the proportion of the population which is scattered widely using census data and weighted towards the authorities with the sparsest populations.
- 4.7 The Authority's RSDG allocation for 2020-21 is £325,556. This is unchanged from the amount received in 2019-20.

#### Other Government Grants – New Homes Bonus

- 4.8 The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. It match funds the council tax raised on the net number of additional new homes and long term empty properties brought back into use and is based on data included in the Council Tax Base Return (CTB1) submitted in October each year. In two-tier areas the bonus is split 80:20 between the district and county councils.

**Table 2: New Homes Bonus Grant**

Year	Year of Payment (Allerdale Borough Council Share)					
	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
-	84	84				
-	16	16				
-	222	222	222			
-	469	469	469			
-	277	277	277	277		
-		458	458	458	458	
1			178	178	178	178
2				91	91	91
3					111	111
4						226
<b>Total</b>	<b>1,068</b>	<b>1,526</b>	<b>1,604</b>	<b>1,004</b>	<b>838</b>	<b>606</b>

- 4.9 The provisional allocations of New Homes Bonus funding for 2020-21 were announced in December 2019. Final allocations are expected to be published alongside the final local government finance settlement in February 2020. The Council's allocation of New Homes Bonus grant funding for 2020-21 is

£606,090. A reduction of £231,977 on the £838,075 received in 2019-20. This is paid as a non-ring-fenced grant meaning the Council is free to decide how to spend it and can spend it on either revenue or capital or place it in reserves.

- 4.10 Following changes announced in 2016, the number of years during which New Homes Bonus payments are made was reduced from six to five years in 2017-18 and to four years from 2018-19. In announcing the allocations for 2020-21 the government confirmed that whilst it would continue to make legacy payments on allocations made in earlier years, no legacy payments will be made in respect of 2020-21 New Homes Bonus allocations.
- 4.11 The changes made to New Homes Bonus funding in 2016 also included the introduction, from 2017-18, of a national baseline for housing growth of 0.4% of council tax base (weighted by band), below which the Bonus will not be paid. No changes were made to this baseline in 2019-20. The threshold over which the bonus is paid will therefore remain at 0.4 per cent. The written Ministerial Statement, accompanying the provisional local government finance, included the announcement the Government will consult on the future of the New Homes Bonus in the Spring of 2020. The consultation will “include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance”.

#### Business rates (non-domestic rates - NNDR)

- 4.12 Under the business rates retention scheme, 40% of business rates (NNDR) collected is retained by the Council. The remainder is paid to Central Government (50%) and Cumbria County Council (10%). The scheme also provides that certain sums are to be treated as being outside the scheme and retained in their entirety by the Council (or by the Council and the County Council). The Council is also able to retain the growth in the local share of business rates, subject to the payment of a levy to central government, designed to prevent disproportionate increases in the Council’s funding as a result of growth in business rates income.
- 4.13 A system of top-up and tariffs ensures the Council’s share of estimated business rates income (business rates baseline) does not exceed the level of funding to be provided through the business rates retention scheme (baseline funding). Tariffs, top-ups and baseline funding levels are indexed each year in line with the small business rates multiplier (usually set at the September RPI). Top-up, tariffs and baseline amounts have also been adjusted to ensure that the impact of the 2017 revaluation was revenue neutral for local authorities. The Council’s baseline funding for 2020-21 is £3.656m and the amount of tariff payable is £7.418m.
- 4.14 The amount of business rates income available to the Council’s general fund and taken into account when setting the budget, is based on an estimate made in January preceding the start of the financial year and included in the government return NNDR 1 (i.e. January 2020 for the 2020-21 Financial Year). This estimate of business rate income, reported in the government

return NNDR 1, also determines how much the Council must pay to central government and the County Council during the course of the year.

- 4.15 The estimate of business rates income takes into account any projected changes in the tax base, estimated losses due to appeals and expected collection rates. The amounts paid to the County Council and central government and the amount retained by the Council are fixed at the outset of each year (based on the estimates included in the Council's NNDR 1 return). As a consequence, any difference between estimated amounts and the actual amounts receivable will result in a surplus, or deficit on the Council's Collection Fund. An estimate must therefore be made by the Council of the surplus or deficit on the Collection Fund at the end of the previous financial year. This estimated amount is then shared between the Council, Cumbria County Council and central government and added (or subtracted) from each Authorities share of the following year's non-domestic rating income. The estimated Collection Fund surplus at 31 March 2020 relating to business rates is £344,471. The Council's share of this surplus is £137,789.
- 4.16 A summary of the business rate income included in the 2020-21 budget is shown in table 3.

**Table 3: Estimated Business Rates (NNDR) funding 2020-21**

<b>Funding Element</b>	<b>£'000</b>
Allerdale Share of NNDR Income	11,168
Renewable Energy disregard – retained by billing authority	522
Net tariff payable to Central Government	(7,418)
Share of estimated Collection Fund surplus at 31 March 2019	138
	<b>4,410</b>
Reconciliation adjustment re prior years disregarded income	(9)
Levy payable (net of reduction under pool arrangements)	(449)
Section 31 grant	2,298
<b>Total estimated income from Business Rates</b>	<b>6,250</b>

- 4.17 As part of the business rates retention scheme, local authorities have the option of working with neighbouring authorities to seek formal designation as a pool which is treated as a single authority for the purpose of certain calculations under the scheme. This provides the opportunity to increase the amount of growth in the local share retained locally (through a reduction in the levy rate). Pooling also provides scope to manage the impact of volatility in rates income across a wider economic area.
- 4.18 A Cumbria Business Rates Pool has been in place since April 2014. Prior to 2018-19 membership of the pool consisted of Cumbria County Council Allerdale Borough Council, Barrow Borough Council, Carlisle City Council, Eden District Council and South Lakeland District Council. In 2018-19 membership of the pool was extended to include Copeland Borough Council. After undertaking appropriate due diligence, including modelling the individual position alongside the pool position, the Authority along with Cumbria County

Council and the five other district councils in Cumbria, reached a collective decision to continue the Cumbria Business Rates Pool in 2020-21, with no changes to the existing membership. MHCLG were formally notified of this decision in October 2019.

- 4.19 In 2020-21 it is estimated that business rates income of £620k, that would otherwise have been paid to central government through the levy payment will remain available to the Council's general fund as a result of the agreed pooling arrangement.
- 4.20 At successive Autumn Statements and Budgets since 2013 the Chancellor of the Exchequer announced various changes to the business rates system that affect the business rates income of local authorities. In any year, the financial impact of measures is fully met by Central Government and authorities will be compensated for any loss to their "local share" of business rates by means of a Section 31 grant. The following changes will affect the Council's business rates income in 2020-21:
- (i) permitting ratepayers receiving Small Business Rate Relief that take on an additional property to continue to receive their current relief for 12 months
  - (ii) making permanent the doubling of small business rates relief from 1 April 2017 and changing eligibility thresholds from 2017-18
  - (iii) doubling rural rate relief; to be awarded through discretionary relief until such time as the Government can make the necessary changes to primary legislation.
  - (iv) providing support to small businesses, facing large increases as a result of the loss of small business or rural rate relief, due to the revaluation. This relief took effect from 1 April 2017 for a period of 5 years.
  - (v) a discretionary scheme administered by Billing Authorities, available to ratepayers facing large increases as a result of revaluation. This relief would take effect from 1 April 2017, for a period of 4 years
  - (vi) a 100% rate relief scheme for new telecom fibre applicable retrospectively to 1 April 2017 for a period of 5 years.
  - (vii) a business rates Retail Discount scheme for occupied retail properties with a rateable value of less than £51,000 in each of the years 2019-20 and 2020-21.
- 4.21 A central government grant under Section 31 of the Local Government Act 2003 will be paid to authorities to compensate them for the ongoing loss of business rates income they suffer as a result of these changes. A grant is also paid to compensate local authorities for the ongoing loss of income they suffer as a result of past decisions made by Government to cap the increase in the small business multiplier (to 2% in each of 2014-15 and 2015-16 and 3% in 2018-19), and for the impact of the decision to use CPI rather than RPI to update the business rates multiplier from April 2018.

- 4.22 A reconciliation of the baseline funding contained in the 2020-21 local government finance settlement to the total estimated income from business rates is set out in table 4.

**Table 4: Reconciliation of 2020-21 business rates income to baseline funding**

<b>Funding Element</b>	<b>£'000</b>
Baseline funding	3,656
Share of retained growth	1,323
Pool gains	620
Renewable Energy disregarded income retained by Authority	513
Share of Collection Fund Surplus/(Deficit)	138
<b>Total estimated income from Business Rates</b>	<b>6,250</b>

### Council tax

- 4.23 Each year the Council must calculate the amount of revenue it needs to raise through council tax (the council tax requirement). Calculation of the council tax requirement is calculated based on the Authority's estimates of:
- the expenditure it will incur in the year less estimates of the income it will receive from government grants, business rates, fees and charges and interest and investment income
  - allowances required for contingencies in relation to amounts to be charged or credited to revenue
  - the financial reserves it will be appropriate to raise in the year for meeting its estimated future expenditure, less
  - the amount of the financial reserves that will be used in the financial year to meet expenditure.
- 4.24 The Authority's council tax requirement must also take into account the amounts the Council is required to transfer during the year between its General Fund and Collection Fund in respect of its share of any surpluses or deficits on the Collection Fund for the previous year in respect of business rates and council tax.
- 4.25 The amount of council tax income available to the Council's general fund in the financial year is fixed at the level determined when the council tax is set. This amount is paid out of the Council's Collection Fund regardless of how much council tax is actually collected during the year. As a consequence, if more council tax is collected than expected a surplus on the Collection Fund will arise; if less is collected, a deficit will result. Statutory provisions require the surplus or deficit on the council tax element of the collection fund for the previous year to be estimated on 15 January of that year. The estimated surplus/deficit on the Collection Fund is shared out, in accordance with statutory provisions, between the Council and the major precepting authorities (Cumbria County Council and the Police and Crime Commissioner for Cumbria) in the following year and taken into account in the budget calculations for that year.

- 4.26 The estimate of the collection fund surplus in respect of council tax at 31 March 2020, to be distributed in 2020-21, is £161,058 of which Allerdale Borough Council's share is £20,887.

**Table 5: Allocation of collection fund surplus (council tax) at 31 March 2020**

	Share of surplus/(deficit) £000
Cumbria County Council	118
Cumbria Police and Crime Commissioner	22
Allerdale Borough Council	21
<b>Total estimated surplus</b>	<b>161</b>

Proposed council tax increase

- 4.27 The Council has the ability to set any level of council tax increase. However, whilst the Localism Act 2011 abolished Council Tax capping in England, it introduced in its place, a power for local electorates to approve or veto excessive council tax rises. Since 2012-13, an authority setting a council tax increase which exceeds principles endorsed by the House of Commons alongside the local government finance settlement (i.e. which is "excessive") will be required to hold a council tax referendum. The result of a council tax referendum is binding.
- 4.28 In 2016-17 at the start of the four-year offer made to local government the threshold level for shire districts, above which council tax increases was considered excessive, was set at 2% or more than £5 above the amount of council tax in previous year (whichever is higher). In 2018-19 this threshold was increased to 3% or up to and including £5, whichever is higher, to reflect the level of inflation. The £5 threshold applied to band D properties with proportionate increases being applied to properties in other council tax bands.
- 4.29 The technical consultation on the 2019-20 Local Government Finance Settlement, issued by the Government in September 2019, proposed a threshold of 2% applicable to shire county councils, unitary authorities, and London borough councils. The consultation did not include specific proposals for shire districts, but did invite responses as to whether there should be a separate council tax referendum principle of 2% or £5, whichever is greater, for shire district councils in 2020-21. The Council's budget consultation was therefore conducted on the assumption that the 2% threshold that applied in 2019-20 would continue to apply in 2020-21.
- 4.30 The Provisional Settlement subsequently confirmed that for 2020-21 district councils, would as in previous years, be permitted to increase council tax by not more than 2% or up to and including £5 (whichever is higher) above the authority's relevant basic amount of council tax for 2019/20 without triggering a referendum.
- 4.31 Notwithstanding the referendum principles outlined above the Council proposes to limit the increase in its share of Council Tax bills to 1%. This

would mean an extra £1.73 a year on a Band D property (or about 3p a week) and £1.15 a year for a Band A property (equivalent to about 2p a week).

- 4.32 Based on the 2020-21 tax base of 30,905.23 (see below) the amount of Council Tax income receivable for 2020-21 is £5,399,762. By limiting the council tax increase to 1% the amount of Council Tax foregone by the Council when compared to an increase of 1.9% is £48,212. Compared with an increase of £5 on band D properties, with proportionate increases being applied to properties in other council tax bands (equivalent to an increase of 2.98%), the amount of Council Tax foregone is £101,060.
- 4.33 For local authorities with responsibility for adult social care (including Cumbria County Council) the referendum principles are extended to include the ability to levy an adult social care precept of 2% on top of the core principle of up to 2%. No referendum limits apply to town and parish councils. However as in previous years the government has indicated that it will keep this approach under review for future years.
- 4.34 The Council has no control over the increases in the council tax charge implemented by the County Council, Police and Crime Commissioner for Cumbria or the town and parish councils. Together these account for around 90% of the total Council Tax.

#### Council tax base

- 4.35 After calculating its council tax requirement, each local authority then sets its basic amount of council tax (band D) at the level necessary to raise this amount, taking into account its likely collection rate. The basic amount council tax is calculated by reference to the Council's council tax requirement and its council tax base.
- 4.36 The council tax base is the number of Band D equivalent dwellings in a local authority area. The tax base is therefore an estimate of the taxable capacity for the borough as a whole and for each parish area. To calculate the tax, the number of dwellings in each council tax band is reduced to take account of discounts and exemptions. This includes reductions awarded under the Council's Council Tax Reduction Scheme. The resulting figure for each property band is then multiplied by its proportion relative to Band D (from 6/9 for Band A to 18/9 for Band H) and the total across all eight bands is calculated. An adjustment is then made for the collection rate.
- 4.37 The tax base for 2020-21 has been set at 30,905.23. This represents an increase of approximately 0.8% on the 2019-20 tax base of 30,662.47.
- 4.38 Council tax raised on behalf of parish and town councils ('Parish Precepts') are incorporated into the Council's general fund budget and council tax requirement. Details of parish precepts for 2020-21 are set out in Appendix A.

## **5. Determination of the council's net budget (budget requirement)**

- 5.1 Preparation of the council's 2020-21 net revenue budget begins with a roll forward of the 2019-20 recurring base budget (£11,449k). This figure is then adjusted to accommodate:
- changes to salary costs including the impact of pay awards, incremental pay increases and changes to establishment
  - recurring growth and savings
  - self-sufficiency savings, and
  - non-recurring growth and savings - i.e. those required for the current year only.
- 5.2 In line with the Budget Strategy presented to Executive on 2 December 2019, the key assumptions/parameters adopted as part of this budget are to:-
- prioritise delivery of the Council Plan
  - continue to identify areas where efficiencies can be made
  - increase income from fees and charges in line with the Council's charging policy
  - increase the base budget to reflect inflationary uplifts to contract prices in line with our contractual commitments and the relevant measure of inflation
  - not to apply a general inflationary uplift to non-pay expenditure in order to drive further efficiencies
  - cost salary expenditure based on an assumed 2% increase in pay-scales effective from 1 April 2020 (included in contingencies) and an increase in the Employers pension contribution rate from 14.5% to 18.8 %
  - continue to allow for a 2% reduction to accommodate staff turnover during the year.
- 5.3 The Council's net revenue budget (budget requirement) for 2020-21 is shown in table 6.

**Table 6: 2020-21 Revenue Budget**

	2020-21 £000	Reference
Base Budget	11,449	
Change in salary costs - recurring	146	5.7
Recurring growth	1,041	5.8
Recurring savings	(396)	5.9
<b>Recurring (base) budget</b>	<b>12,240</b>	
Change in salary costs – non-recurring	0	
Non-recurring growth	756	5.11
Non-recurring savings	(194)	5.12
<b>Net Expenditure</b>	<b>12,802</b>	
Expenditure on earmarked priorities	190	Appendix F
<b>Proposed Budget (excluding parish precepts)</b>	<b>12,992</b>	
Parish precepts	2,458	Appendix A
<b>Proposed Budget (including parish precepts)</b>	<b>15,450</b>	
Less: Planned use of earmarked balances	(190)	Appendix F
<b>Net Budget Requirement</b>	<b>15,260</b>	

5.4 The Council's net budget requirement is funded as follows:

**Table 7: 2020-21 Revenue Funding**

	2020-21 £000	Paragraph
Revenue support grant	199	4.4
Rural Services Delivery Grant	326	4.6
Other government grants (New Homes Bonus)	606	4.8
Other government grants (Levy Surplus)	0	-
Council tax – excluding parish element	5,400	4.23
Council tax – parish element	2,458	
Collection fund surplus/(deficit) - Council Tax	21	4.26
NNDR funding	6,112	4.12
Collection fund surplus/(deficit) - NNDR	138	4.12
Use of /(contribution to) General Fund Balances	0	
<b>Total funding</b>	<b>15,260</b>	

5.5 The budget for net expenditure in 2020-21, excluding parish precepts and spend on earmarked priorities (met from the use of earmarked reserves) is £12,802k. This compares with a total of £13,483k for 2019-20 (revised budget). A summary of the changes underlying the movement between the 2019-20 revised budget and the proposed 2020-21 budget, is set out in Appendix C.

- 5.6 A breakdown of the Revenue Budget for 2020-21 by Executive member portfolio is set out in Appendix B.

Change in salary costs - £146k (recurring)

- 5.7 This is the net total increase required to cover a number of changes in the salary budgets. These changes include contingent sums allocated to meet the cost of the nationally agreed pay award, the cost of annual increments due and changes to staffing structures. The changes comprise recurring growth of £636k and recurring savings of £490k.

Recurring growth - £1,041k

- 5.8 Details of recurring growth bids included as adjustment to the Council's base budget are summarised in table 8:

**Table 8: Recurring growth bids 2020-21**

<b>Bid Detail</b>	<b>Bid £000</b>
<b>Corporate Resources Portfolio</b>	
<b>Footway Maintenance:</b> Increase in repairs and maintenance budget for footway lighting.	8
<b>Public Conveniences:</b> NNDR costs following delays to legislation to remove public toilets from NNDR.	12
<b>Insurances:</b> Increase in insurance premium costs.	9
<b>NNDR:</b> Increase in NNDR costs on corporate property.	2
<b>Economic Growth Portfolio</b>	
<b>Workington Town Centre Investment income:</b> Reduction to the Council's share of rental income as a result of anticipated reductions in rental income due to empty properties and lower lease renewals.	10
<b>NNDR:</b> Increase in NNDR costs on other land and buildings.	5
<b>Leader of the Council Portfolio</b>	
<b>Corporate Improvement Team:</b> Acquisition of new case management system for logging and administering Freedom of Information, Environmental Information Regulation and data protection requests to replace the current standalone system which has limited functionality and is no longer supported.	15
<b>Grants to Voluntary Organisations:</b> Increase to align existing budget with value of committed grant to three voluntary sector organisations.	3
<b>Partnership &amp; Collaboration:</b> To support ABC in collaborating with other partners on key issues such as Digital Cumbria, Climate Change and Local Government reorganisation.	10
<b>Environmental Quality Portfolio</b>	
<b>Bereavement Services:</b> NNDR costs for cemetery storage units no longer used by the contractor.	8
<b>Waste Collection &amp; Recycling:</b> New Waste Service - net growth in expenditure associated with LATCo operating model.	862
<b>Street Cleansing:</b> Contractual uplift to Tivoli contract for grounds maintenance.	25
<b>Sports &amp; Leisure Centres:</b> Risen Costs (Contractual inflationary increase).	13

Bid Detail	Bid £000
<b>NNDR:</b> Increase in NNDR costs on car parks.	11
<b>Housing, Health &amp; Wellbeing Portfolio</b>	
<b>Homelessness:</b> Licence fee for the introduction of a new electronic reporting and monitoring system (Locata) following the introduction of the new Homelessness Reduction Act.	8
<b>Governance and People Resources Portfolio</b>	
<b>Allerdale Local Focus Hub:</b> Budget to fund a new permanent role to co-manage the Allerdale Local Focus Hub at Grade P scp 40, subject to job evaluation and approval. A recurring budget adjustment for the three months period 1 January to 31 March 2020 was approved as part of the 2019-20 revised budget. This bid increases the recurring budget to cover a full year.	40
<b>Total recurring growth bids</b>	<b>1,041</b>

Recurring savings – (£396k)

- 5.9 Details of recurring savings bids included as adjustment to the Council's base budget are summarised below:

**Table 9: Recurring savings bids 2020-21**

Bid Detail	Bid £000
<b>Corporate Resources Portfolio</b>	
<b>Banking &amp; Interest:</b> Net reduction in recurring budget for interest costs reflecting the removal of the community stadium and associated borrowing from the capital programme and repayments of principal made in 2019-20. This is offset by an increase in interest costs related to the full year impact of additional PWLB loans expected to be drawn down in 2019-20 and the part year cost of additional loans expected to be drawn down in 2020-21.	(19)
<b>Minimum Revenue Provision:</b> reduction in the amount required to be set aside from revenue to meet the cost of capital expenditure funded by borrowing.	(25)
<b>Governance and People Resources Portfolio</b>	
<b>Members Allowances:</b> Saving in basic allowance payments due to the reduction in the total number of elected members from 56 to 49.	(23)
<b>Various:</b> Transformational savings.	(50)
<b>Leader of the Council Portfolio</b>	
<b>Various:</b> Transformational savings.	(80)
<b>Economic Growth Portfolio</b>	
<b>Camping and Caravan Site Keswick:</b> Uplift in lease rental income to reflect increase in revenue generated by site operator from inflationary uplift to fees charged.	(10)
<b>Environmental Quality Portfolio</b>	
<b>Environmental Initiatives:</b> Removal of existing budget following the transfer of Vulcan Park to Workington Town Council.	(18)
<b>Off Street Owned Car Parks:</b> Increase in income to reflect changes to fees	(55)

Bid Detail	Bid £000
and charges.	
<b>Off Street Owned Car Parks:</b> Increase in income from car park permits	(30)
<b>Trade Waste:</b> Additional income relating to trade waste pricing structure. Bin delivery income and associated expenditure.	(64)
<b>Sports &amp; Leisure Centres:</b> Increase in minimum return under profit sharing agreement with GLL.	(7)
<b>Tourism &amp; Culture Portfolio</b>	
<b>Carnegie Trust:</b> Agreed reduction in subsidy awarded.	(15)
<b>Total recurring savings bids</b>	<b>(396)</b>

#### Non-recurring growth/savings

- 5.10 There are a number of bids that are non-recurring, i.e. they are required for one year only, and therefore will not directly impact on the base budget. These are summarised in the following tables:

#### Non-recurring growth - £756k

- 5.11 The non-recurring growth bids included in the Council's net budget requirement are summarised in table 10:

**Table 10: Non-Recurring growth bids 2020-21**

Bid Detail	Bid £000
<b>Corporate Resources Portfolio</b>	
<b>New Finance System:</b> Purchase and implementation of a new finance system in anticipation of support and maintenance of the existing system being withdrawn over the next 2 to 3 years.	390
<b>Footway Lighting:</b> Increase in budget for electricity utility costs pending transfer of responsibility for footway lighting assets to Parish and Town Councils.	7
<b>Contingency:</b> Increase in general provision to support the transformation programme	92
<b>Economic Growth Portfolio</b>	
<b>Planning:</b> Reduction in planning fee income to reflect projected activity.	45
<b>Environmental Quality Portfolio</b>	
<b>Leisure Activity:</b> Grant support for Leisure Activity in Wigton (Wigton Baths)	15
<b>Waste Collection &amp; Recycling:</b> Expert professional advice in connection with waste services.	15
<b>Waste Company:</b> Non recurring mobilisation costs.	67
<b>Transformation Portfolio</b>	
<b>Customer &amp; Transformation</b> Additional resource required within the Programme Office for the provision of project managers to lead	50

Bid Detail	Bid £000
transformation projects	
<b>Customer &amp; Transformation:</b> Additional budget required within the Programme Office to cover upfront costs and project development costs associated with regeneration and transformation projects.	75
<b>Total non-recurring growth bids</b>	<b>756</b>

Non- recurring savings - (£194k)

- 5.12 Details of non-recurring saving bids included in the Councils net budget requirement are summarised in table 11.

**Table 11: Non-recurring savings bids 2020-21**

Bid Detail	Bid £000
<b>Economic Growth Portfolio</b>	
<b>Markets:</b> Additional net income generated from insourcing management and operation of outdoor markets.	(52)
<b>Head of Development Services:</b> Application of grant funding b/f from 2019-20 to fund Head of Development Services post.	(62)
<b>Corporate Resources Portfolio</b>	
<b>Pensions:</b> Reduction in pension deficit contribution.	(80)
<b>Total non-recurring savings bids</b>	<b>(194)</b>

Contingencies

- 5.13 The Council includes in its recurring (base) budget a central contingency budget for unquantifiable risks. The contingency balance held for 2020-21 is £365,640.

## **6. Capital budget**

- 6.1 Capital expenditure includes the acquisition and construction of non-current assets, such as land and buildings, which have a useful life in excess of 12 months as well as expenditure on additions to, or enhancement of, existing non-current assets. It also includes items such as grants towards capital expenditure incurred by third parties (for example Disabled Facilities Grants).
- 6.2 The following paragraphs set out the Council's proposed capital programme for 2020-21 and the following two financial years (2021-22 and 2022-23) together with a summary of how this expenditure will be financed.
- 6.3 Capital expenditure may also impact on the Council's revenue budget. Where this is the case, the revenue implications of capital expenditure are dealt with as part of the Revenue Budget process. Examples of the revenue implications of capital expenditure include:
- increases/decreases in operating costs, e.g. utilities, maintenance, staff costs or increased income from new or enhanced assets
  - the requirement to set aside from the General Fund an annual amount (the Minimum Revenue Provision), to meet the capital cost of expenditure funded from borrowing or other credit arrangements
  - increased finance costs, either by way of interest on borrowing or the loss of income on investment balances, used to fund capital expenditure.

### **Financing the capital programme**

- 6.4 Resources available to finance capital expenditure include:
- Capital receipts (usable proceeds from asset sales)
  - Grants and contributions from third parties
  - Direct financing from revenue.
- 6.5 Capital expenditure that is not financed up-front from these resources will increase the Council's underlying need to borrow, as measured by the capital financing requirement (CFR). The Council's underlying borrowing is not necessarily the same as its actual borrowing position. The level of external debt will be determined in accordance with the Council's treasury management strategy and practices. As a consequence, an increase in the Council's underlying borrowing position will not necessarily mean a corresponding increase in the amount of external borrowing.

- 6.6 Statutory provisions set out the purposes to which the Council can apply its available capital receipts. The uses specified in regulations include:
- to meet capital expenditure in the current year
  - to reduce the underlying borrowing requirement associated with capital expenditure not financed from capital receipts, grants or revenue
  - to pay a premium charged in relation to any amount borrowed
  - to meet the administrative costs of, or incidental to, a disposal of an asset.
- 6.7 Capital receipts and grants received to date together with (capital) grant funding allocations for 2020-21 have been fully committed to support the Council's capital programme.
- 6.8 In accordance with the Codes of Practice published by the Chartered Institute of Public Finance and Accountancy and good professional practice, capital receipts expected to be received in 2020-21 and subsequent years will only applied to fund new (capital) priorities where, after carrying out option appraisals and whole life costings, it can be demonstrated that this offers better value for money to the Council when compared with alternative uses. Alternative uses include their application to reduce the underlying borrowing requirement associated with past expenditure.

### **Proposed capital programme**

- 6.9 The proposed capital programme covering 2020-21 and the following two financial years is summarised in table 12. A summary of individual schemes included in the proposed three year capital programme analysed by Executive Member Portfolio is included in Appendix D.

**Table 12: Proposed Capital Programme & methods of financing**

	Proposed Budget			
	2020-21 £000	2021-22 £000	2022-23 £000	Total £000
<b>Capital Expenditure<sup>1</sup> :</b>				
Housing, Health & Wellbeing	1,700	1,464	1,464	4,628
Economic Growth	9,960	0	0	9,960
Corporate Resources	274	31	19	324
OD & Transformation	125	40	40	205
Environmental Services	466	76	11	553
Tourism & Culture	770	0	0	770
<b>Total Expenditure</b>	<b>13,295</b>	<b>1,611</b>	<b>1,534</b>	<b>16,440</b>
<b>Financed by:</b>				
<b>External funding sources:</b>				
Disabled Facilities Grant (Better Care Fund)	1,214	1,214	1,214	3,642
Other Housing Grants	40	0	0	40
ERDF grant - Reedlands Rd	1,321	0	0	1,321
Coastal Communities Fund - Solway Coast	770	0	0	770
Other grants & contributions	2,535	46	11	2,592
<b>ABC resources:</b>				
Capital Receipts	572	0	0	572
General Fund	9	0	0	9
Borrowing (unfinanced expend.)	6,787	320	290	7,397
Credit Arrangements - capital leases	47	31	19	97
<b>Total financing</b>	<b>13,295</b>	<b>1,611</b>	<b>1,534</b>	<b>16,440</b>

<sup>1</sup> Gross expenditure does not include any proposed budget carry forwards from the approved 2019-20 capital programme; these requests will form part of the 2019-20 Capital Outturn Report.

- 6.10 The proposed capital programme for the three year period to March 2023 includes the following changes to the existing three year rolling capital programme:

**Table 13: Summary of changes to existing capital programme**

	Financial year			Para
	2020-21 £000	2021-22 £000	2022-23 £000	
<b>Gross expenditure</b>				
Previously approved capital programme (2019-20 revised budget)	25,148	1,070	0	-
Previously approved recurring capital expenditure programme (IT replacement)	0	0	40	-
Capital growth & savings bids submitted for approval	(11,853)	541	1,494	6.11
<b>Proposed capital programme 2020-21 to 2022-23</b>	<b>13,295</b>	<b>1,611</b>	<b>1,534</b>	

## Capital Growth and Savings

- 6.11 A number of new capital expenditure bids have been submitted for approval as part of the 2020-21 budget setting process. These are summarised in table 14.

**Table 14: Summary of Capital Bids**

Capital Scheme	Financial year			Total bid £000	Para
	2020-21 £000	2021-22 £000	2022-23 £000		
<b>Capital Expenditure:</b>					
DFG - Mandatory Grants	214	214	1,214	1,642	6.12
Discretionary Grants (Housing)	50	0	0	50	6.13
Brow Top Enhancements	170	0	0	170	6.14
Corporate Property	50	0	0	50	6.17
Markets	50	0	0	50	6.18
Strategic Acquisitions	80	0	0	80	6.19
Housing Company	45	0	0	45	6.20
Maryport Future High Streets	0	250	250	500	6.21
ICT - Server Infrastructure	85	0	0	85	6.22
LATCo Waste - vehicles & Equip.	41	0	0	41	6.23
Leased assets acquisitions	47	31	19	97	6.24
Lillyhall	2,200	0	0	2,200	6.25
Community Stadium	(20,000)	0	0	(20,000)	6.26
Regeneration and investment	5,000	0	0	5,000	6.26
Biodiversity & green Infrastructure	115	46	11	172	6.29
	<b>(11,853)</b>	<b>541</b>	<b>1,494</b>	<b>(9,818)</b>	
<b>Financed by:</b>					
DFG Housing Grant	214	214	1,214	1,642	
SCP Housing Grant	40	0	0	40	
Other grants & contributions	2,385	46	11	2,442	
Capital receipts	320	0	0	320	
Lease	47	31	19	97	
Borrowing (unfinanced expenditure)	(14,859)	250	250	(14,359)	
	<b>(11,853)</b>	<b>541</b>	<b>1,494</b>	<b>(9,818)</b>	

### Disabled Facilities Grants (DFG) (£214k growth bid)

- 6.12 Pending confirmation of the Authority's grant funding allocation for 2020-21, budgeted expenditure for 2020-21 has been set at £1,214k, based on the grant income allocation and forecasted expenditure in 2019-20. This represents an increase of £214k on the previously budgeted amount of £1m). For 2021-22 and 2022-23, budgeted expenditure on DFGs has been included at a provisional amount of £1,214k. These estimates will be revised to align

with future grant funding allocations once these have been confirmed. This will ensure that budget expenditure continues to reflect available grant funding.

#### Discretionary Grants (Housing) (£50k growth bid)

- 6.13 The budget of £50k will provide match funding in connection with application to Electricity North West – Empowering Our Communities fund to deliver the Cold to Cosy Homes Scheme, in Allerdale, from April 2020. Expenditure on this scheme will be financed from capital grants (£40k) and capital receipts (£10k).

#### Brow-top Enhancements (£170k growth bid)

- 6.14 Works to enhance the quality of the public realm in the vicinity of Brow Top, Workington, transform the Central Way underpass and develop vacant land immediately to the west of the Leisure Centre to create a dedicated events and activity area. An initial budget of £300k, allocated equally across financial years 2018-19 and 2019-20, was approved in 2018-19 with an additional growth bid of £170k submitted for approval as part of the 2020-21 budget setting process to meet the cost of (additional) highways work. The bid of £170k includes £70k that will be met from third party contributions. Expenditure of £17k (funded from borrowing) was incurred on the scheme in 2018-19. The remaining budget (£453k) is profiled to be spent in 2018-19 (£283k) and 2020-21 (£170k). Costs of £64k have been committed in 2019-20. The scheme is partly financed from grants and contributions of £70k. The remaining expenditure is unfinanced and will be met from borrowing of £383k.
- 6.15 A detailed design for the scheme has been developed and agreed with Cumbria County Council Highways at an estimated cost of £355k. This comprises:
- Phase 1: Works to the underpass walls/ceiling, lighting and artwork - Estimate £130k.
  - Phase 2: Highway-related works. Estimate £225k
- 6.16 In addition to the Underpass, the budget includes £34k for the Leisure Centre Activity/Events Area.

#### Corporate Property (£50k growth bid)

- 6.17 The budget (growth bid) of £50k will be used for the installation of solar panels on operational properties

#### Markets (£50k growth)

- 6.18 In January 2020 the Council's Executive resolved to insource management and operation of outdoor markets on the expiry of the current contract on 31 May 2020. The capital budget of £50k will be used to meet the cost of acquiring market stalls for use by traders.

#### Strategic Acquisitions (£80k growth)

- 6.19 A capital budget of £950k was established in 2016-17 for the acquisition and redevelopment of commercial properties to support business start-ups and the small business sector. This budget was subsequently increased by £347k in 2017-18. £551k was utilised in 2017-18 for the purchase at Otley Road, Keswick with a further £269k used in 2018-19 for the acquisition of Lonsdale Park, Workington and to meet costs related to the purchase of land at Lillyhall. The remaining budget of £556k inclusive of the growth bid of £80k submitted for approval as part of the 2020-21 budget setting process, is profiled to be spent in 2019-20 (£377k) and 2020-21 (£179k). This expenditure will be partially financed from capital receipts (£80k) with the balances being unfinanced and met from borrowing.

#### Housing Company (£45k growth)

- 6.20 The proposed budget of £45k will be used to meet the costs of developing the disused toilet block adjacent to the Lodore Hotel in the Borrowdale valley into holiday accommodation. Expenditure on this scheme will be financed from capital receipts.

#### Maryport Future High Streets Initiative (£500k growth)

- 6.21 The proposed budget of £500k, comprising £250k in 2021-22 and 2022-23 is to support the programme of works currently being developed as part of business case for the Maryport Future High Streets initiative. Expenditure on this scheme is unfinanced and will be met from borrowing.

#### ICT - Server Infrastructure (£85k growth)

- 6.22 The budget of £85k will support replacement of the Councils Virtual Server Infrastructure components of which are now nearing the end of their useful life. Expenditure on this scheme will be financed from capital receipts. Associated maintenance costs will be met from existing revenue budgets.

#### LATCo Waste - Vehicles & Equipment (£41k growth)

- 6.23 The growth bid of £41k will be used to meet the cost of an additional vehicle for use by the Council's Trading Company in delivering waste and recycling services and the installation of CCTV in refuse collection vehicles. Expenditure on this scheme is unfinanced and will be met from borrowing.

#### Leased Assets - property, vehicles & equipment (£97k growth)

- 6.24 From 1 April 2020 changes to the rules governing the accounting treatment of leases, mean that, with the exception of short-term leases and leases of low-value assets, all leased assets and the related lease liabilities will be recognised on the Authority's balance sheet. Under these new requirements the acquisition of an asset under a lease (excluding short-term leases and leases of low-value assets) will be treated as capital expenditure. The budget of £97k covers the initial cost of assets expected to be acquired under leases on or after 1 April 2020. The revenue financing cost associated with these

leased assets (Minimum Revenue Provision and interest on the lease liability) will be met from existing revenue budgets.

#### Lillyhall – infrastructure (£2,200k growth)

- 6.25 The Council is seeking to progress development of the site, acquired in 2018-19, by securing planning approval and carrying out enabling infrastructure works and an element of speculative commercial development to enable 'product' in terms of sites and units to be brought to the market and thus provide availability and certainty to attract business to the location. Expenditure on this scheme will be financed from LEP Grant funding and other private sector contributions.

#### Community Stadium (£20m reduction in budget & £5m reprofiling adjustment)

- 6.26 The updated three year capital budget approved by Council in December 2019 included £25m for the construction of an 8,000-capacity stadium to replace Derwent Park and Borough Park stadia as the home for Workington Town RLFC and Workington AFC. The previously approved budget development also incorporated extensive office accommodation and a full-size synthetic pitch for community use. Expenditure on the scheme includes £5m within the revised capital budget for 2019-20 with a further £20m profiled to be spent in 2020-21.
- 6.27 In June 2019, following consideration of the full business case, the Council's Executive concluded that the scheme was too expensive and the financial risks to the Council too great for it to proceed in its current form. Officers were subsequently directed to prepare a revised business case and delivery timetable aimed at reducing the size and specification of the stadium and achieving significant reduction in scheme costs.
- 6.28 The costs of developing a revised budget case will be met from the Council's revenue budget. Pending completion of a revised business case and delivery timetable the existing budget provision of £20m has been removed from the 2020-21 capital programme. No expenditure is forecast to be spent in 2019-20 against the budget of £5m. As part of the 2020-21 budget proposals the £5m included in the 2019-20 revised capital budget has been moved from 2019-20 to 2020-21 for use in supporting regeneration and investment opportunities.

#### Biodiversity and Green Infrastructure

- 6.29 The Council is currently involved as a key partner with a two externally funded projects focussed on green infrastructure and biodiversity
1. "Let's Get Cumbria Buzzing" – West Cumbria's Pollinator project.
  2. ERDF application under Priority 6: Protecting and Restoring Biodiversity...including Green Infrastructure..
- 6.30 A budget of £95k (funded from borrowing) was initially established in 2019-20 to enable the Authority to contribute to the match funding "packages" for both initiatives (but more targeted towards the HLF "Let's Get Cumbria Buzzing" bid) to supplement the otherwise small contributions that could be made

available from current Environmental Initiative budgets. As part of the 2020-21 budget cycle, the existing budget has been increased by £172,014 to include scheme costs that have now been confirmed will be met from HLF grant funding (allocated via Cumbria Wildlife Partnership). The overall budget for the scheme is currently profiled to be spent over the financial years 2019-20 (£25k), 2020-21 (£155k), 2021-22 (£76k) and 2022-23 (£11k). This will be funded from grants (£172k) and borrowing (£95k).

### **Financing of capital expenditure**

- 6.31 Capital Expenditure in 2020-21 will be partly financed from:
- capital grants and contributions of £5.88m (£8.36m for the three year period 2020-21 to 2022-23)
  - capital receipts of £572k (2020-21 only).
  - general fund balances £9k
- 6.32 The remaining capital expenditure, £6.834m in 2020-21 and £7.494m in total over the three year period 2020-21 to 2022-23, is unfinanced and will be met from a combination of borrowing and lease finance. Borrowing will be undertaken in accordance with the Council's Treasury Management Strategy, either through additional PWLB loans or by using cash and investment balances (internal borrowing).
- 6.33 This increase in the underlying need to borrow to fund the Council's capital programme, coupled with the anticipated increase in external borrowing of up to £4.89m in 2019-20, will increase the amount of external borrowing from £15.2m (at 31 March 2019) to an estimated £25.6m at the end of financial year 2020-21. The recognition of lease liabilities on the Authority's balance sheet from 1 April 2020 will increase the total amount debt by a further £6.6m bringing the total estimated debt recorded on the Authority's balance sheet at 31 March 2021 to £32.2m.
- 6.34 The revenue implications of this unfinanced expenditure, including the amounts chargeable to the general fund in respect of the associated minimum revenue provision and interest costs on additional borrowing, is included in the revenue budgets for 2020-21 and subsequent years.
- 6.35 Further details of all schemes included in the proposed three year capital programme 2020-21 to 2022-23 are set out in Appendix D.

## **7. Budget Assurance statement from the Chief Financial Officer**

- 7.1 Section 25 of the local Government Act 2003 places a duty on the chief financial officer (Head of Financial Services) to make a report to the Council on the robustness of budget estimates and the adequacy of the Council's reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year. This is because the Council is setting the council tax before the commencement of the year and cannot increase it during the year. It is therefore important that

there is an understanding of the risks of increased expenditure or reduced income during the year.

- 7.2 The focus for this planning round has been producing a balanced budget for 2020-21. The medium term forecast continues to be challenging as the ongoing uncertainty in future funding levels has been further delayed. The main risks continue to be:
- the impact of funding reforms from central government including fair funding review, phasing out of key funding streams and the move towards 75% business rates retention
  - the significant level of savings required from the Council's Transformation & Commercial Programme and the Regeneration Programme; these could prove challenging to deliver in the timeframe.

### **Robustness of Estimates**

- 7.3 The budget estimates for 2020-21 have been prepared following a robust process, by appropriately qualified and experienced staff in consultation with the service managers. All the budgets have been scrutinised by the Budget Review Group with the relevant Portfolio Holder and the whole process has been properly managed by the Senior Management Team.
- 7.4 The Overview and Scrutiny Committee (Task and Finish Group) has also reviewed the budget process and the draft budget position at their meetings between October 2019 and January 2020.
- 7.5 Delivery of a balanced position for the current financial year (2019-20) has been challenging. A number of priorities have changed following the elections in May and a revised budget was approved in December. It remains essential that there is robust monitoring of the financial position to achieve this.
- 7.6 Budgets for staff pay in 2020-21 allow for incremental progression and for a pay award of 2%. The budgets also include a 2% reduction for staff turnover. Contractual inflation has been built in but in order to drive further efficiencies, no other inflation has been provided for on expenditure.
- 7.7 Income levels have been subject to regular review at the Budget Review Group meetings and prudent estimates have been made. Fees and charges have been increased for inflation where appropriate and volatile budgets will continue to be closely monitored.
- 7.8 The advice of the Council's treasury management advisers has been taken into account in estimating investment income and borrowing costs. The Council will continue to monitor financial markets closely.
- 7.9 This Council remains part of a Cumbria wide Business Rates Pool and we will continue to monitor our position in the Pool carefully and look at further opportunities to pilot increased business rates retention should they arise.

- 7.10 The Council has identified its key corporate risks and continues to monitor these regularly. There is an increased risk of retaining adequate reserves for unforeseen circumstances, due to the potential impact of the proposed business rates baseline reset and the Fair Funding review. This is making forecasting the medium term financial position beyond 2020-21 particularly difficult. Additional monitoring has been put in place to ensure early recognition of additional losses.
- 7.11 The Council has recognised that it can no longer provide services in the way that we have in the past and our challenge is to re-think and change what we do and how we do it. To achieve this we are embarking on a transformation programme to deliver key changes whilst simultaneously making improvement to the customer experience. The proposal is to design a new operating model for the Council following a detailed activity analysis and the application of benefit drivers – including demand management, channel shift, process efficiency and automation and remodelling.
- 7.12 The Transformation and Commercialisation programme is focused on how the Council works and how it can make best use of and obtain the most value from the resources at its disposal. The Transformation and Commercialisation programme is fundamental to delivery of the priorities as set out in the Council Plan. A key element of the commercialisation programme will be to review existing contracts and exploring opportunities to generate more trading and commercial income.
- 7.13 The Regeneration and Investment programme is an ambitious programme focused on the delivery of key projects that contribute to the physical development of the area and the long term financial sustainability of the Council. It will include making better use of land and property to both drive reductions in costs and generate additional income.

### **Adequacy of Reserves**

- 7.14 In the current climate it is essential that the Council maintains reserves to deal with uncertainty. Reserves provide the cushion to deal with unknowns and unforeseen events in the year and give the opportunity to respond to unanticipated service changes.
- 7.15 Reserves support a financially sustainable Council by allowing for flexibility and agility. This is important with the uncertain future around local government funding.
- 7.16 The Executive has previously agreed to deploy reserves to meet priorities with the result that earmarked reserves have significantly reduced over recent years.
- 7.17 The Council will need to continue to draw on its general reserves over the medium term (3-5 yrs) but cannot continue with this approach indefinitely.
- 7.18 The success of the Transformation and Regeneration Programmes is therefore critical to the Council's financial resilience over the medium term as

it seems unlikely that the fair funding reforms and other changes to the local government finance system are going to improve the Council's position dramatically from 2021.

- 7.19 The challenge of planning for and addressing the estimated budget gap from 2021 continues. Set in the context of a changing funding framework, increases in public perception and service pressures, this challenge cannot be underestimated. Indeed, the prospect is that district councils generally might suffer if resources are diverted away to fund the spiralling cost of social care and children's services.
- 7.20 The Council continues to face difficult decisions ahead, despite the significant changes and major self-sufficiency achievements made to date.
- 7.21 Determining the future budget requirements and level of reserves and balances is a matter of judgement, however best informed. There remains much uncertainty around future funding levels, but Central Government has been clear that local government is expected to become reliant on funding that it raises itself. This means protecting the Council Tax and NNDR base and increasing other income sources.
- 7.22 We will continue to focus on driving down cost through efficiency savings, growing income and seeking alternative delivery mechanisms but it is probable that the gap will not be closed entirely by such measures and that in the near future Council will have to consider options to reduce spending on or even end some services.
- 7.23 Given the increased level of financial risks due to the expected funding reductions from Central Government there is a case for retaining higher levels of balances. Given these circumstances the current minimum level of balances of £2.7m is still therefore considered to be prudent.
- 7.24 A summary of the expected movement in the general fund reserves over the period covered by the Councils medium term financial plan remaining is shown in table 17.
- 7.25 Based on the information currently available regarding expected levels of funding beyond 2019-20, the Council's general fund balance is expected to fall below the minimum balance of £2.7m in 2021-22 and will be fully expended in 2022-23.

**Table 15: Estimated General Fund balances**

	2019-20 <sup>1</sup> £000	2020-21 £000	2021-22 £000	2022-23 £000
Opening Balance at 1 April	3,890	3,357	3,348	1,376
Add: transfer (to)/from Earmarked Reserves	678	0	0	0
Less: Use to finance 2019-20 Capital Programme	(129)	0	0	0
Less: budgeted use of GF to support 2019-20 Revenue Budget	(1,082)	0	0	0
Forecast revenue Outturn variance				
Less: Use to fund 2020-21 Revenue Budget			0	0
Less: Use to fund 2020-21 Capital Budget		(9)	0	0
Less: Projected Revenue Surplus/(Deficit) per MTFP		0	(1,972)	(1,791)
Projected Balance at 31 March	3,357	3,348	1,376	(415)
Less Retained - Minimum Balance	(2,700)	(2,700)	(2,700)	(2,700)
<b>Available for use</b>	<b>657</b>	<b>648</b>	<b>-</b>	<b>-</b>

<sup>1</sup> Based on revised 2019-20 budget;

- 7.26 In addition to general fund balances, the Council also holds Earmarked Reserve balances. These have largely been created from under spends and additional income received in previous years and have been set aside for specific purposes. They include amounts:
- set aside to meet planned future expenditure
  - retained for service departmental use, including budgets carried forward from prior years to meet known commitments
  - relating to unspent revenue grants where there are restrictions on use
  - set aside as a contingency to cushion the impact of unexpected events or transactions.
- 7.27 These reserves are reviewed on a monthly basis to ensure they are applied in line with corporate priorities. A detailed breakdown of the remaining earmarked reserves is included at Appendix F.
- 8. Conclusions**
- 8.1 The proposed total revenue expenditure for 2020-21 including Parish precepts is £15,450k. This includes expenditure of £190k that will be funded from earmarked reserves. This results in a net budget requirement of £15,260k.

- 8.2 The proposed three year capital budget (2020-21 to 2022-23) is £16,440k. This comprises expenditure of £13,295k in 2020-21, £1,611k in 2022-22 and £1,534k in 2022-23. It is proposed this is funded by the following resources:
- Grants and contributions..... £8,365k
  - Capital receipts ..... £572k
  - Borrowing.....£7,397k
  - Lease finance.....£97k
  - General Fund.....£9k
- 8.3 The future financial position for the Council will continue to be challenging. Funding for local government is uncertain and it is difficult to anticipate how the Government will achieve the end of austerity for the public sector as previously announced.
- 8.4 The significant funding challenges for local government are further exacerbated by the uncertainty due to the fundamental reform of the funding streams, including the phasing out of Revenue Support Grant (RSG), the implementation of 75% Business Rates Retention and the transfer of new burdens etc.
- 8.5 In order to address the forecast financial gap, work will continue to develop our thinking on innovative ideas to transform, reduce expenditure and increase our income streams.
- 8.6 Over the next financial year work will continue to reduce costs through internal efficiency, grow income by selling services, generate income from the Council's assets and seek out alternative service delivery vehicles where appropriate.
- 8.7 As the impact of the proposed Local Government Finance Reforms becomes clear and once future funding levels are known, the level of reserves will need to be reviewed.
- 8.8 The programme of change will continue and apply to all services to ensure that this Council is organised to ready meet the challenges that lie ahead

**Catherine Nicholson**  
**Head of Financial Services**

## **Appendices**

- Appendix A Parish precepts
- Appendix B Budget analysed by portfolio
- Appendix C Movement in revenue budget 2019-20 (revised) to 2020-21 (original)
- Appendix D Three year capital budget 2020-21 to 2022-23 - summary by portfolio
- Appendix E Capital programme 2020-21 to 2022-23
- Appendix F Summary of Earmarked Reserves by portfolio
- Appendix G Medium Term Financial Plan
- Appendix H Summary of Consultation responses