

Allerdale Borough Council

Executive - 21 November 2018

Council - 5 December 2018

## Quarter 2 Finance Report and Revised Budget 2018-19

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### **The Reason for the Decision**

To inform members of financial performance against budget for the period April to September 2018 and seek approval for the revised revenue and capital budgets for 2018-19.

### **Summary of options considered**

The Council's revenue and capital budgets for 2018-19 were approved by Council in March 2018. Monitoring of the actual and forecast outturn positions against the budget has identified additional budget pressures along with a number of budget savings. The balance and use of earmarked reserves has also been reviewed.

Approval is now sought for a revised 2018-19 budget.

### **Recommendations**

It is recommended that Council:

- note the forecasted position against the original revenue and capital budgets at the end of quarter 2
- approve the revised budget (inclusive of spend from earmarked reserves) of £16,851k
- approve the revised net revenue budget requirement of £15,084k
- approve an additional release from the Council's earmarked reserves of £500k
- approve a reduction in the contribution from the Council's General Fund of £20k
- approve the revised three year capital budget (including proposed financing) of £21,048k comprising £8,970k in 2018-19, £10,038k in 2019-20 and £2,040k in 2020-21
- note the revised position on earmarked and un-earmarked general fund balances.

|  |   |
|--|---|
| <b>Legal Implications</b>  | Statutory requirement to set (and maintain) a balanced budget.  |
| <b>Community Safety Implications</b>   | None  |
| <b>Health and Safety and Risk Management Implications</b>                    | The budget contains provision for the Council to discharge its obligations under health and safety legislation, and to maintain adequate levels of reserves in order to manage risks.<br><br>There are 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. |
| <b>Equality Duty considered / Impact Assessment completed</b>                | As part of the budget growth bids and savings bids process.   |
| <b>Wards Affected</b>  | All   |
| <b>The contribution this decision would make to the Council's priorities</b> | The revenue budget is set to support the Council in achieving its priorities as set out in the Council Plan and to facilitate control of expenditure on its activities.<br><br>Sound financial management is essential to successful delivery of the Council's financial plans, achievement of value for money and the stewardship and safeguarding of public money.  |
| <b>Is this a Key Decision</b>  | Yes   |
| <b>Portfolio Holder</b>  | Cllr Barbara Cannon   |
| <b>Lead Officer</b>  | Catherine Nicholson, Head of Financial Services,<br>01900 702503<br><a href="mailto:catherine.nicholson@allerdale.gov.uk">catherine.nicholson@allerdale.gov.uk</a>  |

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

|                  |   |                                      |   |
|------------------|---|--------------------------------------|---|
| Community Safety | Y | 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 Executive Summary**

- 1.1 This report summarises the Council's financial performance against budget for the period April to September 2018 and seeks approval for the revised revenue and capital Budgets for 2018-19.

### **Quarter 2 – Monitoring position**

- 1.2 The headline messages at the end of quarter 2 of 2018-19 are:

#### Revenue Budget

- (i) Against the original budget expenditure on services of £14,604k the Council is currently projecting a small underspend of £20k.
- (ii) During the year the Council has identified the need for an additional budget of £500k to support the development and delivery of strategic priorities. This additional budget, to be funded from release of earmarked reserves, will increase the projected outturn to £15,084k.
- (iii) After taking account of the £500k to be released from earmarked balances, the projected outturn position will result in a £20k reduction to the contribution required from the General Fund to finance the budget.

#### Earmarked Reserves Budget

- (iv) Following publication of the 2017-18 outturn position, the budgeted use of Reserves was increased from £1,066k to £1,890k to reflect the profiling of expenditure presented as part of that report.
- (v) A variance of £123k (underspend) is projected against this updated budget.

#### Capital Budget

- (vi) The capital budget is forecast to be underspent by £12.04million.
- (vii) The forecast underspend will be reduced by re-profiling £3.04 million of the budget to subsequent financial years, leaving an underspend of £9 million. This has been taken into account of as part of the revised capital budget.

#### Treasury Management

- (viii) Treasury management activities during the quarter were carried out in accordance with the Council's treasury management and investment strategies and within the limits established by the approved treasury and prudential indicators for 2018-19.
- (ix) No new external borrowing was undertaken during the three months ending 30 September.

## Revised Revenue and Capital Budgets

### Revised revenue Budget

- 1.3 On 7 March 2018, Council approved a revenue budget for 2018-19 comprising:
- total planned revenue expenditure of £15,670k, including parish precepts of £2,024k
  - a net budget requirement of £14,604k, including planned use of earmarked balances of £1,066k.
- 1.4 To address budget pressures and savings identified through in-year budget monitoring and update the planned use of earmarked reserves, the revised revenue budget proposal set out in this report includes:
- a £1,181k increase in planned revenue expenditure increasing the total (including parish precepts of £2,024k) from £15,670k to £16,851k
  - an increase in planned use of earmarked reserves (compared to the original budget) of £701k (£123k decrease compared to the re-profiled post 2017-18 outturn total of £1,890k)
  - an increase in the net budget requirement of £480k from £14,604k to £15,084k including planned use of earmarked balances of £1,750k.
- 1.5 Changes to the 2018-19 Net Service Expenditure Budget of £480k comprise:
- recurring adjustments, impacting on the Council's base budget of £37k
  - non-recurring adjustments of £443k.
- 1.6 These changes increase:
- the Council's recurring (base) budget from £11,495k to £11,532k; and
  - Net Service Expenditure budget for 2018-19 from £12,580k to £13,060k.

### Revised Capital Budget

- 1.7 In March 2018, Council approved a three year capital budget of £18,973k (comprising £14,593k in 2018-19, £2,340k in 2019-20 and £2,040k in 2020-21), financed as follows:

| Capital financing                | £'000         | Comment                      |
|----------------------------------|---------------|------------------------------|
| grants and contributions         | 11,076        | including £9,043k in 2018-19 |
| borrowing                        | 7,877         | including £5,530k in 2018-19 |
| revenue                          | 4             |                              |
| earmarked reserves               | 16            |                              |
| <b>TOTAL – capital financing</b> | <b>18,973</b> |                              |

- 1.8 The capital budget was subsequently increased to £21,759k to reflect the addition of budget carried forward from 2017-18 of £2,786k, funded from capital receipts of £277k, General Fund Balances of £453k and borrowing of £1,635k.
- 1.9 The proposed revised capital budget for the three years 2018-19 to 2020-21 is £21,048k. The revised budget includes:
- re-profiling adjustments of £3,043k (outlined above) involving the transfer of £3,043k of expenditure and associated financing from 2018-19 to 2019-20 to reflect current expenditure forecasts
  - re-allocations and repurposing of existing budgets of £4,000k, and
  - net capital savings bids of £711k.
- 1.10 The revised capital budget is funded as follows:

| Capital financing                | £'000         | Comment                            |
|----------------------------------|---------------|------------------------------------|
| capital receipts                 | 277           | b/f from 2017-18                   |
| grants and contributions         | 6,826         |                                    |
| borrowing                        | 13,472        | including £1,634k b/f from 2017-18 |
| revenue                          | 4             |                                    |
| earmarked reserves               | 16            |                                    |
| general fund balances            | 453           | b/f from 2017-18                   |
| <b>TOTAL – capital financing</b> | <b>21,048</b> |                                    |

#### Impact on General Fund Balances

- 1.11 The proposed changes to the 2018-19 revenue and capital budgets will reduce the planned use of General Fund Balances by £20k. This will bring the total planned use of general fund balances during 2018-19 down from £897k to £877k. The total planned use in 2018-19 of £877k comprises £424k to finance the revenue budget and £453k to finance the capital programme.

## **2.0 Introduction**

2.1 This report summarises the Council's financial performance against budget for the period April to September 2018 and seeks approval for the revised revenue and capital budgets for 2018-19.

### **Financial performance against budget for the period April to September 2018**

2.2 The Council's financial regulations require the Section 151 Officer (Head of Financial Services) to report regularly (at least quarterly), to Executive, the latest financial position against budget.

2.3 This report outlines for both the Council's Revenue budget (section 3) and Capital budget (section 5), the forecast outturn for 2018-19 based on net expenditure to the end of September 2018 and the projected net expenditure to 31 March 2019.

2.4 Reasons for significant variances (+/- £30k) between the full year forecast and the approved estimates (budget) for 2018-19 are included in this report alongside details of how variances have been addressed in preparing the revised budget.

2.5 This report also provides:

- details of forecast expenditure on projects funded from Earmarked Reserves (section 3)
- a summary forecast income from business rates, council tax and non-specific (un-ringfenced) grants (section 3)
- a summary of the impact of the forecast outturn position on earmarked reserves and general fund balances (section 7)
- details of treasury management activity and confirmation of compliance with the Treasury and Prudential Indicators included in the Council's Treasury Management Strategy Statement (sections 8)

### **Revised Budget**

2.6 The Council has a statutory responsibility (under the Local Government Finance Act 1992) to set a balanced budget for each financial year. This means the Council's expenditure on services must be contained within the available funding envelope. The Council's 2018-19 (original) revenue and capital budgets were approved by Council on 7 March 2018.

2.7 The financial management approach agreed by Members in 2012-13 also requires the Council to prepare a revised budget that takes into consideration, the outputs and findings of in-year financial monitoring procedures and quarterly financial reporting to the Council's Executive. This approach allows for more accurate monitoring of expenditure and enables the Council's Executive to approve revisions and supplementary estimates.

- 2.8 As in previous years, the Council's Executive have continued with their approach of holding Star Chambers where the relevant Portfolio Holder and Head of Service discuss performance against budget in their areas with members of the Corporate Leadership Team. During these discussions the monitoring of the budget is discussed in detail with the emphasis on key volatile areas and significant variances.
- 2.9 A key message from the Star Chambers is that whilst the Council has managed its budgets and financial reserves to date, there are growing levels of uncertainty about our funding levels from 2020 onwards. This means that managers will have to have a greater focus on their costs and income and a better awareness of productivity to ensure the best use of resources.
- 2.10 There is a growing awareness that the council needs to change its approach to risk acceptance and that there is a need to act more commercially and explore more commercial opportunities and projects.
- 2.11 The bids submitted and recommended as part of this revised budget are those that are non- discretionary and those that are additional pressures to existing council priorities.
- 2.12 A number of other potential variances were acknowledged but have not led to additional budget requests. The budget holders for these areas are looking at alternative plans to ensure the variances can be reduced or eliminated. These will continue to be monitored and reported on as part of the regular monitoring reports.
- 2.13 This report sets out the Council's proposed:
- revised revenue budget for 2018-19 (section 4), and
  - revised capital budget for the three year period 2018-19 to 2020-21 (section 6).

### **3 Summary of Projected Revenue Outturn Position**

- 3.1 Table 1 shows, as at the end of September 2018, the Council's overall projected 2018-19 revenue outturn position. It shows:

#### Revenue Budget Expenditure

- net budgeted expenditure of £14.6 million
- a projected outturn (including contributions to reserves) of £15.08 million
- a projected variance for the year to March 2019 of £480k. This projection takes into account the need for an additional budget of £500k to support the development and delivery of strategic priorities. This additional budget, to be funded from release of earmarked reserves, will increase the projected outturn from £14.584m to £15.084m. Against the original budget

of £14.604m the Council is currently projecting a small underspend of £20k

- after taking into account the £500k to be released from earmarked balances, the projected outturn position will result in a £20k reduction to the contribution required from the General Fund to finance the budget

#### Earmarked Reserves Budget

- budgeted expenditure of £1.89 million
- a projected outturn of £1.77 million
- a projected underspend against the earmarked reserves budget (updated to reflect the 2017-18 outturn position) of £123k, reflecting changes in the anticipated timing of expenditure from reserves.

**Table 1 - Summary of Projected Outturn against Annual Budget**

|  | Original Budget<br>£'000 | Projected Outturn<br>£'000 | Projected Variance<br>£'000 | Report Ref. |
|--|--------------------------|----------------------------|-----------------------------|-------------|
| Net Expenditure on Services                          | 12,580                   | 13,060                     | 480                         |             |
| Parish Precepts                                      | 2,024                    | 2,024                      | 0                           |             |
| <b>Net Expenditure on Services</b>                   | <b>14,604</b>            | <b>15,084</b>              | <b>480</b>                  | 3.2         |
| Expenditure on Earmarked Priorities <sup>1</sup>     | 1,890                    | 1,767                      | (123)                       | 3.4         |
| <b>Total Net Expenditure</b>                         | <b>16,494</b>            | <b>16,851</b>              | <b>357</b>                  |             |
| Less: Planned use of earmarked balances <sup>1</sup> | (1,890)                  | (1,767)                    | 123                         | 3.4         |
| <b>Net Budget Requirement/ Outturn</b>               | <b>14,604</b>            | <b>15,084</b>              | <b>480</b>                  |             |
| Funding:   |                          |                            |                             |             |
| Taxation & Government Grants                         | 14,160                   | 14,160                     | 0                           | 3.8         |
| Release of earmarked balances                        | 0                        | 500                        | 500                         |             |
| Contribution from/to General Fund                    | 444                      | 424                        | (20)                        |             |
| <b>Total Funding</b>                                 | <b>14,604</b>            | <b>15,084</b>              | <b>480</b>                  |             |

<sup>1</sup> £1,066k plus £824k re-profiling adjustment to reflect 2017-18 outturn



3.2 A breakdown of the overall projected outturn variance (£480k) by portfolio is shown in Table 2.

**Table 2 – Summary of variance by Portfolio**

|                               | <b>Annual Budget</b> | <b>Projected Outturn</b> | <b>Planned contribution to reserve</b> | <b>Projected Variance</b> |
|-------------------------------|----------------------|--------------------------|--|---------------------------|
|                               | <b>£'000</b>         | <b>£'000</b>             | <b>£'000</b>                           | <b>£'000</b>              |
| Leader of the Council         | 1,127                | 1,214                    | 0                                      | 87                        |
| Economic Growth               | (1,415)              | (1,576)                  | 0                                      | (161)                     |
| Corporate Resources           | 5,539                | 5,908                    | 0                                      | 369                       |
| Housing, Health & Wellbeing   | 913                  | 871                      | 0                                      | (42)                      |
| Environmental Quality         | 2,909                | 3,116                    | 25                                     | 232                       |
| Governance & People Resources | 1,312                | 1,254                    | 35                                     | (23)                      |
| Tourism & Culture             | 379                  | 381                      | 0                                      | 2                         |
| Transformation                | 1,816                | 1,832                    | 0                                      | 16                        |
| Parish Precepts               | 2,024                | 2,024                    | 0                                      | 0                         |
| <b>Total</b>                  | <b>14,604</b>        | <b>15,024</b>            | <b>60</b>                              | <b>480</b>                |

3.3 Significant variances between budget and projected outturn have been addressed through the revised budget. Explanations for significant variances are included within the revised budget proposals set out in section 4.

### **Projects funded from Earmarked Reserves**

3.4 At 1 April 2018, the balance in earmarked reserve was £3,804k, comprising:

- £2,372k held for service expenditure
- £1,432k held for accounting purposes or as contingency against specified risks.

3.5 Against the balance of £3,804k the profiled spend identified for 2018-19 - presented as part of the 2017-18 outturn report - is £1,890k. The remaining balance was profiled to be spent in 2019-20 and subsequent financial years or to be held for to meet contingencies.

3.6 The current projected outturn for 2018-19 is £1,767k, giving a projected underspend of £123k at the end of quarter 2. This reflects a change in the anticipated timing of expenditure from the balances available within reserves and is taken into account in the revised budget by way of a re-profiling adjustment. The underspend does not have any impact on the general fund.

**Table 3 - Summary of projected expenditure from earmarked reserves**

| Reserve Funded projects                   | Reserve Balance<br>£'000 | Profiled Budget 2018-19<br>£'000 | Projected outturn<br>£'000 | Budget adjustment to spend<br>£'000 |
|---|--------------------------|----------------------------------|----------------------------|-------------------------------------|
| Leader of the Council                     | 558                      | 340                              | 329                        | (11)                                |
| Economic Growth                           | 114                      | 114                              | 114                        | 0                                   |
| Corporate Resources                       | 189                      | 89                               | 84                         | (5)                                 |
| Housing, Health & Wellbeing               | 844                      | 821                              | 798                        | (23)                                |
| Environmental Quality                     | 115                      | 92                               | 90                         | (2)                                 |
| Governance & People Resources             | 282                      | 182                              | 144                        | (38)                                |
| Tourism & Culture                         | 92                       | 92                               | 48                         | (44)                                |
| Transformation                            | 178                      | 160                              | 160                        | 0                                   |
| <b>Total held for service expenditure</b> | <b>2,372</b>             | <b>1,890</b>                     | <b>1,767</b>               | <b>(123)</b>                        |
| Accounting/Contingency reserves           | 1,432                    | 0                                | 0                          | 0                                   |
| <b>Total Reserves</b>                     | <b>3,804</b>             | <b>1,890</b>                     | <b>1,767</b>               | <b>(123)</b>                        |

- 3.7 In addition to the £1,767k projected outturn expenditure, £500k previously held to meet contingencies will be released to create a one-off budget, requested as part of the revised budget growth bids, to support the Council's strategic priorities. A summary of projected movements on earmarked reserves is set out in section 7.

#### **Taxation and Non-specific grant income**

- 3.8 Details of the Council's forecast taxation and non-specific grant income and expenditure for the year, compared with budget, are shown in the following table. This includes income received from:
- Non-ring fenced government grants such as Revenue Support Grant and New Homes Bonus
  - Council tax and Non Domestic Rates (NNDR).

**Table 4 -Taxation and Non-specific grant income**

|   | Budget<br>£'000 | Forecast Outturn<br>£'000 | Variance<br>£'000 | Para |
|---|-----------------|---------------------------|-------------------|------|
| Revenue support grant                           | 652             | 652                       | 0                 | -    |
| Rural Services Delivery Grant                   | 325             | 325                       | 0                 | -    |
| New Homes Bonus                                 | 1,004           | 1,004                     | 0                 | -    |
| Council tax – excluding parish element          | 5,100           | 5,100                     | 0                 | -    |
| Council tax - parish precepts                   | 2,024           | 2,024                     | 0                 | -    |
| Collection fund surplus/(deficit) - Council Tax | 91              | 91                        | 0                 | -    |
| NNDR funding                                    | 4,964           | 4,964                     | 0                 | -    |
|   | <b>14,160</b>   | <b>14,160</b>             | <b>0</b>          |      |

- 3.9 No variance is currently projected in respect of income from Taxation and Non-specific grant income.

## Key Variances

- 3.10 Significant variances between budget and projected outturn have been addressed through the revised budget. A summary of projected outturn variances and associated changes included in the revised budget are set out in the table below.

**Table 5 – Impact of identified variances on the revised budget**

|                             | Outturn<br>Variance<br>£'000 | Budget Adjustments |                  |           |            | Un-<br>adjusted<br>£'000 |
|-----------------------------|------------------------------|--------------------|------------------|-----------|------------|--------------------------|
|                             |                              | Recurring          | Non<br>recurring | Salary    | Total      |                          |
|                             |                              | £'000              | £'000            | £'000     | £'000      |                          |
| Leader of the Council       | 87                           | 39                 | 10               | 43        | 92         | (5)                      |
| Economic Growth             | (161)                        | (60)               | (8)              | (73)      | (141)      | (20)                     |
| Corporate Resources         | 369                          | 0                  | 357              | (2)       | 355        | 14                       |
| Housing, Health & Wellbeing | (42)                         | 0                  | (69)             | 31        | (38)       | (4)                      |
| Environmental Quality       | 232                          | 83                 | 138              | 6         | 227        | 5                        |
| Governance & People Res.    | (23)                         | (9)                | 0                | (23)      | (32)       | 9                        |
| Tourism & Culture           | 2                            | 0                  | 0                | 0         | 0          | 2                        |
| Transformation              | 16                           | 18                 | (41)             | 40        | 17         | (1)                      |
| Parish Precepts             | 0                            | 0                  | 0                | 0         | 0          | 0                        |
| <b>Total</b>                | <b>480</b>                   | <b>71</b>          | <b>387</b>       | <b>22</b> | <b>480</b> | <b>0</b>                 |

- 3.11 Variances not considered significant have not been addressed through changes to the budget. When taken together these variances are currently projected to have a nil impact on the Authority's overall financial position. These remaining variances will however continue to be monitored and reported on as part of the regular monitoring reports and action taken to reduce or eliminate them over the remainder of the financial year.

#### 4.0 Revised revenue budget 2018-19

4.1 The proposed revised revenue budget for 2018-19 and the associated increase in the Council's net budget requirement of £480k is summarised in table 6.

**Table 6: 2018-19 Revised Revenue Budget**

| Net Expenditure Budget                         | 2018-19                    |                           | Change<br>£000 | Para |
|--|----------------------------|---------------------------|----------------|------|
|  | Original<br>Budget<br>£000 | Revised<br>Budget<br>£000 |                |      |
| Base Budget                                    | 11,932                     | 11,932                    | 0              |      |
| Change in salary costs - recurring             | 135                        | 101                       | (34)           | 4.10 |
| Recurring growth                               | 526                        | 710                       | 184            | 4.8  |
| Recurring savings                              | (676)                      | (789)                     | (113)          | 4.8  |
| Self-sufficiency savings                       | (422)                      | (422)                     | 0              |      |
| <b>Recurring (base) budget</b>                 | <b>11,495</b>              | <b>11,532</b>             | <b>37</b>      |      |
| Change in salary costs - non-recurring         | 0                          | 56                        | 56             | 4.10 |
| Non-recurring growth                           | 1,102                      | 1,874                     | 772            | 4.9  |
| Non-recurring savings                          | (17)                       | (402)                     | (385)          | 4.9  |
| <b>Net Service Expenditure budget</b>          | <b>12,580</b>              | <b>13,060</b>             | <b>480</b>     |      |
| Expenditure on earmarked priorities            | 1,066                      | 1,767                     | 701            |      |
| <b>Proposed budget (excl. parish precepts)</b> | <b>13,646</b>              | <b>14,827</b>             | <b>1,181</b>   |      |
| Parish Precepts                                | 2,024                      | 2,024                     | 0              |      |
| <b>Proposed Budget (incl. parish precepts)</b> | <b>15,670</b>              | <b>16,851</b>             | <b>1,181</b>   |      |
| Less: Planned use of earmarked balances        | (1,066)                    | (1,767)                   | (701)          |      |
| <b>Net Budget Requirement</b>                  | <b>14,604</b>              | <b>15,084</b>             | <b>480</b>     |      |

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

**Table 7: 2018-19 Revised Revenue Funding**

|                                       | 2018-19                    |                           | Change<br>£000 | Para |
|---------------------------------------|----------------------------|---------------------------|----------------|------|
|                                       | Original<br>Budget<br>£000 | Revised<br>Budget<br>£000 |                |      |
| Government Grants & Taxation          | 14,160                     | 14,160                    | 0              | 4.15 |
| Release of earmarked balances         | 0                          | 500                       | 500            |      |
| Use of/(contribution to) General Fund | 444                        | 424                       | (20)           |      |
| <b>Total funding</b>                  | <b>14,604</b>              | <b>15,084</b>             | <b>480</b>     |      |

4.3 Changes to the 2018-19 Net Service Expenditure Budget of £480k comprise:

|   | £'000      |
|---|------------|
| <b>Recurring adjustments</b>                |            |
| reduction in the salary budget              | (34)       |
| recurring growth bids                       | 184        |
| recurring savings bids                      | (113)      |
| <b>TOTAL - Recurring adjustments</b>        | <b>37</b>  |
| <b>Non-recurring adjustments</b>            |            |
| increase to the salary budget               | 56         |
| non-recurring growth bids                   | 772        |
| non-recurring savings bids                  | (385)      |
| <b>TOTAL – Non-recurring adjustments</b>    | <b>443</b> |
| <b>TOTAL – Change to net service budget</b> | <b>480</b> |

4.4 These changes increase:

- the Council's recurring (base) budget from £11,495k to £11,532k; an increase of £37k, and
- the Net Service Expenditure budget for 2018-19 from £12,580k to £13,060k; an increase of £480k.

4.5 After taking account of the additional budget of £500k that will be met from a release of earmarked balances, the revised revenue budget for 2018-19 will reduce the contribution required from the General Fund to finance the budget by £20k.

## Changes to the Net Service Expenditure Budget

- 4.6 A summary of the proposed changes to the net service expenditure budget is set out in table 8.

**Table 8: Summary of Net Service Expenditure by Portfolio**

| Portfolio                     | Original budget <sup>1</sup><br>£'000 | Recurring growth & savings<br>£'000 | Non-recurring growth & savings<br>£'000 | Salary changes<br>£'000 | Revised budget<br>£'000 |
|-------------------------------|---------------------------------------|-------------------------------------|---|-------------------------|-------------------------|
| Leader of the Council         | 1,127                                 | 39                                  | 10                                      | 43                      | 1,219                   |
| Economic Growth               | (1,415)                               | (60)                                | (8)                                     | (73)                    | (1,556)                 |
| Corporate Resources           | 5,539                                 | 0                                   | 357                                     | (2)                     | 5,894                   |
| Housing, Health & Well-being  | 913                                   | 0                                   | (69)                                    | 31                      | 875                     |
| Environmental Quality         | 2,909                                 | 83                                  | 138                                     | 6                       | 3,136                   |
| Governance & People Resources | 1,312                                 | (9)                                 | 0                                       | (23)                    | 1,280                   |
| Tourism & Culture             | 379                                   | 0                                   | 0                                       | 0                       | 379                     |
| Transformation                | 1,816                                 | 18                                  | (41)                                    | 40                      | 1,833                   |
| <b>Net Service Expend.</b>    | <b>12,580</b>                         | <b>71</b>                           | <b>387</b>                              | <b>22</b>               | <b>13,060</b>           |

<sup>1</sup> Adjusted for in-year virements and revised portfolios

- 4.7 Further details of the growth and saving bids underlying these increases are set below.

### Recurring Growth and Savings bids

- 4.8 Details of recurring growth of £184k and savings bids of £(113)k (net total £71k) included as adjustments to the Council's base budget are summarised in tables 9 and 10. If approved, these changes will impact on the base budget for 2018-19 and future financial years.

**Table 9: Recurring growth**

| Portfolio/Service            | Description  | Growth<br>£000 |
|------------------------------|--|----------------|
| <b>Leader of the Council</b> |  |                |
| Communications & Marketing   | Unbudgeted costs of corporate policy advice and guidance on the impact of central government policy changes and future policy direction  | 14             |
| Communications & Marketing   | Shortfall in advertising income. Work is being undertaken to develop this income stream, however current year earnings are expected to fall short of the current £35k budget. In particular income from website advertising remains low. Work is ongoing to generate advertising income from the multi-story car park and other car parks. | 25             |

| Portfolio/Service             | Description  | Growth<br>£000 |
|-------------------------------|--|----------------|
| <b>Environmental Quality</b>  |  |                |
| Recycling Services            | Reduction in income from the sale of recyclable materials. This relates mainly to income from the sale of paper and card as a consequence of shortfalls in actual sales price and the amount of material being collected compared to budget.   | 75             |
| Recycling Services            | Increase in expenditure on the costs of processing recyclates as a result of an increase in the amount of co-mingled waste being collected.  | 23             |
| Recycling Services            | Shortfall in projected recycling credits income compared to budget. This is a result of a reduction in overall projected tonnage of material being collected (mainly green waste)  | 6              |
| Animal Welfare                | Projected shortfall in income from returned stray dogs as a result of the low number of dogs being collected   | 6              |
| Trade Waste                   | Shortfall in expected income from the sale of recyclable materials. This related mainly to income from sale of paper and card which has seen a shortfall in sales price achieved compared to budget and a reduction in amount of material being collected.   | 17             |
| <b>Transformation</b>         |  |                |
| Revenues                      | Reduction in recovery of court costs based on trend from previous financial year and current year's performance to date. This is underpinned by improvements to collections and arrears as a result of increased choice of payment methods, improved take up of Council Tax direct debits and more targeted recovery action. | 18             |
| <b>Total recurring growth</b> |  | <b>184</b>     |

**Table 10: Recurring savings**

| Portfolio/Service                        | Description  | Saving<br>£000 |
|--|--|----------------|
| <b>Economic Growth</b>                   |  |                |
| Camping & Caravan Site                   | Following a successful trial in 2017-18, the site is now expected to remain open year round. Based on the additional income received in 2017-18, the income budget for 2018-19 has been increased by £61k to reflect the decision to extend the sites operating season from 11 to 12 months. | (61)           |
| <b>Environmental Quality</b>             |  |                |
| Trade Waste                              | Forecast additional income from the Trade Waste service net of disposal expenditure.   | (28)           |
| Off-street - Owned Car Parks             | (£50k) saving to reflect additional car parking income less £35k expenditure growth to meet the additional cost of processing card transactions.   | (15)           |
| <b>Governance &amp; People Resources</b> |  |                |
| Pensions                                 | Reduction in unfunded pension payments. These payments are expected to diminish over time as the number of pensioners receiving such payment reduces.  | (9)            |
| <b>Total recurring savings</b>           |  | <b>(113)</b>   |

## Non-recurring growth and savings bids

- 4.9 Non-recurring growth of £772k and savings bids of £(385)k (net value £387k) submitted as part of this report are summarised in tables 11 and 12. If approved these will impact on the 2018-19 budget but will not impact on the base budget for future financial years.

**Table 11: Non – non-recurring growth**

| Portfolio/Service                      | Description   | Growth<br>£000 |
|--|---|----------------|
| <b>Leader of the Council</b>           |   |                |
| Leaders Portfolio                      | To support small scale projects with grant funding, including voluntary, community and faith based groups that support delivery of the Council's purpose and priorities.  | 10             |
| <b>Economic Growth</b>                 |   |                |
| Planning & Development                 | Unbudgeted costs incurred in relation to Broughton Park Public Inquiry.   | 28             |
| Maryport Shop Front Improvements       | Growth bid to facilitate extension of the shopfront improvements scheme in Wigton.  | 20             |
| Lake District National Park            | Contribution to local plan part 2, including car parking strategy.  | 30             |
| <b>Corporate Resources</b>             |   |                |
| Footway Maintenance                    | To meet the cost of maintenance and repair in relation to footway lighting assets for which the Council is responsible. In order to achieve the budgeted saving previously agreed responsibility for lighting columns will need to be transferred; this has not yet taken place.  | 10             |
| Public Conveniences                    | Delays in the transfer/sale of these assets has meant associated operating costs have not reduced as originally anticipated. As a consequence the anticipated saving will not be achieved.  | 17             |
| Footway Maintenance                    | Increase in the cost of electricity costs for Footway lighting assets for which the Council is responsible.   | 5              |
| <b>Housing, Health &amp; Wellbeing</b> |   |                |
| Pest Control                           | Projected shortfall in income.  | 14             |
| <b>Environmental Quality</b>           |   |                |
| Recycling Services                     | The bid of £20k comprises shortfalls of: <ul style="list-style-type: none"> <li>£5k between the estimated recycling processing costs for 2017-18 accrued at 31 March 2018 and the actual costs incurred</li> <li>£15k shortfall between the estimated recycling credit income for 2017-18 accrued at 31 March 2018 and the actual amount received.</li> </ul> | 20             |
| Multi-storey Car Park                  | This bid addresses a number of forecast outturn variances: <ul style="list-style-type: none"> <li>£89k shortfall in parking income (based on usage to date), offset by,</li> <li>(£11k) favourable expenditure variance across a number of budget lines.</li> </ul>   | 78             |



| Portfolio/Service  | Description  | Growth<br>£000 |
|--|--|----------------|
| Street Cleansing   | To meet the purchase and licence cost of surveillance cameras for Oldside to address fly tipping issues in this area.  | 8              |
| The Wave Centre  | A saving of £50k was agreed in the 2018-19 budget for a reduction in management fee at the Wave. The operator, GLL have committed to making a £25k saving in this financial year due to the inclusion of a fitness facility within the building. | 25             |
| Parks & Ground Maintenance   | Shortfall in income to be received following a reduction in third party work being undertaken.   | 7              |
| <b>Total Non-recurring growth - impact on general fund balance</b> |  | <b>272</b>     |

### Non-recurring Growth – no additional impact on general fund balance

| Service                           | Description  | Saving<br>£000 |
|-----------------------------------|--|----------------|
| Strategic Priorities              | Earmarked Reserve totalling £500k previously held to meet contingencies will be released to create a one-off budget to meet revenue costs associated with the development and delivery of major capital projects and other tasks connected with the delivery of strategic priorities | 500            |
| <b>Total Non-recurring growth</b> |  | <b>772</b>     |

**Table 12: Non – Non-recurring savings**

| Portfolio/Service          | Description   | Saving<br>£000 |
|----------------------------|---|----------------|
| <b>Economic Growth</b>     |   |                |
| Camping & Caravan Site     | Income recognised in 2017-18 outturn position was based on interim financial information provided by the site operator in November 2017. Confirmation of the Council share of net income from the site (for the year to February 2018) was not received until June 2018. This showed additional income of £61k due to the Council in respect of 2017-18. Underlying this increase was the decision to extend site opening from 11 to 12 months. The budget for 2018-19 has been increased by £61k to accommodate the income not recognised in the 2017-18 outturn position. | (61)           |
| Camping & Caravan Site     | Additional income expected in 2018-19 following exceptional summer weather  | (25)           |
| <b>Corporate Resources</b> |   |                |
| Banking & Interest         | Reduction in PWLB borrowing costs to reflect changes made to the expected timing of capital expenditure funded from borrowing across financial years and the associated changes to external borrowing requirements.   | (133)          |
| MRP & Finance Charges      | Reduction in Minimum Revenue Provision (MRP) charge for 2018-19 in respect of 'unfinanced' capital expenditure incurred in 2017/18. This reduction reflects the re-profiling of expenditure from 2017-18 to 2018-19 and the resulting deferral of MRP.  | (42)           |

| Portfolio/Service                      | Description  | Saving<br>£000 |
|--|--|----------------|
| <b>Housing, Health &amp; Wellbeing</b> |  |                |
| Assistance - Housing Services          | It is expected that expenditure on DFG's, provided through the capital budget, will be higher than had been anticipated. This will result in additional revenue income being received in relation to the administration of these grants. | (83)           |
| <b>Transformation</b>                  |  |                |
| Universal Credit                       | Additional new burdens income has been received in relation to the provision of support to claimants transitioning from legacy benefits to Universal Credit.   | (41)           |
| <b>Total Non-recurring savings</b>     |  | <b>(385)</b>   |

### Change in salary costs (Pay Groups)

4.10 Details of the recurring and non-recurring salary cost adjustments made to net service expenditure are included in table 13. They include:

- recurring savings of £34k; these changes will impact on the base budget for 2018-19 and future financial years
- non-recurring changes of £56k; these changes will not impact on the base budget for future financial years.

**Table 13: Changes to salary costs**

|  | Recurring<br>£000 | Non-<br>Recurring<br>£000 |
|--|-------------------|---------------------------|
| Structure changes: Programmes and Projects   | -                 | 25                        |
| Posts filled on different Spinal Column Points (SCP)   | (33)              | -                         |
| Other minor changes to staff costs   | (1)               | -                         |
| Additional costs of temporary structure: Digital Allerdale   | -                 | 14                        |
| Interim arrangement: reallocation of saving from vacant Project Manager post to cover the temporary structure: Digital Allerdale | -                 | (14)                      |
| Additional costs of temporary structures in Parking Services   | -                 | 10                        |
| Additional costs of temporary structures in Democratic Services  | -                 | 21                        |
|  | <b>(34)</b>       | <b>56</b>                 |

## Use of Contingencies

- 4.11 The original approved budget included a contingency amount of £260,350 to cover unexpected expenditure.
- 4.12 To date the following allocations have been made from the Contingencies budget:

**Table 14: Allocation of contingency sums**

|   | £              |
|---|----------------|
| <b>Opening Balance</b>                                    | <b>260,350</b> |
| Cost of 2018-19 Pay Award                                 | (155,300)      |
| Additional cost of Cockermouth Market Place highway works | (15,000)       |
| Allocation for Maternity Ward contribution                | (35,000)       |
| Allocation for works to Salterbeck Cemetery               | (55,050)       |
| <b>Remaining Unallocated Balance</b>                      | <b>0</b>       |

## Strategic Priorities

- 4.13 The original approved budget included a £1million budget to meet revenue costs associated with the development and delivery of major capital projects, procurement activities and other tasks connected with the delivery of strategic priorities.
- 4.14 To date the following allocations have been made from the strategic priorities budget:

**Table 15 Allocations made from the strategic priorities budget**

|   | £                |
|---|------------------|
| <b>Opening Balance</b>                                | <b>1,000,000</b> |
| Allocated to cost of Major Procurement                | (290,062)        |
| Feasibility work for potential Joint Stadium          | (457,500)        |
| Feasibility work for future of Workington Town Centre | (48,600)         |
| Development of the Wave Centre                        | (87,000)         |
| Small schemes   | (42,800)         |
| <b>Remaining Unallocated Balance</b>                  | <b>74,038</b>    |

## Government Grants and Taxation Financing

- 4.15 Proposed changes to the financing element of the 2018-19 budget - including income from non-ring fenced government grants and business rates (NNDR) are summarised in table 16.

**Table 16- Taxation and non-specific grant income**

|   | Original Budget | Revised Budget | Change £'000 | Para |
|---|-----------------|----------------|--------------|------|
| Revenue support grant                           | 652             | 652            | 0            | -    |
| Rural Services Delivery Grant                   | 325             | 325            | 0            | -    |
| New Homes Bonus                                 | 1,004           | 1,004          | 0            | -    |
| Council tax – excluding parish element          | 5,100           | 5,100          | 0            | -    |
| Council tax - parish precepts                   | 2,024           | 2,024          | 0            |      |
| Collection fund surplus/(deficit) - Council Tax | 91              | 91             | 0            | -    |
| NNDR funding                                    | 4,964           | 4,964          | 0            | 4.16 |
|   | <b>14,160</b>   | <b>14,160</b>  | <b>0</b>     |      |

- 4.16 A summary of the changes in funding from National Non Domestic Rates (NNDR) is set out in table 17.

**Table 17 - NNDR funding 2018-19**

|   | Budget £000  | Revised £000 | Change £000 |
|---|--------------|--------------|-------------|
| <b>Fixed Elements:</b>                                  |              |              |             |
| Allerdale share of NNDR Income                          | 11,075       | 11,075       | 0           |
| Allerdale share of NNDR Income                          | 557          | 557          |             |
| Net tariff payable to Central Government                | (7,135)      | (7,135)      | 0           |
| Share of estimated collection fund deficit at 31.3.17   | (564)        | (564)        | 0           |
| 'Fixed' element of NNDR income                          | <b>3,933</b> | <b>3,933</b> | <b>0</b>    |
| <b>Variable Elements:</b>                               |              |              |             |
| Section 31 grant  | 1,547        | 1,600        | (53)        |
| Levy payable (net of reduction under pool arrangements) | (516)        | (569)        | 53          |
| Variable element of NNDR income                         | <b>1,031</b> | <b>1,031</b> | <b>0</b>    |
|   | <b>4,964</b> | <b>4,964</b> | <b>0</b>    |

- 4.17 The amount of NNDR income available to the general fund and taken into account when setting the budget each year is based on the figures contained in the government return - NNDR1.

- 4.18 Although the NNDR1 form fixes a significant portion of NNDR income available to the Council's general fund for the financial year, it does not fix the amount of:
- levy the Council pays to the Cumbria business rates pool,
  - retained levy that the Council receives back from the pool or
  - grant it receives from central government to compensate for certain business rate reliefs (section 31 grant).
- 4.19 Amounts relating to levy payments and section 31 grant are based on the Collection Fund outturn position rather than on the estimates included in the NNDR 1 return. As a consequence, the amount of income the Council receives and pays in relation to these items is subject to change over the course of the financial year.
- 4.20 There is no change in the overall amount of variable elements of NNDR income, but the changes to these individual elements reflects:
- an increase of £53k in the amount of section 31 grant the Council expects to receive to compensate it for the loss of business rates income, that results from the award of certain reliefs and other changes to the business rates system made by central government in 2018-19 and previous years
  - a £53k reduction in the estimated amount of levy (net of reduction under pool arrangements) the Council expects to pay, based on current forecasts of the Collection Fund outturn positions of pool members.

## 5.0 Capital budget – projected outturn position

5.1 The current capital budget is £17.71 million, comprising:

- £14.59 million approved budget for 2018-19
- £2.79 million budget carry forward from 2017-18
- £328k uplift to the amount of Disabled Facility Grant expenditure funded from central government grant.

5.2 The projected 2018-19 Capital Outturn position, as at the end of quarter 2 (September 2018), is summarised in table 18. This shows:

- a projected outturn position of £5.66 million
- an underspend compared to the budget of £12.04 million
- budget carry forward requests of £3.04 million which have been accommodated within the revised capital budget by way of re-profiling adjustments
- remaining underspend of £9 million.

**Table 18 – Capital Programme – Projected Outturn by Portfolio**

|                                    | Current Budget<br>£'000 | Projected Outturn<br>£'000 | Outturn Variance<br>£'000 | Re-profiled<br>£'000 | Variance<br>£'000 |
|------------------------------------|-------------------------|----------------------------|---------------------------|----------------------|-------------------|
| <b>Capital Expenditure</b>         |                         |                            |                           |                      |                   |
| Economic Growth                    | 13,149                  | 2,296                      | (10,853)                  | 1,853                | (9,000)           |
| Corporate Resources                | 369                     | 269                        | (100)                     | 100                  | 0                 |
| Housing, Health & Wellbeing        | 2,349                   | 2,349                      | 0                         | 0                    | 0                 |
| Environmental Quality              | 550                     | 550                        | 0                         | 0                    | 0                 |
| Tourism & Culture                  | 1,250                   | 160                        | (1,090)                   | 1,090                | 0                 |
| Transformation                     | 40                      | 40                         | 0                         | 0                    | 0                 |
| <b>Total - Capital Expenditure</b> | <b>17,707</b>           | <b>5,664</b>               | <b>(12,043)</b>           | <b>3,043</b>         | <b>(9,000)</b>    |
| <b>Capital Financing</b>           |                         |                            |                           |                      |                   |
| Capital Grants                     | 9,792                   | 2,872                      | (6,920)                   | 1,920                | (5,000)           |
| Capital Receipts                   | 277                     | 177                        | (100)                     | 100                  | 0                 |
| Earmarked Reserves                 | 16                      | 16                         | 0                         | 0                    | 0                 |
| Revenue Budget                     | 4                       | 4                          | 0                         | 0                    | 0                 |
| General Fund Balances              | 453                     | 453                        | 0                         | 0                    | 0                 |
| Borrowing                          | 7,165                   | 2,142                      | (5,023)                   | 1,023                | (4,000)           |
| <b>Total - Capital Funding</b>     | <b>17,707</b>           | <b>5,664</b>               | <b>(12,043)</b>           | <b>3,043</b>         | <b>(9,000)</b>    |

## Key Variances

- 5.3 Commentary on the key projected outturn variances and the impact of these variances on the revised capital budget are set out in the following paragraphs.

## Economic Growth

- 5.4 The overall forecast variance against the capital budget for the Economic Growth portfolio is £10,853k. A projected budget carry forward (re-profiling adjustment) of £1,853k, leaves a net variance of £9,000k.

**Table 19 Economic Growth portfolio key variances**

|                            | <b>Outturn<br/>Variance<br/>£'000</b> | <b>Budget<br/>C/F<br/>£'000</b> | <b>Variance<br/>£'000</b> |
|----------------------------|---------------------------------------|---------------------------------|---------------------------|
| Lillyhall Development      | (9,000)                               | 0                               | (9,000)                   |
| Strategic Acquisitions     | (468)                                 | 468                             | 0                         |
| Reedlands Road Development | (1,385)                               | 1,385                           | 0                         |
| <b>Total</b>               | <b>(10,853)</b>                       | <b>1,853</b>                    | <b>(9,000)</b>            |

### **Lillyhall – Development (underspend of £9,000k – reallocated as part of the revised budget)**

- 5.5 The original budget of £9m was established to support initial development of the Lillyhall site. The budget was based on receiving £5m from the LEP with the remaining £4m financed by borrowing. Following confirmation that the Authority will not now receive the £5m LEP funding, this element of the budget has been removed from the capital programme. The remaining £4m, funded from borrowing, will be re-allocated to create a Strategic Priorities and Regeneration capital budget to support achievement of Council Priorities.

### **Strategic Acquisitions – (underspend of £468k to be carried forward to 2019-20)**

- 5.6 From the available budget of £745k, £277k has been allocated to the acquisition of Lonsdale Park in Workington and to meet Stamp Duty Land Tax (SDLT) associated with acquisition of land at Lillyhall.
- 5.7 The remaining budget (£468k) will be re-profiled to 2019-20 where it will remain available to take advantage of property acquisition and development opportunities that support achievement of Council Priorities.

## Corporate Resources

- 5.8 The capital budget for the Corporate Resources portfolio is currently forecast to be underspent by £100k. This is matched by a forecast budget carry forward (re-profiling adjustment) of £100k, leaving no overall variance.

**Table 20 Corporate Resources portfolio key variances**

|                                    | <b>Outturn<br/>Variance<br/>£'000</b> | <b>Budget<br/>C/F<br/>£'000</b> | <b>Variance<br/>£'000</b> |
|------------------------------------|---------------------------------------|---------------------------------|---------------------------|
| Helena Thompson Museum Development | (100)                                 | 100                             | 0                         |
| <b>Total</b>                       | <b>(100)</b>                          | <b>100</b>                      | <b>0</b>                  |

### **Helena Thompson Museum Development (underspend of £100k to be carried forward to 2019-20)**

- 5.9 In the 2017-18 Outturn report it was noted that, following receipt of estimated costs for the proposed scheme, it had not been possible to undertake the works initially planned within the agreed budget. Following a review, the budget will now be used to address some of the DDA compliance issues, such as surfacing within the court yard entrance and other capital enhancement works to the Museum. This work will span the current and next financial year and requires £100k of the £180k budget (met from capital receipts) to be carried forward to 2019-20.

### **Tourism & Culture**

- 5.10 The capital budget for the Tourism & Culture portfolio is currently forecast to be underspent by £1,090k. This is matched by a budget carry-forward (re-profiling adjustment) of £1,090k, leaving no overall variance.

**Table 21 Tourism & Culture portfolio key variances**

|                      | <b>Outturn<br/>Variance<br/>£'000</b> | <b>Budget<br/>C/F<br/>£'000</b> | <b>Variance<br/>£'000</b> |
|----------------------|---------------------------------------|---------------------------------|---------------------------|
| Solway Coast Pathway | (1,090)                               | 1,090                           | 0                         |
| <b>Total</b>         | <b>(1,090)</b>                        | <b>1,090</b>                    | <b>0</b>                  |

### **Solway Coast Pathway (Underspend of £1,090k to be carried forward to 2019-20)**

- 5.11 A budget of £1,250k was previously approved to support the creation of a multi-user coastal pathway, linking Silloth-on-Solway, the West Cumbria Cycle network and the Hadrian's cycle route. The scheme will be funded by a grant of £1m from the Coastal Communities Fund (CCF) and £250k from the RDPE Tourism Infrastructure Fund (subject to successful outcome of funding bid).
- 5.12 There are currently a number of tasks that need to be completed before the scheme can start. These tasks may in turn delay the scheme and require the budget to be carried forward to 2019-20.



## 6.0 Revised Capital Budget

6.1 A summary of the proposed adjustments to the three year capital budget is set out in table 22. These changes comprise:

- re-profiling adjustments of £3,043k - outlined above - involving the transfer of £3,043k of expenditure and associated financing from 2018-19 to 2019-20 to reflect current expenditure forecasts
- Re-allocations (repurposing) of existing budgets and re-profiling across financial years of £4,000k, and
- net capital savings bids of £711k.

**Table 22 Revised Capital Budget – summary of changes**

| Capital Scheme                      | Financial year  |                 |                 | Total<br>£000 |
|-------------------------------------|-----------------|-----------------|-----------------|---------------|
|                                     | 2018-19<br>£000 | 2019-20<br>£000 | 2020-21<br>£000 |               |
| <b>Original Budget</b>              | <b>17,379</b>   | <b>2,340</b>    | <b>2,040</b>    | <b>21,759</b> |
| Re-profiling adjustments (table 18) | (3,043)         | 3,043           | 0               | 0             |
| Re-allocations (table 23)           | (4,000)         | 4,000           | 0               | 0             |
| Capital Growth & Savings (table 23) | (1,366)         | 655             | 0               | (711)         |
| <b>Revised Budget</b>               | <b>8,970</b>    | <b>10,038</b>   | <b>2,040</b>    | <b>21,048</b> |

**Table 23: Summary of Capital Re-allocations and Bids**

| Capital Scheme  | Financial year  |                 |                 | Total bid<br>£000 |
|---|-----------------|-----------------|-----------------|-------------------|
|   | 2018-19<br>£000 | 2019-20<br>£000 | 2020-21<br>£000 |                   |
| <b>Capital Re-allocations</b>                                 |                 |                 |                 |                   |
| Lillyhall Development   | (4,000)         | 0               | 0               | (4,000)           |
| Healthy Homes   | 0               | (1,000)         | (1,000)         | (2,000)           |
| Strategic Priorities and Regeneration                         | 0               | 5,000           | 1,000           | 6,000             |
| <b>Total re-allocations</b>                                   | <b>(4,000)</b>  | <b>4,000</b>    | <b>0</b>        | <b>0</b>          |
| <b>Capital Bids</b>   |                 |                 |                 |                   |
| DFG - additional grant funding                                | 328             | 0               | 0               | 328               |
| Lillyhall Development – reduction in grant funded expenditure | (5,000)         | 0               | 0               | (5,000)           |
| Vehicle and wheeled bin acquisition costs                     | 3,271           | 620             | 0               | 3,891             |
| Enhancement to Lakeside Carpark Keswick                       | 35              | 35              | 0               | 70                |
| <b>Total Bids</b>   | <b>(1,366)</b>  | <b>655</b>      | <b>0</b>        | <b>(711)</b>      |
| <b>Total re-allocations and bids</b>                          | <b>(5,366)</b>  | <b>4,655</b>    | <b>0</b>        | <b>(711)</b>      |

## **Re-allocations**

- 6.2 By repurposing existing capital budgets it has been possible to create a budget of £6m (£5m in 2019-20 and £1m in 2020-21) to enable the Authority to take advantage of opportunities that support delivery of the Council's Key Priorities and Regeneration agenda. This budget has been created by re-allocating;
- £4m from the (2018-19) Lillyhall Development capital budget
  - £2m Healthy Homes capital budget (£1m in 2019-20 and 2020-21).

### **Lillyhall Development**

- 6.3 As noted above, the previously approved budget was predicated on the basis of receiving funding of £5m from the LEP funding. Following confirmation that the Authority will not now receive the £5m LEP funding, this element of the budget has been removed from the capital programme. The £4m budget to be funded from borrowing will be re-allocated to create a Strategic Priorities and Regeneration capital budget to support achievement of Council Priorities.

### **Healthy Homes**

- 6.4 The Healthy Homes budget was aimed at securing improvements to sub-standard homes on an individual, block or area basis. The current budget comprises £150k in 2018-19 and £1m in each of the following two years.
- 6.5 The £1m budget in both 2019-20 and 2020-21 is no longer required to deliver on the Authority's plans and will instead be re-allocated to the Strategic Priorities and Regeneration capital budget.

## **Capital Growth and Savings**

- 6.6 In addition to the reprofiling and reallocation adjustments outlined above, a number of new capital expenditure bids have been submitted for approval as part of the 2018-19 revised budget proposals. These are summarised in table 23 above.

### **Capital Growth Bids**

#### **DFG - additional grant funding (growth of £328k)**

- 6.7 The DFG 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. Expenditure on DFGs is 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.
- 6.8 Pending confirmation of the Authority's grant funding allocation for 2018-19, budgeted expenditure for 2018-19 was originally set at £1,358k, based on the

grant income allocation and forecasted expenditure in 2017-18. This was subsequently increased to £1,403 to reflect budgets carried forward from 2017-18. Following confirmation of the 2018-19 funding allocation a further increase of £328k brings the total budget to £1,761k and aligns the budget with the grant funding allocation for 2018-19 (£1,125k) and the amount of unallocated grant brought forward from 2017-18 (£636k). This increase results in an upward revision to the budgeted expenditure for mandatory and discretionary grants of £124k and £204k respectively.

#### Lillyhall Development (reduction in grant funding of £5m)

- 6.9 As noted above the original budget allocation of £9m was to support initial development of the Lillyhall site. The sum of £9m was based on receiving £5m from the LEP with the remaining £4m being financed by borrowing. Following confirmation that the Authority will not now receive the £5m LEP funding, this element of the budget has been removed from the capital programme.
- 6.10 Despite this change, development of the site, to provide the premier employment site for West Cumbria capable of supporting future invest to save projects, is still being progressed. Any capital budget allocation required to deliver these plans will be presented, in-line with the capital investment strategy, once proposals are at an appropriate stage. The Authority may still be able to access some LEP funding and this will form part of the funding for future capital budget proposals.

#### Waste collection and recycling vehicles and wheeled bin acquisitions (growth of £3.891m)

- 6.11 Following completion of a major procurement exercise, a new contract for waste and recycling collection services is scheduled to come into force on 1 April 2019. To take advantage of the lower borrowing costs available to the Council and reduce the annual service cost of the waste and recycling collection service, the Council has agreed to use PWLB borrowing to fund the acquisition of vehicles to be used by the contractor in the provision these services (£3,171,251) and wheeled bins required to implement four-weekly paper and card collections (£720,000).

#### Enhancement to Lakeside Carpark Keswick (growth of £70k)

- 6.12 A scheme to reconfigure Lakeside Car Park and create 34 additional parking bays is currently being developed. A final decision to progress the scheme is subject to a business case being approved by the Commercial Board and Asset Management Group. The scheme is expected to cost in the region of £70k. However, this will not be confirmed until a more detailed assessment of the required works is completed.
- 6.13 If approved, works are expected to be phased over 2018-19 and 2019-20 and is expected to generate additional revenue income from 2019-20 onwards.

## Proposed revised capital programme

- 6.14 The original three year capital budget, inclusive of the approved budget carry forward from 2017-18 is £21,759,163. This comprises planned expenditure of £17,379,163 in 2018-19, £2,340,000 in 2019-20 and £2,040,000 in 2020-21.
- 6.15 The proposed revised three year capital budget is £21,047,975, comprising the original capital budget of £21,759,163, net capital (savings) bids of £711,188 and profiling adjustments is summarised in Table 24.

**Table 24: Proposed revised capital programme**

|                                      | Original budget<br>£000 | Budget change<br>(new bids)<br>£000 | Revised Budget<br>£000 | Revised expenditure profile <sup>1</sup> |                 |                 |
|--------------------------------------|-------------------------|-------------------------------------|------------------------|--|-----------------|-----------------|
|                                      |                         |                                     |                        | 2018-19<br>£000                          | 2019-20<br>£000 | 2020-21<br>£000 |
| <b>Gross expenditure</b>             |                         |                                     |                        |  |                 |                 |
| Economic Growth                      | 13,149                  | (9,000)                             | 4,149                  | 2,296                                    | 1,853           | 0               |
| Corporate Resources                  | 369                     | 6,000                               | 6,369                  | 269                                      | 5,100           | 1,000           |
| Housing, Health & Wellbeing          | 6,171                   | (1,672)                             | 4,499                  | 2,349                                    | 1,150           | 1,000           |
| Environmental Quality                | 700                     | 3,891                               | 4,661                  | 3,856                                    | 805             | 0               |
| Tourism & Culture                    | 1,250                   | 0                                   | 1,250                  | 160                                      | 1,090           | 0               |
| Transformation                       | 120                     | 0                                   | 120                    | 40                                       | 40              | 40              |
| <b>Total Expenditure:</b>            | <b>21,759</b>           | <b>(781)</b>                        | <b>21,048</b>          | <b>8,970</b>                             | <b>10,038</b>   | <b>2,040</b>    |
| <b>Financed by:</b>                  |                         |                                     |                        |  |                 |                 |
| <b>External grant funding:</b>       |                         |                                     |                        |  |                 |                 |
| Disabled Facilities Grant (BCF)      | 3,434                   | 328                                 | 3,762                  | 1,762                                    | 1,000           | 1,000           |
| SCP Housing grant                    | 209                     | 0                                   | 209                    | 176                                      | 33              | 0               |
| ERDF grant                           | 1,500                   | 0                                   | 1,500                  | 669                                      | 831             | 0               |
| LEP Growth Deal                      | 5,000                   | (5,000)                             | 0                      | 0  | 0               | 0               |
| Coastal Communities Fund             | 1,000                   | 0                                   | 1,000                  | 160                                      | 840             | 0               |
| Other grants - Solway Coast          | 250                     | 0                                   | 250                    | 0  | 250             | 0               |
| Other grants - Harrington            | 105                     | 0                                   | 105                    | 105                                      | 0               | 0               |
| <b>ABC resources &amp; borrowing</b> |                         |                                     |                        |  |                 |                 |
| Capital Receipts                     | 277                     | 0                                   | 277                    | 177                                      | 100             | 0               |
| Earmarked Reserves                   | 16                      | 0                                   | 16                     | 16                                       | 0               | 0               |
| Revenue Budget                       | 4                       | 0                                   | 4                      | 4  | 0               | 0               |
| General Fund                         | 453                     | 0                                   | 453                    | 453                                      | 0               | 0               |
| Borrowing (unfinanced expend.)       | 9,511                   | 3,891                               | 13,472                 | 5,448                                    | 6,984           | 1,040           |
| <b>Total financing</b>               | <b>21,759</b>           | <b>(781)</b>                        | <b>21,048</b>          | <b>8,970</b>                             | <b>10,038</b>   | <b>2,040</b>    |

<sup>1</sup> inclusive of re-profiling adjustments

## Financing of Capital Expenditure

- 6.16 The net capital savings bids of £711,188 outlined above include:
- growth bids of £3,961,251 funded from borrowing
  - growth bids of £327,561 and savings bid of £5,000,000 funded from grants (£2,672,439 net)
- 6.17 The growth bids of £3,961,251, funded from borrowing, will increase the total amount of capital expenditure funded from borrowing over the three years covered by the revised capital programme to £13,472,000. This expenditure will be met from additional loans from the Public Works Loan Board (PWLB) and from use of the Council's cash and investment balances (internal borrowing).
- 6.18 Expenditure which is unfinanced (and funded either from PWLB loans or internal borrowing) will require the Council to make an annual charge to its general fund to meet the capital cost of this expenditure. This charge, known as the minimum revenue provision (MRP), is calculated in accordance with the Council's approved MRP policy and is normally charged from the financial year following the one in which the expenditure is incurred. Any expenditure which is unfinanced (i.e. met from borrowing) will therefore generate an increase in the amount of MRP included in the revenue budget.
- 6.19 The draw-down of additional PWLB loans will also increase the amount of interest payable. The estimated impact of the revised capital programme on the Council's MRP and interest costs is shown in table 25. Based on updated interest rate forecasts provided by the Council's Treasury advisors, and estimated additional PWLB borrowing of up to £13m over the three years to March 2021, it shows that between 2017-18 and 2021-22 interest and MRP costs are forecast to increase from £1.4m to £2.7m.

**Table 25: Impact of revised capital programme on Interest and MRP costs**

|  | 2017/18<br>actual | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|--|-------------------|---------|---------|---------|---------|
|  | £000              | £000    | £000    | £000    | £000    |
| <b>Original budget</b>                       |                   |         |         |         |         |
| MRP  | 623               | 714     | 942     | 1,021   | 1,085   |
| Interest                                     | 764               | 989     | 1,093   | 1,100   | 1,087   |
| <b>Total revenue charge</b>                  | 1,387             | 1,703   | 2,035   | 2,121   | 2,172   |
| <b>Revised Budget – impact of bids</b>       |                   |         |         |         |         |
| MRP  | 623               | 671     | 1,169   | 1,507   | 1,570   |
| Interest                                     | 764               | 845     | 1,084   | 1,172   | 1,149   |
| <b>Total revised revenue charge</b>          | 1,387             | 1,516   | 2,253   | 2,679   | 2,719   |
| Increase/(decrease) in MRP & Interest charge |                   | (187)   | 218     | 558     | 547     |

## Capital Resources

- 6.20 The impact of the revised capital programme and proposed funding on the levels of capital resources (capital receipts and capital grants) available to the Council is summarised in table 26. The impact of the Council's General Fund and Earmarked (General Fund) balances is set out in section 7 of this report.

**Table 26: Capital receipts and grants available to fund the capital programme**

|   | Capital Receipts<br>£000 | Grant & contributions |                     |
|---|--------------------------|-----------------------|---------------------|
|   |                          | Housing<br>£000       | Non-housing<br>£000 |
| Balance as at 31 March 2018                       | 458                      | 845                   | 191                 |
| Received during 2018-19                           | 167                      | 1,125                 | 1,070               |
| Forecast to be received in 2018-19 <sup>a</sup>   | 0                        | 0                     | 704                 |
| <b>Available for allocation</b>                   | <b>625</b>               | <b>1,970</b>          | <b>1,965</b>        |
| <b>Allocation:</b>                                |                          |                       |                     |
| Financing proposed capital budget 2018-19         | (277)                    | (1,937)               | (934)               |
| Financing budget after 2019-20                    | 0                        | (33)                  | (840)               |
| Ring-fenced resources not yet brought into budget | (45)                     | -                     | (191)               |
| <b>Balance unallocated</b>                        | <b>303</b>               | <b>0</b>              | <b>0</b>            |

a: Subject to satisfactory outcome of funding applications currently in progress

- 6.21 The items identified as 'Ring-fenced resources' comprise:
- £45,000 relating to proceeds from the sale of Workington Hall Lodge, ring-fenced for improvements to Hall Park.
  - £191,213 relating to a number of specific capital grants.
- 6.22 Capital receipts included in table 26 do not include anticipated receipts from disposals expected to be completed in 2018-19.
- 6.23 The Council is currently progressing disposal of a number of properties. These will generate capital receipts that may, once received, be applied to finance capital expenditure or repay borrowing. However, until such time as these disposals are completed, the associated receipts are not allocated to finance the capital programme. This avoids the potential impact on the Council's general fund if the anticipated capital receipts are not received and the past financing decisions need to be unwound.
- 6.24 Any additional capital receipts received after the date of this report, will be considered as part of the 2019-20 budget setting process.

## 7.0 Impact on General Fund and Earmarked Reserve Balances

### General Fund balances

- 7.1 The impact of the proposed revisions to the 2018-19 revenue and capital budgets on the Council's general fund and earmarked general fund balances (Earmarked Reserves) is summarised the following tables.

**Table 27 - Estimated General Fund (GF) balances**

|   | Original Budget<br>£'000 | Revised Budget<br>£'000 | Change<br>£'000 |
|---|--------------------------|-------------------------|-----------------|
| Opening Balances  | 4,446                    | 4,446                   | 0               |
| Adjustment to reflect the 2017/18 outturn position            | 475                      | 475                     | 0               |
| Audited Balance at 1 April 2018                               | 4,921                    | 4,921                   | 0               |
| Add: Release of Earmarked Reserves to GF                      | 0                        | 0                       | 0               |
| Less: Approved use for 2018-19 capital programme <sup>1</sup> | (453)                    | (453)                   | 0               |
| Less: Use of GF to support 2018-19 Revenue Budget             | (444)                    | (424)                   | 20              |
| Forecast balance at 31 March 2019                             | <b>4,024</b>             | <b>4,044</b>            | <b>20</b>       |
| Retained - Minimum Balance                                    | (2,700)                  | (2,700)                 | 0               |
|   |                          |                         |                 |
| <b>Available for Use</b>                                      | <b>1,324</b>             | <b>1,344</b>            | <b>20</b>       |

<sup>1</sup> budget carried forward from 2017-18

### Review of Earmarked Reserves

- 7.2 The Council has a number of earmarked reserves, all of which have been created for a specific purpose. 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.
- 7.3 The original budgeted use of earmarked reserves was set before the 2017-18 outturn position and before the approval of carry forward requests. The revised budget therefore includes adjustments to reflect the available balance of reserves and the expected timing of expenditure from those reserves.
- 7.4 The Earmarked Reserve Balance at 1 April 2018 of £3,804k can be split as follows:
- £2,372k held for service expenditure
  - £1,432k held for accounting purposes or as contingency against specified risks.

7.5 The balance at 31 March 2018 is currently forecast to be spent as follows:

**Table 28 - Estimated Earmarked General Fund balances**

|  | <b>Original Budget<br/>£'000</b> | <b>Current Budget<sup>1</sup></b> | <b>Revised Budget<br/>£'000</b> |
|--|----------------------------------|-----------------------------------|---------------------------------|
| Opening Balances 1 April 2017                      | 5,201                            | 5,201                             | 5,201                           |
| Projected movement in 2017/18                      | (1,411)                          | (1,411)                           | (1,411)                         |
| Adjustment to reflect 2017/18 revenue outturn      | -                                | 14                                | 14                              |
| <b>Balance at 1 April 2018</b>                     | <b>3,790</b>                     | <b>3,804</b>                      | <b>3,804</b>                    |
| Less: Release to General Fund                      | 0                                | 0                                 | 0                               |
| Add planned Contributions to Earmarked Reserves    | 35                               | 60                                | 60                              |
| Less: Planned use in 2018-19 - revenue             | (1,050)                          | (1,874)                           | (1,750)                         |
| Less: Release to support Corporate Priority budget | 0                                | 0                                 | (500)                           |
| Less: Planned use in 2018-19 - capital             | (16)                             | (16)                              | (16)                            |
| <b>Forecast balance at 31 March 2019</b>           | <b>2,759</b>                     | <b>1,974</b>                      | <b>1,598</b>                    |

<sup>1</sup> adjusted to reflect 2017-18 outturn and budget carry forwards

7.6 Earmarked reserves are subject to ongoing monitoring and review to ensure they are held in-line with Council priorities and that the balance remains at the appropriate level. Further details of the planned use of earmarked reserves are set out in Appendix B.

7.7 The release of £500k from earmarked reserves, from previously unused NNDR funding, will be used to support the Council's strategic priorities. This revision reduces the total balance of reserves held to meet contingencies from £1,432k to £932k.

## **8.0 Treasury Management**

### **Treasury Management activity**

8.1 A summary of treasury management activity during the three months to 30 September and year to date, including details of investment and borrowing transactions and information about the Council's investment and loans portfolios is contained in Appendix C.

### **Treasury and Prudential Indicators**

8.2 The Local Government Act 2003 requires the Council to determine and keep under review, limits on how much money it can afford to borrow by way of loans and other forms of credit. The processes the Council must follow in setting these limits (the 'Authorised Limit for External Debt') is set out in the Prudential Code for Capital Finance in Local Authorities to which the Council is required to 'have regard to' under provisions contained in the 2003 Act. In addition to the Authorised Limit, CIPFA's Prudential and Treasury Management Codes and



accompanying sector guidance, include a number of other key treasury management indicators designed to support and record local decision making in connection with capital and treasury activities.

- 8.3 The Council's Authorised Borrowing Limit (the statutory limit on borrowing under the Local Government Act 2003), Operational Boundary (the limit beyond which external debt is not expected to exceed) and other indicators and limits required by CIPFA's Prudential and Treasury Management Codes were set out in the Council's Treasury Management Strategy Statement and Investment Strategy for 2018-19. This was approved by the Full Council on 7 March 2018.
- 8.4 During the quarter ended 30 September 2018, the Council has operated within the limits established by the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement 2018-19.
- 8.5 Further information relating to the Council's treasury management activities during the six month period ending 30 September 2018 and compliance with the approved treasury and prudential indicators for 2018-19, can be found in the Treasury Management Operations – Mid-year review 2018-19. This is presented as a separate item on the Council Agenda.

## **9.0 Updated Medium Term Plan**

- 9.1 The Council's medium term financial plan (MTFP) 2018-19 to 2021-22 has been updated to incorporate this revised budget. A copy of the updated plan is set out in the 2019-20 Budget Strategy and Medium Term Financial Plan Update report presented as a separate item on this Agenda.

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

### **Supporting Appendices:**

Appendix A - Detailed current and revised capital budgets – 2018-19 to 2020-21

Appendix B - Revised position on Earmarked Reserves

Appendix C - Summary of Treasury Management Activity