REPORT 5

HARBOROUGH DISTRICT COUNCIL

REPORT TO THE CABINET MEETING OF 10th February 2020

PUBLIC REPORT: Yes

EXEMPT REPORT: No

Report Title	**2020/21 Budget Report**
KEY DECISION	Yes
Report Author	Karen Watling, Interim Chief Officer: Finance & Assets (S151 Officer)
Purpose of Report	• For Cabinet to consider the comments, questions and response on the proposed 2020/21 budget from the Performance Scrutiny panel on 10th February 2020 along with responses received from the general public. • For Cabinet to recommend the 2020/21 revenue budget and capital programme to Council.
Reason for Decision	• The Council must set a balanced budget by the 11th March 2020. The duty to recommend a budget to the Council rests with the Cabinet.
Portfolio (holder)	• Councillor James Hallam; Finance
Corporate Priorities	YOUR COUNCIL: innovative, proactive and efficient CO 10 — Deliver Financial Sustainability for the future
Financial Implications	• This report presents the Council's proposed 2020/21 revenue and capital budgets across all its activities. The financial implications of these proposals are given throughout the report.
Risk Management Implications	• An overall assessment of the robustness of the budget estimates, the adequacy of reserves, and the key financial risks to the Council has been undertaken by the S151 Officer and is presented in section 6 of this report.
Environmental Implications	• None
Legal Implications	• The Council is required to consult on its budget prior to formulating its budget requirement. The Council is also legally obliged to set a balanced budget by the 11th March 2020. The Council is scheduled to approve the budget on 24th February 2020.
Equality Implications	• None
Data Protection Implications	• None
Consultation	• Consultation was undertaken over the period from 14th January 2020 to 4th February 2020 with: o Trade Unions. o Local Businesses and Commercial Ratepayers. o General public through the Council's website. o Parishes and Town Councils. o The Performance Scrutiny Panel on the 10th February 2020.

Options	• The Council's annual budget incorporates the costs and income of meeting a number of statutory requirements as well as political choices and priorities in terms of projects, service delivery levels, and income generation opportunities. Different options for spending and/or income generation could be proposed from those set out in this report.
Background Papers	• "Emerging Budget Position for 2020/21" Cabinet report on 13th January 2020
Appendices	• Appendix A: 2019/20 Revenue Budget Forecast Outturn • Appendix B: 2020/23 Net Budget Requirement & Funding • Appendix C: 2020/21 Gross Expenditure & Income • Appendix D: 2020/21 Growth & Savings proposals • Appendix E: Schedule of fees & charges for 2020/21 • Appendix F: 2020/21 Special Expenses • Appendix G: Capital Programme 2020/21 to 2022/23 • Appendix H: Capital Strategy • Appendix I: Reserves Position • Appendix J: CIPFA's Financial Resilience Indicators • Appendix K: Financial Glossary • Appendix L: Response to Budget Consultation from Performance Scrutiny Panel on the 10th February 2020 (to be orally presented to the Cabinet meeting) • Appendix M: Response to Budget Consultation from the general public (to be tabled at the Cabinet meeting)
Recommendations	Cabinet is asked to **note**: a) The budget consultation process that was followed and the feedback gained. b) Section 6 which gives the S151 Officer's views on the robustness of the budget estimates, the adequacy of reserves, and the key financial risks to the Council. c) That the Council Tax resolution for 2020/21, prepared in accordance with Sections 32-36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011, will be calculated and presented to Council for approval once Leicestershire County Council, the Office of the Police & Crime Commissioner, and the Leicestershire Fire & Rescue Service have agreed their precepts for the 2020/21 financial year. Cabinet is asked to **recommend** to Council to approve: **General Fund** d) The Council's net revenue budget requirement as £12.432m for the financial year 2020/21 including the budget allocations to portfolios shown in **Appendix B** and the growth and savings proposals set out in **Appendix D.** e) No increase to Harborough District Council's element of the Council Tax, meaning that that the Band D Council Tax will

	be set at £167.97 (including average special expenses but excluding precepts - **paragraph 3.33**). f) The schedule of fees and charges for 2020/21 set out in **Appendix E**. g) The Special Expenses for 2020/21 contained in **Appendix F**. h) The planned use of £1.985m of reserves to finance the budget requirement in 2020/21 as set out in **paragraph 3.39.** **Capital programme and Capital Strategy** i) The revised capital programme for 2019/20 set out in **paragraphs 4.3 to 4.5**. j) The proposed general fund capital programme 2020/21 to 2022/23 and its method of funding as set out in **Appendix G and table 4**. k) The capital strategy, contained in **Appendix H,** as required by CIPFA's (Chartered Institute of Public Finance & Accountancy) Prudential Code. **Council Reserves** l) The changes proposed to the existing reserves as recommended by the S151 Officer in **paragraphs 6.20 to 6.27** and shown in **Appendix I**.

1. <u>Introduction</u>

1.1 This report and its various sections, tables, and appendices set out proposals for the Council's 2020/21 budget (general fund revenue budget and capital programme) across the whole of the Council's activities. It also contains the Council's Capital Strategy.

1.2 The Corporate Plan, which is a separate report on this Cabinet's agenda, sets out the Council's key priorities and delivery plans, whilst the budget report sets out the financial framework and strategy for aiding the delivery of the Corporate Plan. Many of the proposals for revenue budget growth and capital investment will enable the delivery of key Council priorities and these are highlighted in this budget report.

1.3 All Councils are facing ongoing and unprecedented uncertainty which makes robust medium term financial forecasting problematic at this point in time. The lack of detail on the significant changes to be made by government to the local government finance system in 2021/22 (see section 5 of this report) has meant that this Council has not produced a medium term financial strategy for the next four years. This will be developed over the course of the 2020/21 financial year as government's intentions on the timing, detail, and impact of the changes become clearer.

1.4 This is therefore only a one-year budget position although some context about the financial challenges the Council is likely to face over the medium term is given in section 5 of this report.

1.5 The key highlights of the 2020/21 budget proposals are:

- No increase to Harborough District Council's element of the Council Tax charge for the second year running.
- Some £930k of revenue budget growth to invest in key service priorities including leisure, climate change, rural and environmental crime investigation, heritage and conservation, economic development, homelessness prevention, focus on young people, providing affordable homes, and support for the armed services.
- No reduction in services or service delivery levels.
- An ambitious capital programme totalling £49m over 2020/21 to 2022/23 including proposals to develop housing at De Verdon Road and Naseby Square, to acquire commercial property and thereby generate new additional income to fund Council services, and to build a new Leisure Centre at Market Harborough.
- The Council has benefited from growth across the district in new housing and businesses and is proposing to use £4.27m from both the New Homes Bonus grant and its share of estimated new Business Rates income to fund vital public services.
- Saving proposals, including the generation of additional new income, totalling £628k.
- The budget will be balanced by using £1.985m of reserves that were prudentially built-up in the past.

1.6 This budget report is set out as follows:

- Section 2: 2020/21 Local government finance settlement
- Section 3: The General Fund revenue budget
- Section 4: The 2020/21 to 2022/23 capital programme and Capital Strategy
- Section 5: The Medium Term Financial Position
- Section 6: The Section 151 Officer's Statement and review of reserves

1.7 Cabinet considered the emerging budget position at its meeting on 13th January 2020 and released proposals on budget growth, savings and capital projects for consultation on 14th January 2020. The results of that consultation will be tabled at Cabinet on the 10th February 2020.

1.8 It should be noted that:

- The annual Treasury Management Strategy which sets out proposals for the management of the local authority's borrowing, investments, cash flows, banking, and money market transactions, along with the authorised limit and operational boundary for external borrowing, will be submitted to Council on 24th February 2020 for approval.

- A commercial investment strategy will be produced early in the new financial year for Council approval to govern the Council's approach to commercial property investment, lending to its wholly owned company (Harborough District Commercial Services Ltd), and commercial housing development projects. This document will also contain the non-financial investment indicators required to comply with the Ministry of Housing, Communities, and Local Government's revised Investment Code (revised for implementation in 2019/20).

2. 2020/21 Local Government Finance Settlement

2.1 Each year local authorities' core funding allocations for the forthcoming financial year are announced by Government in the provisional local government finance settlement, usually in December. Following consultation, allocations are confirmed in the final settlement, usually in February. The government published the provisional local government finance settlement for 2020/21 on 20th December 2019.

2.2 The 2020/21 settlement is effectively a one year extension to the four year settlement that covered the period 2016/17 to 2019/20. With the delay in both the Fair Funding Review and reform of business rates (see section 3 below), combined with a one year review of government departmental spending, the 2019 settlement was only ever going to be a one year settlement. The operation of the funding schemes and the values within it have broadly been rolled over either in cash terms from 2019/20 or increased by 1.6% in line with the change in the business rates multiplier (the national inflationary increase made annually to Business Rates).

2.3 In national terms the Local Government Finance Settlement for 2020/21 announced a 6.3% rise in Councils' Core Spending Power (the overall level of resources government estimates is available for funding local authority services). This is the first real term increase in Core Spending Power since 2010. Some of this increase is accounted for by the £1bn additional grant funding for social care and by the government continuing to allow relevant Councils to charge a 2% adult social care precept which could generate a further £500m of resources.

2.4 It is important to note that government assumes in its Core Spending Power figures that the Council Tax base and Council Tax bill will increase. In practice, not all authorities will increase their Band D Council Tax by the maximum amount allowable and the tax base does not always grow as quickly as government expects.

2.5 The key aspects of the settlement of relevance to Harborough District Council are:

- The Council's Core Spending Power estimate has increased by £0.5m (or 5.4%) from the 2019/20 figure of £10.312m (but see paragraph 2.4 above for the assumptions government makes in calculating this figure).
- The New Homes Bonus (NHB) grant will continue for another year with no change in the operation of the scheme in 2020/21. There will however be no legacy payments on these new allocations.
- No changes have been made to the amounts of Rural Services Delivery Grant given to Councils by central government.
- Shire District Councils will only be able to increase "core" Band D Council Tax demands by the higher of 1.99% or £5. This is lower than the maximum threshold in the two previous years (2.99% in 2018/19 and 2019/20).
- Business Rate bills will increase by 1.6% in 2020/21 in line with the Consumer Price Index prevailing in September 2019.
- No new Business Rate discounts and reliefs have been announced in the settlement. New discounts were proposed in the Conservative party manifesto and confirmed in the Queen's Speech. These proposals are a further one-year retail discount and an extension of the discount to music venues, cinemas and pubs in 2020/21.

2.6 The "Emerging Budget Position for 2020/21" report considered by Cabinet at its meeting on 13th January 2020, which was prepared before government announced the settlement, anticipated much of the settlement announcements. The Council did benefit however by an additional £400k of New Homes Bonus announced in the

Settlement. The initial estimates prepared for the January Cabinet meeting prudently did not include any income for any new allocation of NHB, just for legacy payments arising from previous years.

3. The General Fund revenue budget

2019/20 forecast outturn

3.1 The latest position on the General Fund revenue budget as at quarter 2 is detailed in **Appendix A** and shows a forecast overall underspend of £659k.

3.2 Many District Councils report on forecast under or overspending against the net direct cost of services budget, and historically Financial Services has been asked to report forecast outturn at this level. The quarter 2 position was reported to Cabinet at its meeting on 2nd December 2019 and showed an estimated underspend of £194k for the net direct cost of services. However, it is useful to consider the overall "bottom-line" position for the Council which includes expenditure and income on such corporate budgets as financing charges, Business Rates and Council Tax income, and contributions to or from reserves. This provides greater transparency and clarity on the overall financial position of the Council. Future quarterly budget monitoring reports will therefore be changed so that they report on the entirety of the Council's budget. This is likely to be in line with the recommendations to be made in CIPFA's practitioner guidance notes (to be published in April 2020) on the new Financial Management Code which all Councils are obliged to fully comply with in their financial management and reporting arrangements from 2021/22 onwards.

3.3 The Medium Term Financial Strategy ending 2019/20 assumes that any surplus generated in 2019/20 will be transferred to the Council's General Fund Balance to assist with challenges in future years. However, the reserves position reported on later in this Budget Report has not included this amount in the figures as the forecast is based on a mid-year (quarter 2) estimate which could change.

Proposed 2020/21 Revenue Budget

3.4 The proposed 2020/21 budget is a net budget requirement of £12.432m which is £132k or 1% above the 2019/20 approved net budget of £12.300m. A detailed analysis of the net budget requirement and how it is financed is given in **Appendix B**.

3.5 The net budget requirement is the total net expenditure of the Council that is financed by Business Rates, Council Tax, and general government grants (i.e. New Homes Bonus and Rural Services Delivery Grant). The net budget requirement is used conventionally by local government in budget reporting. However, the total gross expenditure budget, and how this is to be financed, is also relevant and is disclosed below in order to aid readers' understanding of the budget proposals in their entirety.

3.6 The budget is prepared largely on an incremental basis, that means that the approved budget for the current financial year is the base starting point and is carried forward to the new financial year with amendments (or movements) reviewed by Financial Services and reported to Members in the Budget Report. Large budgets are subject to a zero based budget review: these include the staffing budgets and the large income budgets (Council Tax and Business Rates). Table 1 below summaries the key movements in the base budget (i.e. 2019/20 approved budget) to arrive at the proposed 2020/21 net budget requirement.

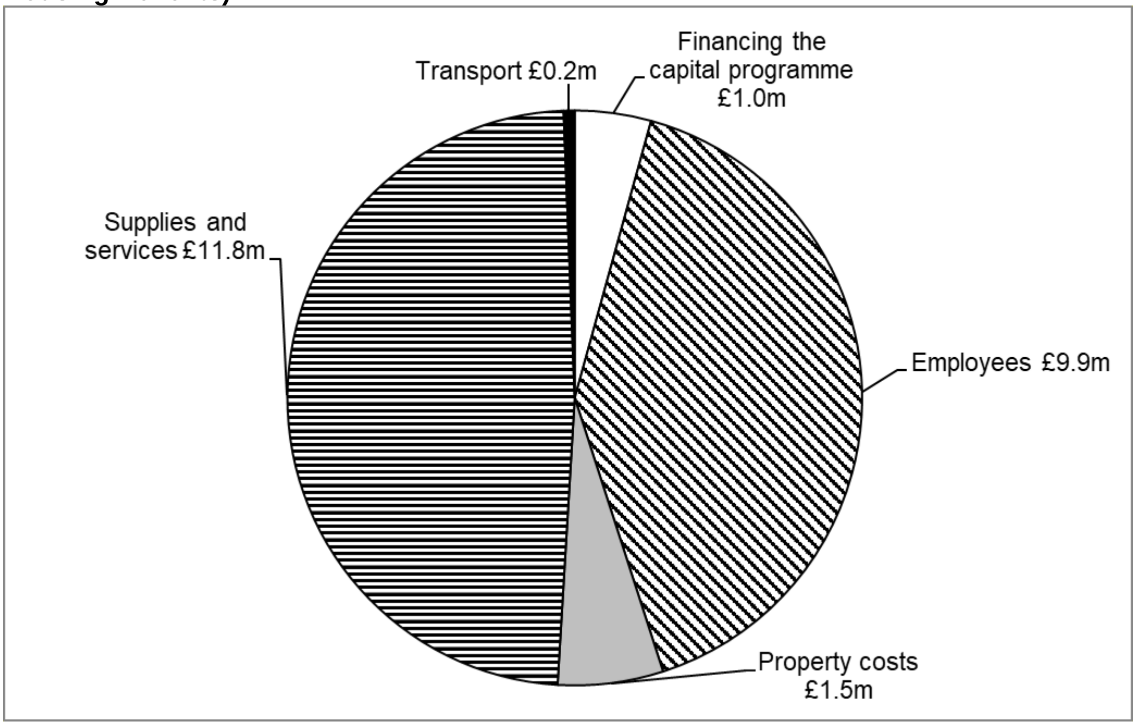
Table 1: Key movements between 2019/20 and 2020/21 net budget requirement

	£000s
2019/20 Net Budget Requirement	**12,300**
Expenditure inflation of 2%	240
Inflationary increases to fees and charges income of 2%	(57)
Pay increases (increments, 2.5% pay rise and 1% pension)	223
Budget Growth proposals	930
Savings / increased income	(628)
Decrease in the amount of contributions made to reserves	(1,364)
Decrease in the amount of earmarked reserves used to fund the budget	1,104
Increase in the amount of general fund balance used to fund the budget	(276)
Funding of capital by revenue budget	(40)
2020/21 Proposed Net Budget Requirement	**12,432**

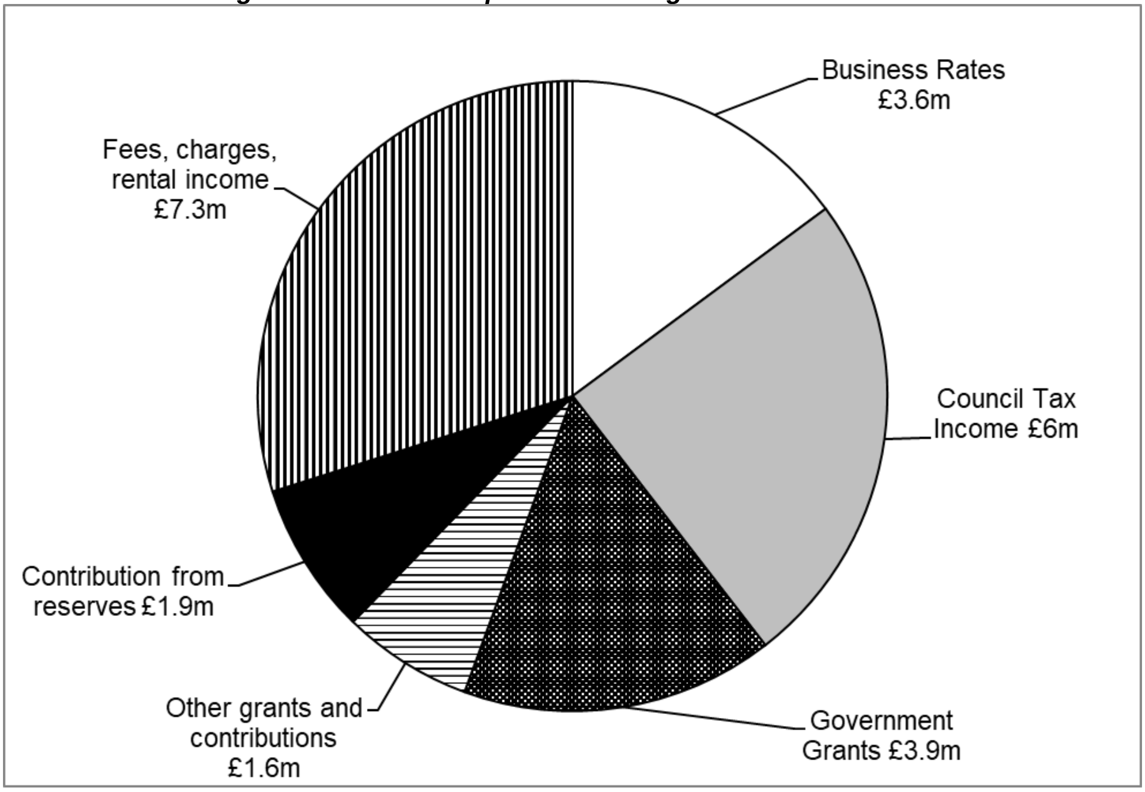
NB Figures in brackets are savings or increased income

3.7 The proposed gross expenditure budget for 2020/21 is £24.4m excluding housing benefits of £7.7m. The pie charts below (and **Appendix C**) show how the gross expenditure budget will be spent and funded.

Pie chart 1 showing the General Fund gross expenditure budget of £24.4m (excluding Housing Benefits)



Pie chart 2 showing how the Gross Expenditure Budget is financed



3.8 There have been a number of changes from the emerging budget position issued for consultation by Cabinet in January 2020; these are set out in table 2 below. The movements have had the beneficial impact of reducing the required use of reserves to balance the budget by £585k from that anticipated in the January position. There has also been a re-assessment of the amount of budget required to fund the estimated operating deficit of the Grow On Centre in its first year of operation as it starts to attract tenants to the premises. This is explained further in paragraph 3.41.

Table 2: Changes made to the budget proposals since report to Cabinet on 13/01/20

	£000s
Additional New Homes Bonus announced in the Finance Settlement	(400)
Decrease in cost of Revenues and Benefits Service Contract	(7)
Minor increase on telephony shared service contract with Charnwood Borough Council	4
Increase in cost of Microsoft licences (agreed by Council on 16/12/19)	25
Saving in budget provision for the Pension Fund deficit contributions (arising from the tri-annual valuation)	(50)
Reduction in the estimate for Grow-On Centre operating deficit	(157)
Reduction in the proposed use of reserves to fund the budget: - £428k in use of the General Fund Balance (from £727k to £299k) - £157k in the use of earmarked reserves (from £1.842 to £1.685m)	**(585)**

3.9 The rest of this section of the report will give details on the major budget assumptions and proposals.

Payroll and Pension Fund deficit contributions

3.10 Payroll-related inflation has been estimated at 2.5% in 2020/21 to allow for an annual pay settlement and increment rises combined with a 1% increase in pension deficit contributions. The results of tri-annual review of the Leicestershire Local Government Pension Fund were released in November 2019. The Fund's overall Funding Level has improved since the last valuation due to good investment results, however the actuaries note that this level of investment performance is unlikely to be sustainable over the longer term. Overall however, the improved funding position has had a positive outcome on employer contribution rates and has avoided the larger increases than may have been expected. The contribution rate for Harborough District is 31.4% for 2020/21 (rising by 1% in each of the next two years). This has resulted in a minor reduction of £50k in the budget provided for 2020/21.

Inflation

3.11 Based on advice from the Office for Budget Responsibility (OBR) inflation has been assumed at 2% and applied to budgets where the inflationary increase is £100 or above.

Proposals for growth in expenditure

3.12 Details of the budget growth proposals included in the budget are given in **Appendix D**.

3.13 Budget growth proposals result from various factors: some are related to increased demand for the Council's services (for example, an increase in the costs of waste collection due to a rise in the number of properties in the district). Other increases are unavoidable if the service is to continue (for example, directly funding the physical activity team previously funded by grant income from government).

3.14 Other budget growth arises from investing in services in line with the Council's corporate plan priorities. These include:

- A new service manager for the economic development team to increase senior capacity to promote Market Harborough and Lutterworth as vibrant market towns and to attract inward investment.
- A review of the corporate asset team in order to drive forward key Council capital projects and capital investment.
- The development of a Young People's Strategy.
- A new service manager for customer services to help deliver the Council's priority to improve the customer service experience.
- Increased costs arising from implementing the Smarter Services Programme (phase 1) to maximise the benefits of investing in management information systems.
- Funding a fixed term shared post with Rutland County Council and South Kesteven District Council to help deliver the Armed Forces Covenant.

Capital financing costs

3.15 Capital financing costs comprise the costs of making a Minimum Revenue Provision (MRP), which is essential the cost of providing for the future repayment of debt, and the interest expenses charged as part of an external loan agreement.

3.16 The Council currently has a very low level of external borrowing (£1.49m) which gives rise to annual interest charges of some £75k.

3.17 The Council has an ambitious capital programme which is largely to be funded by borrowing. Currently all such borrowing is “internal borrowing” whereby the capital expenditure is funded by using the Council’s cash balances (currently standing at circa £30m). This approach is financially beneficial to the Council as the income it receives from investing its cash in banks and building societies is less than the amount it would have to pay if it borrowed the same amount of money externally. However, the amount of cash used to fund capital expenditure will need at some point in time to be refunded by external borrowing. The timing of when the external borrowing will take place is governed by the Council’s Treasury Management Strategy and is dependent on the prevailing level of the Council’s cash balances, how quickly the intended capital expenditure occurs, and any movement in external interest rate charges.

3.18 It is proposed to keep the capital financing budgets at the same level as this year, despite a 1% rise in the Public Works Loan Board’s interest rate charges since the 2019/20 estimates were prepared. A significant amount of the capital programme has slipped from the current financial year into 2020/21 (see paragraph 4.4) and has not yet started spending and it is therefore difficult to predict when the Council will need to switch from internal to external borrowing. The 2020/21 budget for financing charges is therefore considered adequate and indeed could underspend as is forecast to be the case in this current financial year (a forecast underspend of £265k).

<u>Savings and increased income generation proposals</u>

3.19 Details of savings and increased income proposed in the budget are given in **Appendix D.**

3.20 Increased income is forecast to arise from several sources and activities including interest income, rental returns from the Harborough Innovation Centre, and additional fees from the grounds maintenance contract with Rutland District Council.

3.21 No reductions in service delivery are proposed in the 2020/21 budget. Two of the proposals (the review of the corporate asset team and implementation of paperless working) are dependent on these projects being successfully delivered before the savings can be achieved. These proposals are therefore less robust at this stage of the budget process than the others. A decrease of £137k is proposed in the contingency budgets held which given the Council’s track record of tight control on the revenue budget is not considered to be a risk.

<u>Income from Fees and Charges</u>

3.22 An inflationary increase of 2% has been added to fees and charges. The revised schedule of charges that will apply for 2020/21 is given in **Appendix E**.

<u>Income from commercial activities</u>

3.23 The 2020/21 budget includes net income of £150k arising from the loan facility agreement with the Council’s wholly-owned company, Harborough District Commercial Services Ltd. This loan has been agreed at commercial terms and some of the facility has been drawn down to fund the acquisition of retail property within Market Harborough (the Tesco and B&M stores) along with associated residential property. No dividend income has been anticipated at this stage from the company to the Council as shareholder. In addition, no further lending to the company has been assumed in the

Council's budget. An updated company Business Plan will need to be produced during the 2020/21 financial year in order for the Council to consider further investment in the company.

3.24 The capital programme contains proposals for significant housing development projects (for example at De Verdon Road and Naseby Square). However, no income that may be generated from these housing developments has yet been included in the budget as the final Business Cases for undertaking these developments still need to be produced for approval by Cabinet and the figures at this stage are still preliminary estimates. It should be noted that the Council's ambition is for these developments to be commercially profitable as well as meet wider housing objectives.

3.25 In addition the capital programme contains proposals to acquire £10m of commercial property in order to generate new additional on-going income to fund Council services. No income target from this investment has yet been included in the revenue budget. A commercial investment strategy setting out the decision-making criteria and net return required from these non-financial investments (see glossary in Appendix K) will be produced early in the new financial year for Council approval.

Government Grants

3.26 The Council received its New Homes Bonus allocation from government in the provisional Finance Settlement announced on 20th December 2019. The 2020/21 total is £2.67m and is an increase of £198k (8%) above the current year's allocation.

3.27 The Rural Services Delivery Grant remains at this year's level of £134k.

Income from Business Rates

3.28 The Council's Business Rates Baseline Funding Level for 2020/21 is £1.771m and was announced in the provisional Local Government Finance Settlement. The baseline was £1.742m in 2019/20.

3.29 The Collection Fund contains a provision for any potential liabilities arising as a result of Business Rate payers' successful appeals against rateable valuations. The amount in the provision is reviewed annually to reflect the settlement of appeals by the Valuation Office and an assessment of potential liabilities in the future. The review has resulted in a reduction in the provision held thus releasing £250k income to the Council. This amount has been added to the Baseline Funding Level for 2020/21.

3.30 The budget includes the assumption that the Council's share (50%) of growth above the baseline is £1.6m, an increase of £204k (or 15%).

Table 3: 2020/21 allocation of extra income forecast to be received from the Pilot

Scheme	£000s
Managing Homelessness demand	40
Smarter Services programme	89
Increase Communications capacity	20
Electric car infrastructure	25
Invest in Market Harborough feasibility studies	50
Market Harborough & Lutterworth masterplans	30
Market towns – public realm space	14
	268

3.31 The Council, along with all other Leicestershire Councils, was successful in its bid to become a Business Rate pilot during 2019/20. The Council is projected to receive an additional £483k from the 75% Business Rates Retention Pilot and the allocation of this amount was agreed at Cabinet at its meeting of 2nd September 2019. £268k of this extra funding has been allocated in the 2020/21 budget to fund the items shown in table 3.

Income from Council Tax

3.32 Any increase in the level of Council tax charged is limited by referendum principles, which for a district Council have been set by government at a maximum of 1.99% or £5 for 2020/21.

3.33 A zero percentage increase to the Council Tax is proposed for 2020/21, meaning that the Harborough District Council Band D Council Tax demand for 2020/21 remains at this year's level of £167.97 per Band D property including the average for special expenses but excluding precepts from parishes, Leicestershire County Council, the Office of the Police & Crime Commissioner, and the Leicestershire Fire & Rescue Service.

3.34 The income forgone by not increasing the Council Tax for the district by the maximum allowable is £120k for 2020/21. This amount lost increases over time as the income is not brought into the base budget and therefore cannot be subject to further rises (compounding).

3.35 The overall Council Tax bill (excluding precepts) will separately show the Harborough District Council Element (charged to all residents in the district) and Special Expenses which relate to specific localities where the Council is providing services which are provided by Parish Councils elsewhere. **Appendix F** gives the proposed charges for Special Expenses for 2020/21. The costs of the services provided have increased by inflation. In addition, the special expenses for Market Harborough include extra hours for the Town Centre Coordinator. However, the actual charges for each parish may not necessarily increase as this depends on whether the tax base (the number of Band D equivalent properties in the parish) has grown or decreased. A new policy for special expenses was introduced from April 2019 whereby any difference between the actual expenditure and the budgeted amount is transferred to an earmarked reserve (previously any under or overspending was added onto Council Tax Bills which meant that the charges could differ greatly from one year to the next). The amount in the special expenses earmarked reserve as at the end of 2018/19 (the first year of the new policy's operation) is a surplus of £35k arising from an underspending of the special expenses budgets in that year. The 2019/20 closedown process will assess any under or overspending for the current financial year and the difference will be transferred to the earmarked reserve.

3.36 The charges will be reduced, for qualifying Council taxpayers, by the Council's discount scheme (Council Tax Reduction Scheme). The total cost of the CTR scheme has historically been in the order of £3m which the Council's share being circa 12% of the total (the total cost is dependent on the amounts of Council Tax required by the preceptors).

3.37 The Council Tax Base was agreed by Council on 16th December 2019 at 36,126.7 in accordance with the 2012 Regulations, which combined with the proposed Band D rate gives a budgeted income of £6m for 2020/21. The Council Tax Base has increased by some 1.7% from this financial year which is estimated to generate an extra £100k of

Council Tax income. This increase represents approximately 600 new homes in the district.

3.38 The budgeted income from Council Tax assumes a bad debt provision of 1% to allow for non-collection and banding appeals.

Use of reserves to balance the budget

3.39 The revenue budget is proposed to be balanced by drawing down reserves of £1.985m in 2020/21 comprising £299k from the General Fund balance and £1.686m from earmarked reserves (which includes the General Reserve Fund). This compares to a budgeted draw down of reserves of £2.813m in 2019/20.

3.40 The most significant amounts of earmarked reserves proposed to be utilised in 2020/21 are as follows:

- £400k from the New Homes Bonus Reserve to fund the revenue budget in general. This will empty the reserve of funds at the end of 2020/21.
- £486k (changed from a figure of £254k in the January 13th Budget Report) from the General Reserve Fund to also fund the revenue budget in general.
- £449k from the Planning Reserve to fund some of the ongoing salary costs of the Planning Team (including the work of the Growth Team and Proactive Planning Enforcement) arising from a forecast decrease in planning fee income in 2020/21. It should be noted that the proposed use of this earmarked reserve will empty the reserve of resources after 2020/21.
- £177k (changed from a figure of £566k in the January 13th Cabinet Budget report) to fund the forecast deficit of operating the Grow-on centre building whilst it attracts tenants.

3.41 The interim Chief Officer: Finance & Assets has recently commissioned the construction of a new financial model of the forecast costs and income of running the Grow On Centre during its first years of operation. The new modelling, reflecting up-to-date costs and the rental levels agreed with the centre's likely first tenant (the lease agreement is currently being reviewed by both sides' legal teams), has resulted in a new deficit figure of £177k being proposed for 2020/21 (based on fairly prudent assumptions on occupancy rates and rental income levels). The base budget (2019/20 budget) for the deficit is £334k: therefore, a saving of £157k can be made in the budget along with a similar reduction in the amount of earmarked reserves required to fund the deficit. The budget report presented to Cabinet on 13th January 2020 included a figure of £566k as being the amount required to fund the 2020/21 operating deficit. This was an historic figure which did not reflect (a) the amount actually included in the base budget for the deficit of £334k nor (b) the up-to-date position at the centre. In reality, the £566k figure was not only funding the base budget of £334k for the deficit but also £232k of the overall budget in general (i.e. unrelated to the Grow On Centre). The General Fund Reserve has therefore been used to fund the latter amount so as to make the figures taken from Grow On Centre earmarked reserve transparent and robust.

3.42 The S151 Officer's view on the robustness of the reserves position is given in section 6 of this budget report along with a recommendation to reduce/merge the number of reserves in order to enhance transparency and clarity on the resources held.

4 The proposed capital programme and Capital Strategy

Definition of capital expenditure

4.1 Capital expenditure is strictly defined as expenditure on the creation or enhancement of assets. The glossary in **Appendix J** defines these terms.

4.2 Unless expenditure qualifies as capital it will normally be charged to the revenue budget in the period that the expenditure is incurred. If the expenditure meets the definition of capital, there may be opportunities available to finance the outlay from capital receipts (income from selling assets), capital grants, section 106 money, or by spreading the cost over future years' revenue budgets by borrowing.

2019/20 revised budget

4.3 The Council approved a capital programme in February 2019 of £17.620m. On 1st July 2019 the Cabinet approved capital carry forwards from 2018/19 into the current financial year of £886k.

4.4 Cabinet was informed at its meeting on 2nd December 2019 that as at the end of Quarter 2 capital slippage of £9.785m had been identified. The slippage relates to the following major projects:

- **Development of a new leisure centre for Market Harborough**: the options for this development are currently being reviewed and costed by officers, with the support of the leisure consultancy firm RPT Consulting Limited, with the aim of submitting a revised Outline Business Case to Cabinet in April 2020.

- **Development of a coach park in Market Harborough**: a revised scheme for this site is currently being developed along with an Outline Business.

- **Commercial Property Acquisition**: Spending on this budget awaits the production of the Commercial Investment Strategy which will need to go to Council for approval early in the new financial year. This strategy will set out the types of property investment the Council wishes to undertake, its risk appetite, and the returns it expects to see from these investments.

- **Housing development at De Verdon Road, Lutterworth**: A decision on whether to give planning permission for this scheme was postponed by the Planning Committee on 14th January 2020. The Project Team is currently reviewing its response and developing an updated Business Case.

- **Housing Development at Naseby Square**: Consultation is currently underway on the planning application for this scheme and a revised Business Case is also being produced for Cabinet approval early in the new financial year

4.5 It is therefore proposed that a revised capital programme of £10.896m for 2019/20 is approved to incorporate the slippage explained above.

2020/21 to 2022/23 Capital Programme and Capital Ambition

4.6 The proposed capital programme for 2020/21 to 2022/23 is shown in **Appendix G** and totals £49.115m for the period.

4.7 The programme includes:

- Housing development at De Verdon Road, Lutterworth and Naseby Square, Market Harborough at £13m
- Provision for a new leisure centre at Market Harborough (£21.6m including a contingency)
- Commercial Property investments (£10m)
- Provision to improve leisure facilities at Lutterworth (£1m)
- Funding of disabled facilities in people's homes (£0.8m)
- Purchasing residential homes to provide short term homelessness accommodation (£0.5m).

4.8 As well as the proposed capital programme, the Council is working on a pipeline of future capital projects as part of its capital ambition planning. These are shown in **Appendix G** and require firmer costing and Outline Business Cases before they can be approved to be included in the capital programme.

Funding of the capital programme

4.9 The availability of funding plays a key part in the size and content of the capital programme. Whilst the Council does receive some capital grant funding (Better Care Fund, Harborough Housing Fund, and ERDF (European Regional Development Fund) and uses s106 money where permissible, it is very reliant on borrowing as a source of funding the capital programme. As explained in paragraphs 3.15 to 3.18, borrowing will add costs to the Council's revenue budget (interest charges and Minimum Revenue Provision costs) unless the capital scheme generates a return.

4.10 Table 4 shows how the 2020/21 to 222/23 capital programme will be funded (and this is also illustrated by the pie chart). 96% of the proposed capital programme will be funded by borrowing.

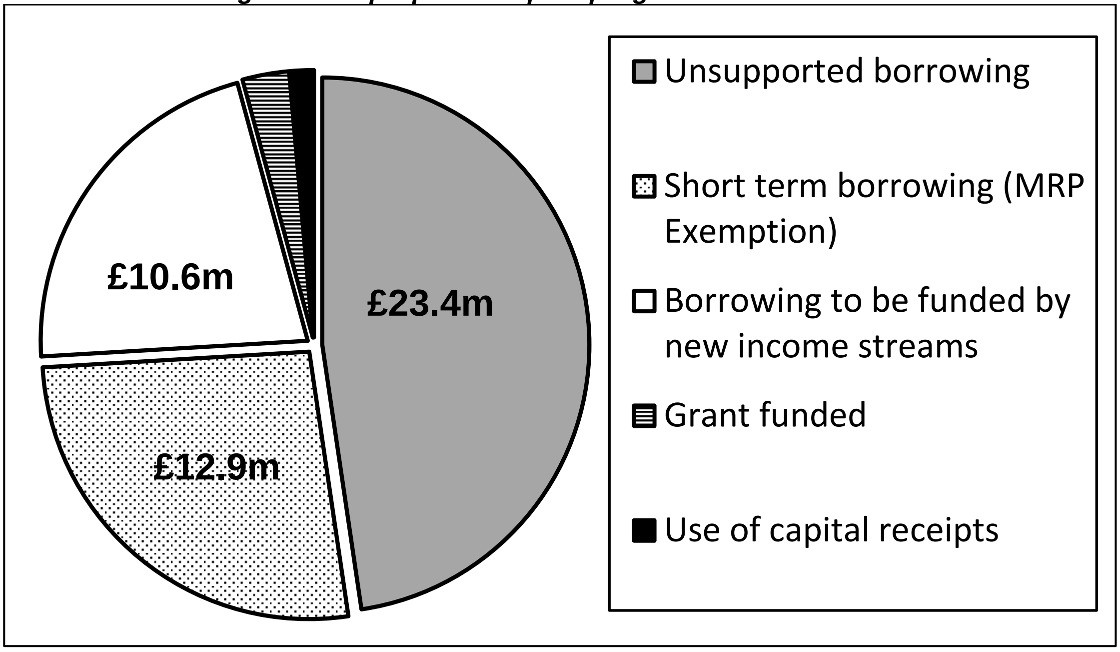
Table 4: Funding of the proposed capital programme 2020/21 to 2022/23

Source of funding	£000s
Unsupported borrowing	23,406
Short term borrowing (MRP Exemption)	12,970
Borrowing to be funded by new income streams	10,653
Grant funding	1,386
Use of capital receipts (income from selling assets)	700
	49,115

4.11 The borrowing needed has been shown under three different headings:

- **Unsupported borrowing**: This is where the capital investment to be funded by borrowing will not generate any income returns to the Council and is being undertaken in order to achieve Corporate Plan objectives. This borrowing will result in increased costs to the Council's revenue budget (capital financing costs) over a long period of time (some 20 to 50 years depending on the life of the asset). By far the biggest scheme included here is the provision of a new Leisure Centre at Market Harborough. Work is currently being undertaken on the Business Case for this development to ascertain whether the new centre could generate a Management Fee from a leisure operator to fund the financing costs arising from the borrowing.

Pie chart 3 showing how the proposed capital programme will be funded



- **Short term borrowing (MRP exemption):** This is the borrowing required to undertake the housing development projects. The Council will borrow in the short term to fund the development of the housing and then repay the loan once it receives the sales receipts from selling some of the homes on the open market. This has in previous budget reports been described as the "MRP Exemption" because following a change in the Council's MRP Policy, approved by Council on 10th December 2018, the Council does not need to pay any MRP costs where the borrowing is undertaken on capital expenditure that will generate future capital receipts. Obviously, this type of borrowing comes with some risk as it is not guaranteed that the Council will be able to sell its new homes at the pace and profit levels anticipated in the Business Case.

- **Borrowing to be funded by new income streams**: the financing costs arising from this borrowing will be funded by new rental income (for the commercial property acquisition budget), and by additional car parking income and service charges (the latter relating to capital expenditure on the Symington Building).

4.12 Paragraphs 3.15 to 3.18 explained how the Council is unlikely to undertake external borrowing in 2020/21: rather it will temporarily use it cash holdings to fund the capital programme (known as internal borrowing) as this gives additional short term savings to the Council consistent with good treasury management principles.

4.13 Internal borrowing however will at some point in time need to be replaced by external borrowing with its associated capital financing costs. The impact on the revenue budget over the medium term of approving the proposed capital programme and its funding is an increase in the revenue budget of £1.3m in 2021/22 and an additional £0.8m in 2022/23 assuming that the Council switches to external borrowing from 2021/22 onwards and all the capital budget for 2020/21 is spent in that year.

<u>Capital Strategy</u>

4.14 The Capital Strategy is attached in **Appendix H**. This is largely the document that was approved by Council at its meeting on 18th March 2019. It is difficult to enhance this document further in the absence of a medium term financial strategy for the Council's revenue budget as capital investment can have a direct impact on the revenue budget both in terms of increased costs or increased income returns and planning for both therefore needs to go hand-in-hand.

4.15 The Strategy does however mention several areas of work currently being developed which will have an impact on its contents. These comprise:

- The development of a commercial investment strategy for Council approval early in the new financial year to govern the Council's investment in commercial property acquisition, lending to its wholly-owned company, and commercial housing development activities. (Corporate Delivery Plan priority KA.08.03)

- Introducing a corporate standard for the development of Business Cases, using the Treasury's recommended five case methodology, to enhance robust decision-making at key stages (gateways) during the entire life cycle of a major project (Corporate Delivery Plan priority KA.08.01).

- Undertaking a review of how major projects are governed and managed both at officer and member level including project team composition, communications, consultation with stakeholders, and enhanced options appraisal and financial modelling. In addition, proposals will shortly be put forward for Cabinet approval for the establishment of a Cabinet Advisory Board to oversee the progress being achieved on the Council's major capital projects.

5 The Medium Term Financial Position

5.1 2019/20 was the final year of the four year settlement and the Spending Round 2019 provided funding for 2020/21 only. The sector is undergoing a period of significant change that brings with it growing uncertainty both in terms of funding and service direction. The coming months will see major external events which will influence the Council's funding for 2021/22, as described below.

Changes to the local government funding regime

5.2 **2020 Budget**: The government intends to produce a Budget on 11 March 2020 which is expected to include commitments made during the December 2019 election campaign to "level and spread opportunity" with significant investment in the environment and public services outside of London and the South East. The budget may also outline how the government will implement the election promise of a fundamental review of business rates. This will be a really important budget for local government and the public sector as a whole as it will set the fiscal parameters for the Spending Review.

5.3 **Spending Review 2020**: The Comprehensive Spending Review will focus upon each government department's spending requirements and therefore will set the quantum of the overall funding envelope for local government. The period the review will cover, the timelines for submission, and the date of announcements all remain unknown

5.4 **Fair Funding Review:** This will determine how the overall quantum of money given to local government will be distributed across different local authorities**.** The review will be used to set new Business Rates baseline funding levels for 2021/22 whilst considering transitional arrangements to ensure funding changes are introduced in a manageable way. It is difficult to forecast the impact of the review on this Council until government sets out the relative weightings of the indicators to be used in the distribution formula and its damping (transitional) arrangements There is however consensus amongst local government finance practitioners that the bigger winners from the review are likely to be county Councils given the increasing funding needs of delivering adult and children's care services. Consultation is expected in Spring 2020.

5.5 **Cessation of New Homes Bonus (NHB**): Whilst NHB will continue for another year in 2020/21 the government very clearly intends to phase it out by 2023/24 and replace it with something that is more "targeted" on "rewarding (those) local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance" (Secretary of State for Housing, Communities and Local Government). Local government finance practitioners believe that any replacement is unlikely to distribute as much funding as the NHB currently does or to be distributed in the same way.

5.6 **Business Rates Reform:** The Government has stated its intention that local government should retain 75% of taxes raised locally from 2021/22 onwards. There is also a proposal to simplify the business rates system whilst also addressing the volatility caused by appeals and valuation loss. In principle a clearer and less volatile system is welcome, however there remains a significant amount of technical work around the mechanisms to be finalised before implementation from April 2021.

5.7 **Business Rates Baseline Reset:** The Government will implement a full Business Rates baseline reset in 2021/22. This means that all Business Rates growth local authorities have generated since 2013/14 will be included within the Business Rates baseline funding level and the growth element redistributed within the system rather than the individual Council being able to keep its share of the growth itself. It is not known whether this will be done on a phased basis or whether the full impact will take place within one year.

<u>Medium Term Financial Position</u>

5.8 It has not been possible to produce a robust and meaningful medium term financial strategy given the significant changes described above, and the current lack of information both on the strategic direction the new government will take and a lack of detailed knowledge of how the changes may impact on this Council. This is obviously not an ideal situation as the Council needs to ensure its finances are sustainable over the future and not just for the year ahead.

5.9 There are however significant potential risks for the Council arising from what we currently know about the changes that are intended to be made to the local government finance regime. These could take some £4m of resources away from the Council and are as follows:

- Any change to the Council's spending power arising from the Fairer Funding Review – effectively this will impact the Business Rates baseline funding level i.e. the amount of Business Rates the Council is allowed to retain (excluding Business Rates growth) to fund its local services. The Council's baseline for 2020/21 is £1.771m.

- The cessation of New Homes Bonus - the Council will receive £2.67m in 2020/21 and this will taper off to £0 in 2023/24. It is unknown at this stage whether the Council will benefit from the government's intended replacement for NHB.

- Business Rates baseline reset – it is estimated that the Council will receive £1.6m for growth in Business Rates above its baseline funding level in 2020/21. This amount of funding is potentially at risk of being lost to the Council from 2021/22 onwards, although most local government finance practitioners think that this will reduce over a period of years rather than in one year. The figure does not however include any compensatory income arising from growth in future Business Rates above the new baseline figure.

5.10 The Council also has internal cost pressures to fund including:

- Annual inflationary cost pressures including annual pay awards (of some £460k per annum).
- Increased financing costs arising from the capital investment programme (forecast at £1.3m in 2021/22 and an additional £0.8m in 2022/23 (assuming that the Council switches to external borrowing from 2021/22 onwards and all the capital budget for 2020/21 is spent in that year).
- As mentioned in paragraph 3.40 above, the Council will need to address the issue of incorporating some of the costs of the Planning Team (including the work undertaken by the Growth Team and Proactive Planning Enforcement) into the revenue budget from 2021/22 as the earmarked planning reserve will be depleted by the end of 2020/21. The costs are £449k per annum.

5.11 In addition to the above, there are other significant budget pressures and income opportunities where no preliminary estimates can yet be given. These include:

- Impact of the Fair Funding Review.
- Growth in future Business Rates above the new 2021/22 Baseline Funding Level.
- Income from the government's New Homes Bonus replacement scheme.
- Income from the Council's commercial activities.
- Future savings and increased income generation proposals.
- Growth pressures arising from increased demand, legislative changes, as well as investment needs to deliver Council objectives and priorities.
- In addition, the current contract with FCC for environmental services (grounds maintenance, street cleaning, and waste bin collection) will come to an end in March 2023. It is likely that there will be increased costs arising from the retendering of the service and given the size of the contract (some £4m) this is a potential future risk.

5.12 The medium term financial situation, as we currently understand it, is therefore likely to be challenging requiring a significant review of the Council's expenditure and income-generation opportunities. It should be noted that this Council is not unique in facing this challenge.

5.13 The Council has prudently built up its reserves over the years and it is estimated that at the end of 2020/21 it will have £10.26m of reserves in total (see **Appendix I**). Whilst it would be imprudent to plan to use all of this, as the Council will need to retain some reserves going forwards, most of this amount could be used to help fund budget pressures in the immediate future. If reserves were to be used at the same rate as that proposed in this 2020/21 budget, then the use of reserves to balance the budget could be employed for a further four years after 2020/21 (whether the use of the reserves at this annual level would however balance future years' budgets is uncertain).

6 The S151 Officer's Statement

Statutory requirements

6.1 Section 25 of the Local Government Act 2003 places specific responsibilities on the S151 Officer to report on the robustness of the budget and the adequacy of proposed financial reserves when the Council is considering its budget requirement. The Council is required to have regard to this statement when it sets the budget.

6.2 In addition, CIPFA's (Chartered Institute of Public Finance and Accountancy) recommended good practice is that S151 Officers refer to the range of financial resilience indicators produced by CIPFA in their section 25 statements.

6.3 Another requirement is that under CIPFA's revised Prudential Code the S151 Officer must report on the deliverability, affordability, & the risks associated with the capital strategy.

Key risks and the level of proposed reserves

6.4 In fulfilling the statutory responsibilities the S151 Officer has set out in table 5 below what she sees as the key risks associated with the proposed budget and the Council's overall financial situation, so that Council is clear on these risks and the proposed mitigation factors when making its budget decision.

Table 5: The key financial risks facing the Council

RISK	DESCRIPTION	MITIGATION PROPOSED
Financial uncertainty and scale of possible revenue budget pressures over the medium term	Given the lack of clarity on future local government funding post March 2021, as described in section 5 of this report, it has not been possible to undertake meaningful and robust medium term financial planning for the financial year 2021/22 and onwards. In addition, the Council faces significant budget pressures over the medium term.	Cabinet Members, Corporate Management Team, and other senior officers will start the budget preparation process much earlier than has been the case in previous years in order to plan the Council's response to the financial challenges ahead. In parallel the S151 Officer will prepare a Medium Term Financial Forecast (but this is dependent on central government giving clearer and more detailed information on the changes they intend to introduce).
Brexit and the potential impact on the economy	At the moment there is uncertainty about how the UK will trade with the European Union after December 2020. The key risks to this Council will arise if Brexit triggers a recession in the national economy.	It is difficult, and potentially misleading to try and quantify these risks at this point in time. All of the housing development projects contained within the Council's capital programme require final Business Cases to assess commercial viability before the final decision to proceed is taken.

RISK	DESCRIPTION	MITIGATION PROPOSED
	This scenario could have adverse impacts on the Council's income budgets ranging from Council tax payments, Business Rates, car parking fees, and rental income from commercial property. In addition, any long term decrease in private house sales and prices could challenge the financial viability and hence successful delivery of the housing development projects contained within the Council's capital programme.	The Council intends to enhance the quality of its Business Cases by using the government's five case methodology for large complex projects along with improved financial modelling including discounted case flows, stress testing of key assumptions, and scenario modelling.
Increase in interest rates	The Council 's underlying need to borrow as expressed by its capital financing requirement will increase over the medium term financial period and the Council will need to enter into new external borrowing to fund its capital programme and ambition plan and non-financial (commercial) investments. An interest rate rise could both (a) make a commercial investment financial unviable and (b) could increase the cost of servicing the debt to the revenue budget. Government increased the Public Works Loan Board's (PWLB) interest rate by one percentage point in October 2019.	All of the major projects contained within the Council's capital programme require final Business Cases to assess either commercial viability or Council affordability before the final decision to proceed is taken. The financial modelling for all such projects will include prudent borrowing assumptions and appropriate sensitivity analysis over interest rates, mitigating against the risk that a project become unviable due to interest rate increases. The Council could review whether it could borrow from sources other than the PWLB (which historically is where most Councils go to for their external borrowing needs) but the cost of raising such finance with banks and other institutions can have high transactional costs and be labour intensive.
Business Rates income	This is highly volatile and various factors, including business closures, successful rate appeals, and changes to the health of the local and national economy can cause reductions in business rate revenue.	Officers from Revenues & Benefits and Finance regularly meet to monitor the income being collected during the year. Prudent levels of earmarked reserves are provided within the overall Collection Fund for bad debts and rateable value appeals.

RISK	DESCRIPTION	MITIGATION PROPOSED
	Harborough District Council currently collects some £42m of Business Rates income and retains some £3.6m.	The risk of the Council not achieving the Business Rates income level it is allowed by government to keep (termed the "baseline" level) is mitigated by there being a "safety net" in place. The maximum risk the Council is therefore exposed to in 2020/21 is some £133k (the loss before the safety net level is reached) and the growth in Business Rates estimated in the budget of £1.6m.

6.5 A key mitigation for the risks mentioned in table 5 is the level of reserves held by the Council. The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the net budget requirement.

6.6 It is estimated that the Council will hold £10.26m of general and earmarked reserves at the end of the 2020/21 financial year (see **Appendix I**). This represents some 82% of the 2020/21 net budget requirement and 42% of the gross expenditure budget (the latter excluding housing benefit payments which are financed by central government).

<u>S151 Officer's advice</u>

6.7 **Robustness of estimates**: There is an element of judgement in preparing estimates of spending and income as they are made at a point on time and may change as circumstances change. The budget has been based on the best information and assumptions available at the time. The Council uses a computer system (collaborative planning) where all budget movements are documented, reviewed by Financial Services, and signed-off by budget managers.

6.8 The S151 Officer does have some reservations on the robustness of the capital estimates for the major projects included in the capital programme. However, the fundamental nature of such projects is that initial estimates are refined and made more certain as the project progresses through various gateway stages towards the production of a final Business Case and a final decision on whether to proceed to the implementation stage. All of the major projects contained within the capital programme require final Business Cases - many of which are currently in preparation (as at the time of writing this budget report).

6.9 **Adequacy of Reserves**: Allowing for the uncertainty and keys risks set out in table 5 above, it is the opinion of the S151 Officer that the budget provides for an adequate level of reserves for the financial year 2020/21 and for the immediate future going forwards from 2020/21.

6.10 However, the S151 Officer does have some concerns on the adequacy of reserves and the sustainability of the Council's finances over the longer term. This concern primarily arises from the current uncertainty over local government funding and the size of possible budget pressures facing the Council from 2021/22 onwards. The S151 Officer advises that it is not sustainable for the Council to continue to draw down the same amount of reserves being used to balance the 2020/21 budget over the longer term, particularly if combined with the same amount of growth as included in this budget and the relatively small amount of savings and increased income generation being proposed.

6.11 It is not possible to be precise on the terms “immediate future” and “longer term” quoted in the paragraphs above given the absence of a robust medium term financial strategy. The timelines are dependent on how the changes intended to be made to the local government finance regime will impact on this Council and what the transitional damping arrangements will be for moving from the current to the new funding system.

6.12 Cabinet Members, Corporate Management Team, and other senior officers will start the budget preparation process for 2021/22 much earlier (i.e. in Spring) than has been the case in previous years in order to develop robust forward plans on how the Council will respond to the financial challenges ahead. In parallel, the S151 Officer will prepare a Medium Term Financial Forecast noting that progress on this will be dependent on central government giving more details than it has to-date on its intended changes to the local government finance system.

6.13 The Council will review current expenditure and explore future income generation opportunities in a controlled manner and by taking a strategic rather than a short-term reactive approach. The Council is in a position to do this because it has built-up significant reserves in recent years, both purposefully and through in-year underspending of the approved budget. Using reserves to help balance the budget however needs to be done with care as the reserves can only be used once. Difficult decisions will therefore inevitably be required given what we currently know about future possible budget pressures.

6.14 The S151 Officer takes comfort in the fact that the Council has had a successful track record in setting a balanced budget and achieving the required budget savings since public sector austerity commenced in 2011/12.

6.15 **Deliverability, affordability, & the risks associated with the capital strategy**: Comments have been made in table 5 and paragraph 4.11 about the risks associated with some of the major projects within the capital programme. Paragraph 4.15 outlines the key improvements that are being developed to govern the capital programme and non-financial (commercial) investments.

<u>CIPFA’s Financial Resilience Indicators</u>

6.16 The financial resilience index was published by CIPFA in December 2019. The Index shows the performance of every local authority in England against a series of indicators, including levels of reserves, external debt and auditors’ judgements, to provide a picture of financial resilience.

6.17 The Index is neither predictive nor judgemental. It is designed solely, in the public interest, to support robust discussions around financial decision making by creating a common set of indicators to underpin S151 Officers’ statements on the robustness of budgets.

6.18 The data comes with caveats. It is based on past information (2018/19 outturn figures) and is not a predictor of future performance. It is one-dimensional data – a drop in reserves could be the result of financial instability or the planned use of reserves to fund a substantial investment.

6.19 The indicators for Harborough District are shown In **Appendix J** and are taken from CIPFA's website (https://www.cipfa.org/services/financial-resilience-index/financial-resilience). The comparator group is all Leicestershire district Councils. There are eight indicators and an explanation of each indicator is given in the appendix. The indicators show that the Council is at higher risk of having financial stress arising from a Business Rates Baseline reset (see paragraph 5.7) than comparator Councils because of the significant amount of Business Rates growth it currently receives. However, it does have lower risks in many of the other indicator categories.

Review of reserves

6.20 Reserves are a vital part of prudential financial management in Councils as, unlike central government, they cannot borrow money over the medium-term other than for investment in capital assets, and they are also required to balance their budgets on an annual basis.

6.21 Councils build up useable reserves for a number of reasons based upon the risks that they face and their plans for the medium term. They generally hold reserves for the following reasons:

- Working balance to help cushion the impact of uneven cash follows.
- Contingency to cushion the impact of unexpected events or emergencies.
- Building up funds to meet known or predicted funding requirements.
- Using reserves for future capital investment and/or to fund the one-off costs of transformation needed to allow future savings.
- Purposeful use of reserves to balance the general fund revenue budget.

6.22 In addition to their useable reserves, Councils have unusable reserves on their balance sheets. These reserves, such as the Pension Reserve and the Capital Adjustment Account, hold costs that the Council has accrued but not yet financed and cannot be spent on Council services.

6.23 Useable reserves are subdivided into "general" and "earmarked" reserves – the latter being established by Council for specific purposes. It is the responsibility of Cabinet to recommend to Council to approve the creation and use of a reserve. Section 25 of the Local Government Act 2003 places a specific personal duty on the S151 Officer to report on the adequacy of the reserves held.

6.24 It is good financial management practice any the remaining balance. The maintenance of a reserve in terms of accounting and reporting requirements takes some officer time and holding numerous reserves, particularly when there are only small amounts of money left in the reserve, is not efficient nor particularly transparent.

6.25 The S151 Officer has reviewed with the Corporate Management Team the purpose and nature of the reserves held by Council and recommends a reduction in the number of reserves to both simplify and give greater clarity to Council on its overall reserves position.

6.26 **Appendix I** shows the balance of reserves forecast to be held at the end of 2020/21 in terms of the current reserves and in terms of the changes proposed to be made to the reserves. An explanation is given in the appendix on the reasons for changing, deleting, or maintaining a particular reserve.

6.27 The key proposals are:

- Combining the General Fund balance with the General Fund earmarked reserve into one general reserve – the General Fund Reserve.
- Deleting reserves that no longer contain any resources within them (New Homes Bonus and Planning earmarked reserves) along with funding any deficit balances in the reserve.
- Deleting reserves that have either small amounts within them or have not been used (and there are no concrete plans to use) and transferring the amounts into the new General Fund Reserve.
- Combining all the reserves that hold unspent grant monies into one earmarked reserve with separate memorandum accounting for each grant sum held.