Allerdale Borough Council

Executive – 25 February 2019

Council – 6 March 2019

Budget 2019-20 – Revenue and Capital

The Reason for the Decision	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.
Summary of options considered	The Council has a statutory requirement to approve a balanced budget. The draft budget proposes an increase in Council Tax of £5 on band D properties with proportionate increases being applied to properties in other council tax bands. A number of growth bids and savings bids have been submitted and are considered in this report. A public consultation exercise relating to options included in the Council's draft budget proposals was carried out between December 2018 and January 2019.
Recommendations	It is recommended that: 1. The total planned revenue expenditure is £15,398,082 including parish precepts of £2,197,940. 2. £15,002,631 is approved as the Council's net Budget requirement for 2019-20. 3. An increase in Council Tax of £5 on band D Properties, with proportionate increases being applied to properties, in other council tax bands is approved. 4. No changes are made to the Council's Council Tax Reduction discount scheme and that the current scheme remains in place for 2019-20. 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. 6. The minimum level of non-earmarked general fund balances is set at £2.7m and that no maximum level is set.

7. That the capital budget of £32,178,305 (comprising £9,928,305 in 2019-20, £21,180,000 in 2020-21 and £1,070,000 in 2021-22) is approved.
8. That the proposed capital budget for 2019-20 is financed as follows:
    - grants and contributions ……..£3,045,919
    - borrowing………………..…….£6,502,386
    - capital receipts …………………..£380,000

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 Barbara Cannon
Lead Officer	Catherine Nicholson Head of Financial Services 01900 702503 catherine.nicholson@allerdale.gov.uk

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

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 2019-20 Budget Consultation exercise
- proposed revenue budget for 2019-20, and
- proposed capital budget for the three year period 2019-20 to 2021-22.

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 Councils priorities and the financial plans which underpin delivery of those priorities, including the Councils annual budget. Consultations informing the 2019-20 budget process comprised:

- the survey of residents undertaken during June and July 2018
- a budget consultation focusing on specific budget issues carried out during December 2018 and January 2019.

Survey of Residents

2.2 The Council commissioned NWA Social and Market Research to undertake a general survey of residents seeking their views on satisfaction with services, with their quality of life and their local area. During the survey exercise a total of 12,063 questionnaires were posted out to randomly selected addresses across the Council's area. A total of 1,996 surveys were completed (17%).

2.3 The headlines from the survey were broadly similar to those from the previous survey conducted in 2016. They included:

- very high levels of satisfaction (82%) with their locality as a place to live and with the way Allerdale Borough Council provides services (71%)
- very high levels of satisfaction with key services for example, household waste recycling sites (83%), refuse collection (93%) and doorstep recycling 78%
- around half of respondents expressed satisfaction with public car parking (52%), public sport/leisure facilities (49%), theatres/concert halls (46%) and keeping public land clear of litter and refuse (45%). Lower levels of satisfaction were recorded for museums/galleries (37%), and public toilets (30%)
- around half of respondents (49%) indicating they would like to see more street cleaning and public places (49%) and preparation for flooding events (39%); Between a third and quarter of respondents said public toilets (31%), dealing with fly-tipping (30%), local markets (26%) public car parking (24%) and economic development'(23%), were services they would like to see more of
- services respondents would like to see less of included festivals/ cultural events and activities' (25%), tourism development (25%) and museums/galleries (24%)
- services deemed to be of key importance included Cleaning streets and public places (21%) followed by refuse collection (13%), preparing for flooding events (10%), and economic development (8%)
- Agreement by around two-fifths of all respondents (40%) that the Council provides value for money, whilst 37% gave neutral responses and 23% disagreed

- support from the majority of respondents, for a rise in Council Tax to protect key services.

Budget Consultation

2.4 The 2019-20 Budget consultation was held between 12 December 2018 and 17 January 2019. 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.

2.5 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. To supplement the feedback received from the residents' survey the budget consultation sought views on proposals related to:

- setting next year's Council Tax
- increasing fees and charges in line with inflation.

2.6 The budget consultation also provided residents with the opportunity to comment on the Councils overall approach to meeting the financial challenge and its priorities for the period 2019-23.

2.7 The majority of the responses to the budget consultation were in favour of the proposals put forward in the consultation document with approximately 60% of respondents in favour of increasing:

- Allerdale's portion of the Council Tax bill by £5 on Band D properties (with proportionate increases to properties in other council tax bands)
- fees and charges in line with inflation.

2.8 A summary of consultation responses can be found in Appendix J.

3. National and Local Context

2015 Spending Review and Autumn Statement

3.1 Local authorities have taken the biggest hit in terms of central government cuts since 2010. The scale of reduction, along with a degree of volatility around the phasing and timing of these cuts has made it very difficult for authorities to plan their spending priorities strategically. The need for effective medium term planning has never been stronger.

3.2 The government's response to these concerns was the offer of a four year settlement guarantee, paid to councils for the four year period covering financial years 2016-17 to 2019-20. It covers Revenue Support Grant, transitional funding and Rural Services Delivery Grant. 97% of councils accepted the multi-year settlement offer for 2016-17 to 2019-20.

3.3 This Council chose to take advantage of this offer and published, in line with terms of the multi-year offer, its Efficiency Plan in October 2016. DCLG (MHCLG) duly confirmed that we were to receive the multi-year settlement.

3.4 However 2019-20 marks the end of the current spending review period and the final year of the multi-year settlement offer. Beyond 2019-20, considerable uncertainty exists over the funding of local government, both at national and local level. This hampers meaningful financial planning at a time when central government grant funding is the lowest it has been for decades and demand pressures are increasing. The outcome of the Government's Fair Funding Review, reset of business rates baselines, changes to the business rates retention system and any reform of the New Homes Bonus scheme, all have critical implications for the distribution of funding across local government. At the same time, the results of the Spending Review 2019 (expected Autumn 2019) will affect the total level of funding available to the local government sector from April 2020.

Spring Statement 2018

3.5 The 2018 Spring Statement was presented to the House of Commons on 13 March 2018. This was the first Spring Statement since the Chancellor moved the annual Budget from March to November. However, as trailed in advance, 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 2018

3.6 The 2018 Autumn Budget presented to the House of Commons on 29 October 2018 contained a number of announcements relevant to local government. These included:

- confirmation that the additional adult social care funding of £240m previously announced on October 2 for 2018-19 will also be provided in 2019-20
- a further £410m of funding in 2019-20 for adults and children's social care plus £84m of further funding over 4 years for up to 20 local authorities, with £45m initially in 2019-20, to help more children to stay at home safely with their families
- providing councils with an additional £55m in 2018-19 for the Disabled Facilities Grant to provide home aids and adaptations for disabled children and adults on low incomes
- £400m of additional funding in 2018-19 for schools across England with to spend on equipment and facilities
- additional £420m to local authorities in 2018-19 to tackle potholes, repair damaged roads and invest in keeping bridges open. In addition, the government will also be making £150m of funding from the National

Productivity Investment Fund (NPIF) available to local authorities for small improvement projects such as roundabouts

- creation of a Future High Streets Fund to invest £675m in England to support local areas fund plans to redevelop their high streets and town centres. This will invest in town centre infrastructure, including to increase access to high streets and support redevelopment and densification around high streets. Although spread across the whole period up to 2023-24, 90% of this funding is only to be made available after 2021-22. The Fund will also establish a new High Streets Taskforce to disseminate best practice among local leaders.
- a number of changes to business rates, including:
  - reducing bills by one-third for retail properties including shops, cafes and restaurants with a rateable value below £51,000, benefiting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits
  - introducing 100% business rates relief for all public lavatories from 2020/21
  - continuing with the £1,500 business rates discount for office space occupied by local newspapers in 2019-20.
- two further reforms to Universal Credit, i.e.
  - an increase of £1,000 from April 2019 in the amount that households with children, and people with disabilities can earn before their Universal Credit award begins to be withdrawn,

  and

  - a package of additional support for transition worth approximately £1bn over 6 years.

3.7 The government indicated at the 2018 Spring Statement that it would outline control totals for the Spending Review to be carried out in 2019 (Spending Review 2019). This is assumed to be for the four year period 2020-21 to 2023-24. Departmental resource budgets (RDEL) for the period of the spending review were not provided. The government did, however, provide aggregate departmental resource budgets split between NHS England and all other Departmental spending. This shows overall funding increase from £327bn in 2019-20 to £371.6bn in 2023-24; which represents a cash increase of 13.6%. The Government has also indicated that for 2019-20 to 2023-24, RDEL spending, including the NHS settlement, will grow at an average of 1.2% per year in real terms. This is based on CPI inflation (forecast at 2.1% per annum, rather than RPI inflation (forecast at 3.1% per annum).

3.8 This means that, after excluding the increases for NHS England, resources across the rest of government Departments will increase in cash terms by just 8.4% over the period 2019-20 to 2023-24, which is roughly in line with the increases in CPI for the period set out by the Office for Budget Responsibility.

3.9 This would, therefore, suggest that outside of NHS England, all other Departments combined will not see any real terms increase in their funding for the period 2019-20 to 2023-24. In addition, the 8.4% would be the average across the departments; with individual departments likely to be above or below this mark. However, the government states that the figures provided do not represent the final envelope for the 2019 Spending Review, which it indicates will be set in due course, which may mean at the Spring Statement in 2019.

Local Government finance report and provisional settlement 2019-20

3.10 The provisional local government finance settlement for 2019-20 was issued on 13 December 2018 and sets out the distribution of centrally allocated resources for local authorities in England. The final settlement was issued on 29 January 2019. The final settlement included no changes to the funding included in the Provisional Local Government Finance Settlement for 2019-20. The figures included in the provisional (and final) local government finance settlement for 2019-20 are broadly in line with the indicative figures published in February of last year with the following changes:

- additional social care funding comprising £240m Winter Pressures Grant for Adult Social Care (to alleviate winter pressures on the NHS) and £410m Social Care Support Grant, for adult and children's social care, announced in the Budget in October 2018, have been incorporated into Core Spending Power
- £180m of surplus on the levy account will be distributed to all councils, based on the 2013-14 Settlement Funding Assessment
- revisions to New Homes Bonus allocations to reflect actual housing growth; additional funding (of up to 320m) means there was no increase to the deadweight threshold (0.4%) for 2019-20
- an additional £16m in Rural Services Delivery Grant funding in 2019-20 increasing the total allocation from £65m to £81m
- an additional £153m in funding to those authorities that were due to pay negative RSG for 2019-20
- selection of 15 local authority areas, following a competitive process, to pilot 75% Business Rates Retention in 2019-20, as well as all London boroughs and the City of London Corporation (previously 100% in 2018-19). The five 100% business rates pilots which started in 2017-18 will continue at 100% in 2019-20; The bid submitted by Cumbria was not successful
- updating Council tax figures to reflect decisions local authorities made in 2018-19, revised tax base growth assumptions, and assumptions on council tax increases

3.11 The provisional settlement also included the announcement that MHCLG is considering, in conjunction with HM Treasury, what interventions may be needed in relation to the few authorities that it is aware of, that are continuing to undertake significant borrowing for commercial purposes.

3.12 In addition to the announcements affecting 2019-20, the government published two consultations alongside the provisional local government finance settlement:

- *A review of local authorities' relative needs and resources;* a technical consultation on the assessment of local authorities' relative needs, relative resources and transitional arrangements"
- *"Business Rates Retention Reform - Sharing risk and reward, managing volatility and setting up the reformed system";* a consultation on the proposed 2020-21 Redesign and Reset of the Business Rates Retention (BRR) scheme.

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 Governments 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
Revenue Support Grant	2,523	1,700	1,061	652	196
Baseline funding	3,284	3,346	3,414	3,517	3,597
Total – SFA	**5,807**	**5,046**	**4,475**	**4,169**	**3,793**
Assumed Council tax	4,537	4,714	4,920	5,100	5,338
New Homes Bonus	1,079	1,533	1,612	1,004	838
Rural Services Delivery Grant	63	324	261	326	326
Other grants[1]	48	48	51	80	117
Core spending power	**11,534**	**11,665**	**11,319**	**10,679**	**10,412**
Annual change	-	1.1%	-3.0%	-5.7%	-2.5%
Cumulative change	-	1.1%	-1.9%	-7.4%	-9.7%

[1]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 +2.8% in 2019-20. 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 2013-14 and 2018-19. For the local government sector as a whole, the change in Core Spending Power over the whole Spending Review period is +3.8% in cash terms.

3.16 For Allerdale the figures highlight a projected reduction in the Council's core spending power by around 9.7% in cash terms, from £11.53m to £10.41m between 2015-16 and 2019-20. This includes a reduction of approximately £2m (35%) in the Settlement Funding Assessment, offset by a projected increase of approximately £0.8m (19%) in council tax income (including base growth and levels increasing by CPI) and £0.1m (10%) in the levels of New Homes Bonus, Rural Services Delivery Grant and other grants over the spending review period. The revenue grant funding element of the Council's Settlement Funding Assessment has fallen from £2.523m in 2015-16 to £0.196m in 2019-20.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. Therefore whilst the Government has used the 2019-20 settlement to reaffirm its intention to move to 75% local retention in 2020-21 any further move to 100% local retention is unlikely to be implemented before 2022-23 (if at all).

3.18 The Council tax referendum principles have also been announced, with the basic referendum limit for Council Tax set at 3% (as in 2018-19). For district councils increases of less than 3% or up to and including £5 (on a band D property), whichever is higher can be made without triggering a referendum.

3.19 As previously announced social care authorities will be able to increase their council tax by up to 2% (over the existing basic referendum threshold of 3% referred to above) provided the additional (social care) precept increases do not exceed 6% over the 3 year period 2017-18 to 2019-20. This means if a council had elected to use the higher 3% threshold in 2017-18 and 2018-19, the social care precept cannot be applied in 2019-20. For Police and Crime Commissioners, the limit for 2018-19 is £24 (up from £12 in 2018-19) on a Band D property. No referendum limits apply to town and parish councils and the government has announced that it will continue to defer the setting of referendum principles subject to town and parish demonstrating restraint in setting their local precept.

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 2019-20, included in the Provisional Finance Settlement for 2019-20, is £196k. This represents a reduction of £0.456m (70%) on the amount (£0.652m) awarded in 2018-19 and a cumulative reduction of £4.61m (96%) on the amount received in 2013-14 (£4.8m). The Council's RSG allocation for 2019-20 is unchanged from the amount included in multi-year settlement announced in 2016-17.

Table 2: Provisional local government settlement 2019-20

Settlement Funding Assessment	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
Revenue Support Grant	1,700	1,061	652	196
Baseline funding	3,346	3,414	3,517	3,597
Total	**5,046**	**4,475**	**4,169**	**3,793**

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 2019-20 is £325,556. This includes the funding increase, announced as part of the provisional 2019-20 settlement, which increased the indicative amount included in four year settlement to match the 2018-19 funding level.

Levy Account Surplus Allocation

4.8 As part of the operation of the business rates retention system, some authorities pay a levy on the growth in their business rates. This levy is designed to meet the cost of safety net payments for those authorities that have seen a decline in their income below 92.5% of their individual baseline funding level in a single financial year. Levy income and safety net payments are credited and charged to the levy account, which is managed by MHCLG on behalf of local government.

4.9 National Non-Domestic Rates (NNDR3) data published on 21 November 2018 confirmed that, as a result of growth in business rates collected by authorities in 2017-18 and the associated levy payments, there is a surplus of £195m in the 2018-19 levy account. The Government intends to distribute the majority of the surplus, £180m, to all local authorities on the basis of the 2013-14 settlement funding assessment allocations, i.e. the sum of each authority's Revenue Support Grant and Baseline Funding Level allocations. This reflects the fact that in previous years Revenue Support Grant was top-sliced from the settlement to fund safety net payments.

4.10 The Authority's share of this allocation (which is excluded from the Core Spending Power) is £55,184.The Final Settlement, published at the end of January 2019, indicates that this allocation will be distributed to Authorities in 2018-19.

Other Government Grants – New Homes Bonus

4.11 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 3: New Homes Bonus Grant

Year	Year of Payment (Allerdale Borough Council Share)					
	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000
-	84	84	84			
-	16	16	16			
-	222	222	222	222		
-	469	469	469	469		
-		277	277	277	277	
1			458	458	458	458
2				178	178	178
3					91	91
4						111
Total	**791**	**1,068**	**1,526**	**1,604**	**1,004**	**838**

4.12 The provisional allocations of New Homes Bonus funding for 2018-19 were announced in early December. Final allocations were published alongside the final local government finance settlement in January 2019. The Council's allocation of New Homes Bonus grant funding for 2019-20 is £838,075. A reduction of £165,485 on the £1,003,560 received in 2018-19. 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.

4.13 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. The 2019-20 settlement introduced no further changes to the number of years during which the bonus is paid.

4.14 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 2018-19. However, the Government retained the option of making adjustments to the baseline in future years to reflect significant additional housing growth and to remain within spending limits set at Spending Review 2015.

4.15 After considering responses to the 2019-20 local government finance settlement technical consultation, issued in July 2018, the Government has decided not to make any changes to the national baseline for housing growth. The baseline therefore remains at 0.4% for 2019-20.

Business rates (non-domestic rates - NNDR)

4.16 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.

4.17 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 2019-20 is £3.597m and the amount of tariff payable is £7.299m.

4.18 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 2019 for the 2019-20 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.

4.19 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 2019 relating to business rates is £32,213. The Council's share of this surplus is £12,885.

4.20 A summary of the business rate income included in the 2019-20 budget is shown in table 4.

Table 4: Estimated Business Rates (NNDR) funding 2019-20

Funding Element	£'000
Allerdale Share of NNDR Income	10,802
Renewable Energy disregard – retained by billing authority	411
Net tariff payable to Central Government	(7,299)
Share of estimated Collection Fund surplus at 31 March 2019	13
	3,927
Levy payable (net of reduction under pool arrangements)	(475)
Section 31 grant	2,280
Total estimated income from Business Rates	**5,732**

4.21 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.

4.22 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 has entered into a formal pooling arrangement, comprising Cumbria County Council and all six Cumbrian District Councils, in 2019-20

4.23 In 2019-20 it is estimated that additional business rates income of £552k, 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.

4.24 At previous Autumn statements and Budget events, the Chancellor of the Exchequer announced various changes to the business rates system that affect the business rates income of local authorities. The following changes will affect the Council's business rates income in 2019-20:

(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) providing discretionary relief of £1,500 in respect of the office space occupied by local newspapers

(iv) doubling rural rate relief; to be awarded through discretionary relief until such time as the Government can make the necessary changes to primary legislation.

(v) 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.

(vi) 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

(vii) a 100% rate relief scheme for new telecom fibre applicable retrospectively to 1 April 2017 for a period of 5 years.

(viii) 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.

4.25 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 uprate the business rates multiplier from April 2018.

4.26 A reconciliation of the baseline funding contained in the 2019-20 local government finance settlement to the total estimated income from business rates is set out in table 5.

Table 5: Reconciliation of 2019-20 business rates income to baseline funding

Funding Element	£’000
Baseline funding	3,597
Share of retained growth	1,159
Pool gains	552
Renewable Energy disregarded income retained by Authority	411
Share of Collection Fund Surplus/(Deficit)	13
s31 Grant on multiplier cap (excluded from growth/levy)	-
Total estimated income from Business Rates	**5,732**

Council tax

4.27 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.

4.28 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.

4.29 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.

4.30 The estimate of the collection fund surplus in respect of council tax at 31 March 2019, to be distributed in 2019-20, is £280,267 of which Allerdale Borough Council's share is £36,547.

Table 6: Allocation of collection fund surplus (council tax) at 31 March 2019

	Share of surplus/(deficit) £000
Cumbria County Council	207
Cumbria Police and Crime Commissioner	36
Allerdale Borough Council	37
Total estimated surplus	**280**

Proposed council tax increase

4.31 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.

4.32 For 2016-17 and 2017-18 the threshold level, 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 the referendum threshold for shire district councils was increased to 3% or up to and including £5, whichever is higher, to reflect the level of inflation. The £5 threshold applies to band D properties with proportionate increases being applied to properties in other council tax bands.

4.33 This threshold was also included in the technical consultation on the 2019-20 Local Government Finance Settlement issued by the Government in September. The Council's budget consultation was therefore conducted on the assumption that the threshold that applied in 2018-19 would continue to apply in 2019-20.

4.34 The Council therefore proposes to increases Council Tax by £5 on band D Properties, with proportionate increases being applied to properties in other council tax bands. This equates to an increase equal to 2.98% across all council tax valuation bands.

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 2019-20 has been set at 30,662.47. This represents an increase of approximately 1% on the 2018-19 tax base of 30,359.94.

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 2019-20 are set out in Appendix A.

Grant to Parish Councils re Local Support for Council Tax

4.39 Under the Welfare Reform Act 2012, Council Tax benefit paid to low income households was abolished from 1April 2013. In its place, all Billing Authorities were required to put in place a Local Support for Council Tax scheme (LSCT),which is a discount scheme (similar to single person discounts but with variable rates of discount depending on individual circumstances). The changes introduced by the 2012 Act also necessitated amendments to the way in which the Council Tax base is calculated.

4.40 Prior to 2014-15, funding for Council Tax Support schemes was separately identifiable in the formula grant settlement. However, since 2014-15 this funding has been “rolled up” into the Council’s Revenue Support Grant which has subsequently been scaled back and hence the amount of grant available to pass on to parishes continues to reduce.

4.41 MHCLG has continued to stress that it is for each local authority to determine how the funding to Town and Parish Councils is allocated. Whilst there are no plans to make the redistribution of these monies compulsory, the Government is expecting some funding to be allocated to parishes. As this Authority’s revenue budget continues to come under pressure from reductions in Central Government funding, the level of redistributed to parishes also needs to be reviewed.

4.42 The MHCLG’s preferred approach to funding local precepting authorities in relation to local council tax support schemes is through a voluntary arrangement whereby billing and local precepting authorities agree the amount of funding, allocated initially to billing authorities, to be passed down to local precepting authorities.

4.43 In the 2018-19 budget, the amount of CTRS grant funding passed to Town and Parish Councils was reduced from £41,332 to £20,666 to reflect the previously agreed phased withdrawal of funding to Town and Parish Councils in response to the reductions in Central Government grant received by the Council. Members were are also requested to note that 2018-19 would be the final year that CTRS grant would be paid to Parish and Town Councils.

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

5.1 Preparation of the council's 2019-20 net revenue budget begins with a roll forward of the 2018-19 recurring base budget (£11,533k). 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 21 November 2018, the key assumptions/parameters adopted as part of this budget are to:-

- prioritise delivery of the council plan with a strong emphasis on supporting economic growth to support our self-sufficiency plans
- 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 inflation in line with our contractual commitments based on 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 revised structures and new NJC pay-scales effective from 1 April 2019
- continue to allow for a 2% reduction to accommodate staff turnover during the year
- increase expected income from Council tax based on an increase of by £5 p.a. on band D Properties, with proportionate increases being applied to properties in other council tax bands is approved.

5.3 The Council's net revenue budget (budget requirement) for 2019-20 is shown in table 7.

Table 7: 2019-20 Revenue Budget

	2019-20 £000	Reference
Base Budget	11,533	
Change in salary costs - recurring	210	5.7
Recurring growth	1,089	5.8/Appendix C
Recurring savings	(1,257)	5.9/Appendix C
Recurring (base) budget	**11,575**	
Change in salary costs – non-recurring	14	
Non-recurring growth	1,243	5.11/Appendix D
Non-recurring savings	(27)	5.13/Appendix D
Net Expenditure	**12,805**	
Expenditure on earmarked priorities	395	Appendix H
Proposed Budget (excluding parish precepts)	**13,200**	
Parish precepts	2,198	Appendix A
Proposed Budget (including parish precepts)	**15,398**	
Less: Planned use of earmarked balances	(395)	Appendix H
Net Budget Requirement	**15,003**	

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

Table 8: 2019-20 Revenue Funding

	2019-20 £000	Paragraph
Revenue support grant	196	4.4
Rural Services Delivery Grant	326	4.7
Other government grants (New Homes Bonus)	838	4.11
Other government grants (Levy Surplus)	0	4.8
Council tax – excluding parish element	5,304	4.27
Council tax – parish element	2,198	
Collection fund surplus/(deficit) - Council Tax	37	4.30
NNDR funding	5,719	4.16
Collection fund surplus/(deficit) - NNDR	13	4.16
Use of /(contribution to) General Fund Balances	372	
Total funding	**15,003**	

5.5 The budget for net expenditure in 2019-20, excluding parish precepts and spend on earmarked priorities (met from the use of earmarked reserves) is £12,805k. This compares with a total of £13,061k for 2018-19 (revised budget). A summary of the changes underlying the movement between the 2018-19 revised budget and the proposed 2019-20 budget, is set out in Appendix E.

5.6 A breakdown of the Revenue Budget for 2019-20 by Executive member portfolio is set out in Appendix B.

Change in salary costs - £224k (recurring and non-recurring)

5.7 This is the total increase required to cover a number of changes in the salary budgets. These changes include 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 £210k and non-recurring growth of £14k.

Recurring growth - £1,089k

5.8 Details of recurring growth bids included as adjustment to the Council's base budget are summarised in table 9:

Table 9: Recurring growth bids 2019-20

Bid Detail	Bid £000
Banking & Interest: Increase in interest costs to reflect full year impact of additional PWLB loans expected to be drawn down in 2018-19 and the part year cost of additional loans expected to be drawn down in 2019-20	124
Minimum Revenue Provision: Increase in amount required to be set aside from revenue to meet the cost of capital expenditure funded by borrowing	518
Insurances: Increase in insurance premium costs	14
Second Homes Grant: Removal of second homes grant income following end of agreement with Cumbria County Council	195
NNDR cost various properties: Increase in NNDR costs	30
Sports & Leisure Centres: Risen Costs (Contractual inflationary increase)	17
The Wave: Risen Costs (Contractual inflationary increase)	6
Sports & Leisure Centres: Scheduled reduction in contribution received from GLL to compensate the Council for additional revenue financing costs associated with improvement works at Cockermouth Sports Centre	40
Multi-storey Car Park: Maintenance of pay and display machines	10
Housing Benefits Administration Grant: Reduction in housing benefits administration grant receivable	33
Investment income Town Centre: Reduction to the Council's share of rental income as a result of anticipated reductions in rents	35
Homelessness: Increase in budget to meet responsibilities under Homeless Reduction Act	44
Homelessness: Annual contribution to the new Choice Based Letting (CBL) system being implemented across Cumbria	10
Elections: Increase in annual contribution to elections fund increasing the contribution from £35k to £40k p.a.	5
Strategy, Policy & Performance: Increase in research and partnership working budget	8
Total recurring growth bids	**1,089**

Recurring savings – (£1,257k)

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

Table 10: Recurring savings bids 2019-20

Bid Detail	Bid £000
Parish Councils: Cessation of Council Tax Reduction Scheme (CTRS) grant payments	(21)
Parish Councils: Cessation of Burial Grants payments	(14)
Pension Deficit funding: Reduction in pension deficit funding costs reflecting the realisation of savings generated from prepaying contributions for the three year period 2017-18 to 2019-20 in 2017-18	(17)
Grounds Maintenance & Street Cleansing: Reduction in annual service costs on commencement of new contract on 1 April 2019	(318)
Trade, Recycling & Domestic Waste: Reduction in annual service costs on commencement of new contract on 1 April 2019 (net of adjustment to income budget relating to sale of recyclable material)	(508)
Carnegie Trust: Agreed reduction in subsidy awarded	(15)
Bereavement Services: Uplift in income to reflect increases in fees and charges	(8)
Trade Waste: Increase in trade waste income to reflect increase in fees and charges (£30k); growth in customer numbers (£30k) and the introduction of charges for paper and card recycling service, which is currently provided for free (£140k)	(200)
Recycling: budget reduction to reflect withdrawal of the Purple Bag scheme following roll out of the new recycling arrangements	(35)
Environmental Initiatives: Grounds maintenance savings following transfer of Vulcan Park to Workington Town Council	(18)
Off-street Car Parks - Owned: Increase in income to reflect changes to fees and charges	(20)
Tenanted Properties: Increase in annual rents following rent review programme of tenanted properties	(10)
Industrial Units: Increase in annual rents following rent review programme of industrial ground rents	(16)
Other Land & Buildings: Forecast increase in annual rents	(10)
Camping and Caravan Site Keswick: Uplift in lease rental income to reflect increase in revenue generated by site operator from inflationary uplift to fees charged	(26)
Festivals & Events: Adjustment to net budget for Lakesman event 2019	(13)
Corporate Recruitment: Reduction in costs of placing external adverts	(8)
Total recurring savings bids	**(1,257)**

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 - £1,243k

5.11 The non-recurring growth bids included in the Council's net budget requirement are summarised in table 11:

Table 11: Non-Recurring growth bids 2019-20

Bid Detail	Bid £000
Footway Lighting: Increase in budget for electricity utility costs pending transfer of responsibility for footway lighting assets to Parish and Town Councils	5
Footway Lighting: Increase in repairs and maintenance budget pending transfer of responsibility for footway lighting assets to Parish and Town Councils	10
New Finance System: Purchase and implementation of new finance system in anticipation of support and maintenance of the existing system being withdrawn over the next 2 to 4 years	100
Strategic Priorities: Establishment of revenue budget provision to meet revenue costs associated with Council's Transformation, Sustainability and Invest to Save agenda	500
Leisure Activity: Grant support for Leisure Activity in Maryport and Wigton	30
Trade, Recycling and Domestic Waste: Cost of hiring vehicles required as part of the mobilisation of services under the new waste contract scheduled to commence on 1 April 2019	33
Fairy Path Reinstatement: Contribution to feasibility study on restoring the Public Right of Way known locally as "The Fairy Path", which has been closed due to a landslip following Storm Desmond in 2015.	20
IT Services: Renewal of support and maintenance agreement for the wireless networking facility	7
IT Services: Replacement of EndPoint (cyber security) Protection solution	25
Cash Receipting System: Licence renewal and upgrade to cash receipting system software	50
Arcus system: Increase in costs of data migration to a cloud based suite of systems covering the services of Planning, Building Control, Planning Policy, Environmental Protection, Environmental Health and Housing, Land Charges and Licensing	63
Housing development: Pump-priming costs associated with delivery of Housing capital schemes and establishment of an arms-length housing company (£1k Programme Promotion; £2k revenue budget to sit alongside the Otley Road capital budget; £2k external advice on establishing a housing company)	5
Shop Front Improvements: Continuation of the town centre improvement scheme with a focus on Silloth and Aspatria	50

Bid Detail	Bid £000
Stadium: Match funding in relation to grant assistance from the Football Foundation for 3G pitches (revenue contribution to capital expenditure)	100
Stadium: Ground improvements to Derwent Park to accommodate temporary relocation of Workington AFC	50
Development budget: Pump-priming costs associated with delivery of schemes that will support delivery of the Council Plan in Maryport	45
Elections: Increase in elections budget to address anticipated shortfall in the earmarked reserve balance needed to meet the cost of the May 2019 elections	10
Planning Policy: Costs associated with examination of the Local Plan by the Planning Inspector	40
Tackling inequalities: Increase in budget to support initiatives to tackle inequalities	100
Total non-recurring growth bids	**1,243**

Non- recurring savings - (£27k)

5.12 Details of non-recurring saving bids included in the Councils net budget requirement are summarised in table 12.

Table 12: Non-recurring savings bids 2019-20

Bid Detail	Bid £000
Homelessness: Increase in grant support from central government	(27)
Total non-recurring savings bids	**(27)**

Contingencies

5.13 The Council includes in its recurring (base) budget a central contingency budget for unquantifiable risks. The contingency balance held for 2019-20 is £105,050.

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 2019-20 and the following two financial years (2020-21 and 2021-22) 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 2019-20 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 2019-20 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 2019-20 and following two financial years is summarised in table 13. A summary of individual schemes included in the proposed three year capital programme analysed by Executive Member Portfolio is included in Appendix F.

Table 13: Proposed Capital Programme & methods of financing

	Proposed Budget			
	2019-20 £000	2020-21 £000	2021-22 £000	Total £000
Capital Expenditure[1] :				
Housing, Health & Wellbeing	1,505	1,000	1,000	3,505
Economic Growth	6,853	20,000	0	26,853
Corporate Resources	130	0	0	130
OD & Transformation	140	40	40	220
Environmental Quality	210	140	30	380
Tourism & Culture	1,090	0	0	1,090
Total Expenditure	**9,928**	**21,180**	**1,070**	**32,178**
Financed by:				
External funding sources:				
Disabled Facilities Grant (Better Care Fund)	1,125	1,000	1,000	3,125
ERDF grant - Reedlands Rd	831	0	0	831
Coastal Communities Fund - Solway Coast	840	0	0	840
Other grants - Solway Coast	250	0	0	250
Other grants - Stadium	0	1,625	0	1,625
ABC resources:				
Capital Receipts	380	0	0	380
Borrowing (unfinanced expend.)	6,502	18,555	70	25,127
Total financing	**9,928**	**21,180**	**1,070**	**32,178**

[1] Gross expenditure does not include any proposed budget carry forwards from the approved 2018-19 capital programme; these requests will form part of the 2018-19 Capital Outturn Report.

6.10 The proposed capital programme for the three year period to March 2022 includes the following changes to the existing three year rolling capital programme:

Table 14: Summary of changes to existing capital programme

	Financial year			
	2019-20 £000	2020-21 £000	2021-22 £000	Para
Gross expenditure				
Previously approved capital programme (2018-19 revised budget)*	9,418	2,040	0	-
Previously approved recurring capital expenditure programme (IT replacement)	0	0	40	-
Re-profiling of previously approved expenditure	0	0	0	6.11
Capital growth & savings bids submitted for approval	510	19,140	1,030	6.16
Proposed capital programme 2019-20 to 2021-22	**9,928**	**21,180**	**1,070**	

[1] including £620k reprofiling adjustment agreed by Council on 30 Jan 2019

Re-profiling and reallocation adjustments

6.11 Reallocation adjustments involve the transfer of previously agreed budgets between schemes.

Table 15: Re-allocation adjustments

	2019-20 £000	2020-21 £000	2021-22 £000	Para
Gross expenditure				
DFG - Mandatory Grants	250	250	0	6.12
DFG - Discretionary Grants	(250)	(250)	0	6.12
Strategic priorities and regeneration	(5,000)	(1,000)	0	6.14
Community Stadium	5,000	1,000	0	6.14
Strategic Acquisitions	(75)	0	0	6.15
Kirkgate Centre Contribution	75	0	0	6.15
Total re-allocation adjustment	**0**	**0**	**0**	

Disabled Facilities Grants (DFG) – Mandatory/Discretionary

6.12 The DGF programme involves the provisions of grant support to cover the cost of housing adaptations to enable people to stay living in their own home for longer. The Authority has a statutory duty to provide adaptations to the homes of disabled people who qualify for a mandatory DFG. Expenditure on DFGs is fully funded from an annual grant from central government. This grant is paid to upper-tier authorities as part of the Better Care Funding allocations and cascaded to district councils responsible for providing DFGs.

6.13 Based on current demand and expenditure projections, the whole of the central government grant allocation will be required to meet the Authority's statutory obligation provide to Mandatory Disabled Facilities Grants. To accommodate this, the portion of the grant funding previously allocated to meet Discretionary Grant schemes has been re-allocated to the Mandatory grant budget.

Strategic priorities and regeneration/Community Stadium

6.14 The strategic priorities and regeneration budget was created as part of the revised capital budget for 2018-19 (to 2020-21) to take advantage of opportunities that support delivery of the Council's key priorities and regeneration agenda. The budget of £6m, comprising £5m in 2018-19 and £1m in 2019-20 has now been earmarked to support the planned Community Stadium Development. This expenditure will be met from borrowing.

Strategic Acquisitions/Kirkgate Centre Contribution

6.15 Following approval of the 2018-19 revised capital budget, a virement of £75,000 was made from the Kirkgate Centre Contribution budget to cover a shortfall in the Strategic Acquisitions budget in 2018-19. This reduced the Kirkgate contribution budget from £100k to £25k. In 2019-20 this transfer between budget headings has been reversed restoring the Kirkgate Centre Contribution budget to the previously agreed total of £100k.

Capital Growth and Savings

6.16 A number of new capital expenditure bids have been submitted for approval as part of the 2019-20 budget setting process. These are summarised in table 16.

Table 16: **Summary of Capital Bids**

Capital Scheme	Financial year 2019-20 £000	2020-21 £000	2021-22 £000	Total bid £000	Para
Capital Expenditure:					
DFG - Mandatory Grants	125	0	1,000	1,125	6.17
Healthy Homes (Empty Homes)	100	0	0	100	6.18
Securing Affordable Homes	(50)	0	0	(50)	6.19
Riverbank Works - Millfield Workington	30	0	0	30	6.21
Biodiversity & Green Infrastructure programmes	25	40	30	95	6.22
Fairy Path Reinstatement	0	100	0	100	6.26
Conversion of Otley Road	130	0	0	130	6.27
Maryport Container Village	150	0	0	150	6.28
Community Stadium	0	19,000	0	19,000	6.29
	510	**19,140**	**1,030**	**20,680**	
Financed by:					
DFG Housing Grant	125	0	1,000	1,125	
SCP Housing Grant	(33)	0	0	(33)	
Other grants & contributions	0	1,625	0	1,625	
Capital receipts	280	0	0	280	
Borrowing (unfinanced expenditure)	138	17,515	30	17,683	
	510	**19,140**	**1,030**	**1,400**	

<u>Disabled Facilities Grants (DFG) (£125k growth bid)</u>

6.17 Pending confirmation of the Authority's grant funding allocation for 2019-20, budgeted expenditure for 2019-20 has been set at £1,125k, based on the grant income allocation and forecasted expenditure in 2018-19. This represents an increase of £125k on the previously budgeted amount of £1m (inclusive of the reallocation adjustment summarised in table 16). For 2020-21 and 2021-22, budgeted expenditure on mandatory DFGs has been included at a provisional amount of £1m. 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.

Healthy Homes – Empty Homes (£100k growth bid)

6.18 The growth bid of £100k will be used to provide grant support to enable 10 empty homes to be brought back into use. Expenditure on this scheme is unfinanced and will be met from borrowing.

Securing Affordable Homes (£50k reduction in budget)

6.19 As part of the 2016-17 capital programme a budget of £50k was approved for 2016-17 and each of the three subsequent years. This budget was targeted at providing grant support to assist registered housing providers to improve housing stock in high need areas, which would otherwise be sold. It was anticipated that there would be 5 grants provided each year based on prior experience. However, the Council has received fewer requests for disposals than was initially anticipated.

6.20 In recognition of the limited take-up, the decision has now been made to cease providing the grant support. The previously agreed budget for 2019-20 of £50k has therefore been removed from the capital budget along with the associated funding which comprises grants (£33,000) and borrowing (£17,000).

Riverbank Works - Millfield Workington (£30k growth bid)

6.21 The scheme involves installation of rock armour to protect against further erosion and safeguard the adjacent access road. Expenditure on this scheme is unfinanced and will be met from borrowing.

Biodiversity & Green Infrastructure programmes (£95k growth)

6.22 The Council is currently involved as a key partner in connection with two strategic external funding bids focussed on green infrastructure and biodiversity

1. "Let's Get Cumbria Buzzing" – West Cumbria's Pollinator project. This is a Stage 2 Heritage Lottery (HLF) application being prepared by Cumbria Wildlife Trust on behalf of the Cumbria Local Nature Partnership. The Project value is expected to be around £1million

2. ERDF application under Priority 6: Protecting and Restoring Biodiversity….including Green Infrastructure. This fund is being managed by the Cumbria LEP. There is a total budget of £1.3m allocated to Cumbria. Minimum grant is £500k. Intervention rate in Cumbria is 60%, which would mean a minimum project value of £833k. The "Call for Entries" was announced in October 2018 and an outline application, prepared by Cumbria Wildlife Trust (on behalf of the Cumbria Local Nature Partnership) will be submitted in the current financial year. Submission of the detailed bid would be required in April 2019. The project value likely to be in the region of £1.5 million.

6.23 Overall, there are between 10-15 sites in the Councils ownership that would benefit directly from successful applications. These include Maryport

Millennium Green, Northside Allotments and Siddick Pond, Harrington Harbour (south), Bankfield and Moorclose Green.

6.24 The capital growth bid of £95k will enable the Council 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. If the HLF application is successful, the advantage is that the fund can be used as the match funding for the ERDF application.

6.25 Expenditure on this scheme is unfinanced and will be met from borrowing.

<u>Fairy Path Reinstatement (£100k growth)</u>

6.26 The proposed scheme relates to the restoration of the Public Right of Way known locally as “The Fairy Path”, currently closed due to a landslip following Storm Desmond in 2015. The path is a key link for the local community living on top of the Seabrows, providing easy access to the promenade. It also provides a valuable link from the promenade to the Roman Museum. A non-recurring bid of £20k to fund a feasibility study is included in the 2019-20 revenue budget, with the final programme of works subject to the outcome of this study. It is envisaged that both Cumbria County Council and Maryport Town Council will also contribute to the capital works and that some external funding could also be secured. However, in the absence of any firm funding commitment from other parties, expenditure on this scheme has been treated as unfinanced and met from borrowing.

<u>Conversion of Otley Road (£130k growth)</u>

6.27 The growth bid of £130k will be used to convert the existing commercial property at Otley Road Keswick in order to provide much needed residential accommodation in the heart of Keswick. The Council has supported the development of affordable accommodation in Keswick for many years and this property will used to support families wanting to rent in the area on a long term basis.

<u>Maryport Container Village (£150k growth)</u>

6.28 The Council has made a commitment to support the Maryport Regeneration Programme and the creation of the container village on the harbour side will be the first project to be implemented. The concept has been tested by an internal group and is outlined in the Councils Maryport Business Plan as a key recommendation to help regenerate the area. Planning for the development has commenced and the Authority will be working closely with the Harbour Board to ensure the final product is suitable for the area. Containers will be finished to a high standard, however, tenants will be expected to carry out the final fitting details.

Community Stadium (£19m growth)

6.29 The growth bid of £19m relates to the proposed 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 development also incorporates extensive office accommodation and a full-size synthetic pitch for community use. Combined with the budget reallocated from the Strategic priorities and regeneration budget, the growth bid brings the total budget for the scheme to £25m

6.30 Final costs of the scheme have yet to be confirmed and the budget of £25m remains indicative, based on similar stadium developments. Pending completion of work to evaluate the various funding options set out in the outline business case, the capital budget has been prepared on the assumption that the development will be funded from PWLB borrowing totaling £23.375m, with the balance expected to be met from third party contributions. The amount funded from borrowing incorporates the previously approved Strategic priorities and regeneration budget of £6m (£5m in 2018-19 and £1m 2019-20).

6.31 A final decision to proceed with the proposed scheme remains subject to the submission of a full business case and detailed financial appraisal demonstrating the value for money, prudence, affordability and financial sustainability of the development over the life of the asset and associated borrowing. This will include the completion of comprehensive financial risk analysis, scenario planning and sensitivity analysis to evaluate the impact of changes in key assumptions underpinning the Authority's financial model. An extensive due diligence exercise will also be required to verify the completeness and accuracy of the underlying financial data used in the financial model and the robustness of the assumptions applied.

6.32 Further details of the scheme are set out in the outline business case submitted to the Council's Executive on 16 January 2019.

Financing of capital expenditure

6.33 Capital Expenditure in 2019-20 will be partly financed from:

- capital grants and contributions of £3.046m (£6.671m for the three year period 2019-20 to 2021-22)
- capital receipts of £380k (2019-20 only).

6.34 The remaining capital expenditure, £6.5m in 2019-20 and £25.13m in total over the three year period 2019-20 to 2021-22, is unfinanced and will be met from borrowing. Borrowing will be undertaken in accordance with the Councils Treasury Management Strategy, either through additional PWLB loans or by using cash and investment balances (internal borrowing).

6.35 This additional borrowing, along with the additional borrowing of £5.8m required to fund capital expenditure in 2018-19, will increase the amount of external (PWLB) borrowing from £15.5m (at 31 March 2018) to an estimated £43.8m at the end of financial year 2020-21.

6.36 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 2019-20 and subsequent years. It should however be noted that a key assumption applied in evaluating the impact of capital financing costs on the Council's Medium Term Financial Plan is that the finance costs (MRP and interest) associated with the additional borrowing for the stadium development can be recovered from the net operating income of the stadium operating company.

6.37 Further details of all schemes included in the proposed three year capital programme 2019-20 to 2021-22 are set out in Appendix G.

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 future financial position for the Council will continue to be extremely challenging and the most significant risks affecting the Council over the next three years are:-

- 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 required, particularly as it is 'all-out elections' in May 2019.

Robustness of Estimates

7.3 The budget estimates for 2019-20 have been prepared by appropriately qualified and experienced staff in consultation with the service managers. All the budgets have been scrutinised by the Corporate Leadership Team 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 during November 2018 and January 2019.

7.5 Budgets for staff pay in 2019-20 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.

7.6 Income levels have been subject to regular review at the Commercial Board 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.

7.7 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.

7.8 The announcement in the Local Government settlement that Cumbria was not awarded status to pilot 75% business rates retention was disappointing. However, we remain 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.

7.9 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 2019-20 particularly difficult. Additional monitoring has been put in place to ensure early recognition of additional losses.

7.10 The Council has recognised a need to increase its capacity to deliver key programmes and projects and has restructured internally to create this focus led by a new Head of Service for Programmes and Projects who will lead on the deliverability of two main programmes:

(i) the Regeneration and Investment programme, and

(ii) the Transformation and Commercialisation programme

7.11 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.

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 programme will be improving the use of digital technology to enhance customer service and implement new ways of working. It will also include reviewing existing contracts and exploring opportunities to generate more trading and commercial income.

Adequacy of Reserves

7.13 In the current climate it is essential that the Council maintains reserves to deal with the unexpected, such as continued spending pressures or further reductions in income.

7.14 The Council's financial strategy has been to maintain the strength of the balance sheet to provide resilience in the challenging financial environment, whilst reducing the recurring net cost base.

7.15 The Executive has previously agreed to deploy balances to meet priorities and this budget continues to ensure funds are set aside for these and to focus on creating economic growth and development. This expenditure has been taken into consideration when looking at the adequacy of general fund balances.

7.16 The Council will need to continue to draw on its general reserves over the next three years, but cannot continue with this approach indefinitely.

7.17 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 in 2020.

7.18 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.

7.19 The Council continues to face difficult decisions ahead, despite the significant changes and major self-sufficiency achievements made to date.

7.20 The managed available reserves mean there is sufficient time to implement changes to align income with expenditure, but we cannot be complacent. The management team needs to continue devoting time to identifying opportunities and assessing the impact of all potential changes.

7.21 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.

7.22 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.

7.23 However, a full review of the Council's Reserves and Balances is to be undertaken and presented to the new Executive after the elections in May. This review will look at the Business Plan needed to deliver the Corporate Plan priorities for the new Council 2019-2023 and will review the authorities financial standing and the Transformation and Regeneration plans needed to address the forecast budget deficit.

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 2020-21 and will be fully expended in 2021-22.

Table 17: Estimated General Fund balances

	2018-19[1] £000	2019-20 £000	2020-21 £000	2021-22 £000
Opening Balance at 1 April	4,921	4,044	3,672	1,343
Add: transfer (to)/from Earmarked Reserves	0	0	0	0
Less: Use to finance 2018-19 Capital Programme (including carry-forwards)	(453)	0	0	0
Less: budgeted use of GF to support 2018-19 Revenue Budget	(424)	0	0	0
Forecast revenue Outturn variance				
Less: Use to fund 2019-20 Revenue Budget		(372)	0	0
Less: Use to fund 2019-20 Capital Budget		0	0	0
Less: Projected Revenue Surplus/(Deficit) per MTFP[2]		0	(2,329)	(2,672)
Projected Balance at 31 March	4,044	3,672	1,343	(1,329)
Less Retained - Minimum Balance	(2,700)	(2,700)	(2,700)	(2,700)
Available for use	**1,344**	**972**	**-**	**-**

[1] Based on revised 2018/19 budget; [2] net of planned transfers to Earmarked Reserves

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 H.

8. Conclusions

8.1 The proposed total revenue expenditure for 2019-20 including Parish precepts is £15,398k. This includes expenditure of £395k that will be funded from earmarked reserves. This results in a net budget requirement of £15,003k.

8.2 The proposed three year capital budget (2019-20 to 2021-22) is £32,178k. This comprises expenditure of £9,928k in 2019-20, £21,180k in 2020-21 and £1,070k in 2021-22. It is proposed this is funded by the following resources:

- Grants and contributions…. £6,671k
- Capital receipts …………… £380k
- Borrowing…………………...£25,127k

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	2019-20 recurring growth & savings bids – summary by portfolio.
Appendix D	2019-20 non-recurring growth & savings bids – summary by portfolio
Appendix E	Movement in revenue budget 2018-19 (revised) to 2019-20 (original)
Appendix F	Three year capital budget 2019-20 to 2021-22 - summary by portfolio
Appendix G	Capital programme 2019-20 to 2021-22
Appendix H	Summary of Earmarked Reserves by portfolio
Appendix I	Medium Term Financial Plan
Appendix J	Summary of Consultation responses