Causeway Coast and Glens Borough Council

Urgent Review of the 2020/21 Budget Estimates

February 2020

Contents

1. Introduction

1.1. CIPFA has been commissioned by Causeway Coast and Glens Borough Council (the Council) to undertake an urgent review of the 2020/21 budget estimates prior to a rate being stuck on 15th February 2020.

1.2. This is subsequent to a meeting of the Council on 4th February 202 where the budget estimates were presented in a report entitled "Rates Estimates".

1.3. Our review has been undertaken at short notice and within a limited timescale. Consequently, it is a high-level review intended to provide reassurance to the Council prior to the decision to strike a rate is taken.

1.4. A large amount of detailed data has been provided by the Council. This has been referred to as part of our review but in the limited time available it has not been possible to undertake a detailed review of all data.

2. Proposed 2020/21 Budget

Overview

2.1. The 'Rates Estimates' report presented to the Council on 4th February 2020 states "This budget round has been an extremely difficult and challenging one for a number of reasons……"

2.2. The 'Rates Estimates' report sets out two possible positions.

The table at 3.7 sets out the position taking into account all savings agreed by the Council at the date of the report, (we are advised **savings included are in the order of £1.m**), and results in a net spend recoverable by rate of £49.4m.

The table at 3.9 develops the position of table 3.7 and includes further savings which are subject to agreement by the Council.

The additional savings represent **a further £1.58m** and results in a revised net spend recoverable by rate of £47.9m.

In total £2.58m of savings equate to around 5.5% of base service spend.

2.3. Tables in both 3.7 and 3.9 identify financing expenditure of £9.6m. We have been provided with working papers that support this figure. Financing expenditure represents a significant proportion of overall spend.

2.4. Both tables at 3.7 and 3.9 indicate income from Rate Support Grant (RSG) of £2.05m. This is a significant decrease compared to 2019/20 when it was £2.8m (a decrease of £0.75m or 26%). This is explained in the Rates estimates report and outside the control of the Authority and this reduction further impacts on the rate to be levied.

2.5. The change in service spend between the tables in 3.7 and 3.9 as a consequence of savings applied result in a reduction of central government grants, namely:

- A reduction in income from the De-rating Grant of £51,872;
- A reduction of income from the Transferred Functions Grant of £11,742;
- An overall reduction in income of £63,614.

This reduction further impacts on the rate to be levied (increase) as indicated.

2.6. The use of £2.38m of reserves for 2019/20 has not been continued in to 2020/21. The reserves figure represents approximately 5.3% of base service spend which as this is not being followed in 2020/21 will now effectively increase the overall spend level needed to be funded by rate.

2.7. The 'Rates Estimates' report states that the amount to be raised taking into account the foregoing results in an amount to be raised of £49.4m a rate increase of 13.42% (position as set out in table 3.7) or £47.9m a rate increase of 9.99% (position as set out in table 3.9).

2.8. **We have been provided with comprehensive working papers (in the form of Excel spreadsheets) that support the summary values contained in the 'Rates Estimates' report.** However, as is stated in 1.4 above, this has been insufficient time due to the short timescale to undertake a detailed review of these supporting documents.

Zero Based Budgets

2.9. The 'Rates Estimates' report states "the recent work which took a ground up approach to estimate ongoing costs for all council services has been taken into account when preparing this initial set of estimates with several major cost areas having been revised……."

2.10. We understand that the Council has been supported in this exercise by PwC. We have been provided with working papers that support the work undertaken to build budgets using the zero-based approach.

2.11. We have also been provided with a report by PwC to Councillors on Project Coast dated November 2019.

2.12. The 'Report by the Chief Financial Officer on the 2020/21 Estimates' to the Council on 4th February states "Council officers have in this budgeting round undertaken a most extensive exercise of zero based budgeting for all areas and services of Council in order to ascertain the level of funding required to continue to provide council services at their current levels and these figures are reflected in the rates estimates presented".

2.13. Whilst in the limited timescale available we cannot undertake a comprehensive review of the detailed impact of adopting this approach, it is clear from the evidence provided to us that the exercise has been an important tool in right-sizing and realigning the budget for 2020/21. As a consequence of realignment it is necessary to comment that a line by line budget comparison with 2019/20 would be inappropriate.

Reserves

2.14. There is no plan to utilise General Fund reserves in 2020/21 as is stated in the Revenue estimates report.

2.15. The 'Report by the Chief Financial Officer on the Reserves' to the Council on 4th February 2020 states "At 31st March 2019 the General Fund balance of Causeway Coast and Glens Borough Council amounted to £3.762m equating to 6.19% of the Net Operating Expenditure. Department for Communities (DfC) guidance indicates that the General Fund Level should be between **5% and 7.5% (£3.040m and £4.561m)** of the Net Operating Expenditure".

2.16. The General Fund has been significantly depleted in recent years, having stood at £7.876m at 31st March 2017 and at £6.642m at 31st March 2018. This represents a reduction from 31st March 2017 to 31st March 2019 of £4.114m (or 52%) in just 2 years

2.17. In 2019/20 there was planned use of reserves of £2.38m. In the 'Month 9 Management Accounts' report to the Finance Committee on 13th January 2020, it was reported that the in-year application of reserves in 2019/20 means that the General Fund balance now stands at £1.745m as at 31st December 2019.

2.18. It is not clear whether the Council intends to utilise the full £2.380m in 2019/20. Full use would result in a General Fund balance of **£1.382m or 2.9%** of Net Operating Expenditure carried forward to 2020/21.

2.19. The 'Report by the Chief Financial Officer on the 2020/21 Estimates' to the Council on 4th February states "In conclusion it is vital that the rate the Council sets is sufficient to meet the requirements of Council services and minimises the risk of further reduction of reserves".

2.20. We are in full agreement with this sentiment. Maintenance of reserves is essential to maintain financial resilience. Even if the full £2.38m is not utilised in 2019/20, the **General Fund balance is now dangerously low** especially in the context of DfC guidance.

2.21. It is, therefore, prudent to make no further use of the General Fund balance to support the revenue budget. Indeed, it would be wise to take measures to refresh the General Fund balance to a proper level in line with DfC guidance though this would result in an increase in the amount to be raised. At a minimum, we are of the opinion that any Medium-Term Financial Plan should address this issue.

Savings

2.22. As outlined in paragraph 2.2 above budget proposals set out in table 3.7 of the 'Rates Estimates' report incorporate all savings agreed by the Council and table 3.9 inclusion of additional savings to be agreed by Council. The table at 3.9 therefore includes all savings identified both approved and to be approved. The increase in savings from table 3.9 is £1.59m.

2.23. A report to the Council on 4th February entitled 'Savings measures for consideration in conjunction with the rates estimates' sets out savings measures by department. The report states "These measures have been previously provided to members at various committees and the rates workshop on Monday 27th January 2020 and discussed in detail".

2.24. These savings measures are, in summary:

- Community & Culture £97,192
- Sport & Wellbeing £436,475
- Tourism and Recreation £591,338
- Prosperity and Place £172,437
- L&D Management £30,000
- **Total** **£1,327,442**

2.25. **These amount to £1.32m**. The 53 proposals include efficiency, service reduction and income generation measures. There is no indication of the deliverability of these proposals and no RAG rating. However, given they have previously been considered it must be assumed they are both politically acceptable, deliverable and reflect the savings achievable in 2020/21.

2.26. In addition we have also been provided with the 'Efficiency/Savings/Income Generation Proposals' report to the Environmental Services Committee on 4th February 2020. This also sets out a number of measures, in summary:

- ES/Operations £728,840
- ES/Infrastructure £51,500
- ES/Estates £131,000
- ES/Health and Built Environment £37,000
- ES/Management £10,000
- Total £958,340

2.27. **These amount to £0.958m.** These proposals have been RAG rated and only those with a (light and dark green) RAG rating have been included in the savings total.

2.28. However, it is not apparent whether these are the savings agreed by the Council and included in table at 3.7 or the table at 3.9 savings yet to be agreed by the Council in the 'Rates Estimates' report that went to the Council on 4th February 2020.

2.29. Our conclusion is that a clear high level statement is required. This will provide clarity and transparency for the budget debate and shows a clear progression from service spend to rate required. A statement may include the following:

A) Base service budget (expenditure net of service related income)

Savings approved (in total and with a breakdown of schemes and value)

Net service spend

Financing costs

Total expenditure

RSG

Government Grants

Net Expenditure to be funded by rate

Therefore rate increase on 2019/20

B) Base service budget (expenditure net of service related income)

Savings approved (in total and with a breakdown of schemes and value)

Savings to be approved (in total and with a breakdown of schemes and value)

Net service spend

Financing costs

Total expenditure

RSG

Government Grants

Net Expenditure to be funded by rate

Therefore rate increase on 2019/20

2.30. We understand that there are proposals yet to be agreed by the Council which would reduce net expenditure and therefore the rate charge relating to car parking.

2.31. The information provided outlines four options being evaluated. Each option indicates an increase in net revenue to the Authority (for car parking) above that currently received (£0.535m).

2.32. The options indicate a range of £0.547m to £1.096m increased income which would serve to reduce net expenditure further from that already reported in tables at 3.7 and 3.9 of the 'Rates Estimates' report and therefore a further consequential reduction in the rate increase required.

2.33. This will need highlighting in any budget proposal updates and proposal for agreement.

2.34. Savings by their nature can be volatile and as they become more challenging the risk of non-delivery increases. The feasibility and probability of delivery are both factors that are essential in agreeing savings proposals. During the year it is critical that performance management of savings agreed is effective and part of the financial governance framework.

2.35. Clearly a great deal of work has been undertaken in developing the savings proposals and when aligned to the zero based budget review should be representative of service costs and their savings.

Borrowing

2.36. A report on Prudential Indicators for 2019/20 to 2022/23 was tabled at the Council meeting on 4th February in conjunction with the 'Rates Estimates' report. We have been provided with working papers that support the values contained in this report.

2.37. A key indicator is the ratio of financing costs to net revenue stream. Simply, this is the proportion of the revenue budget which is spent on capital financing, net of receipts from investment income. It is an indicator of affordability.

2.38. This is stated in the Prudential Indicators for 2019/20 to 2022/23 as 17.9% in 2020/21, falling to 17.5% in 2021/22 before rising again to 17.9% in 2022/23. These ratios reflect the level of investment that has taken place in assets and infrastructure to support services and the continuing cost of financing such investment. **As such, the ratio of financing costs to net revenue stream will vary significantly from Council to Council based on past decisions**. A ratio of 17.5 % plus is higher than in many Councils but not significantly so.

2.39. We understand that progress has been made in reducing the level of debt and borrowing and that this remains a priority for the Authority in the long term.

3. Conclusion

3.1. Based on our review of the documents provided to us and in the limited time available, our overall conclusions are:

- The use of the zero-based budgeting approach combined with the support of PwC in adopting it provides a sound basis for the 2020/21 budget proposals;
- Comprehensive working papers (mainly in the form of Excel spreadsheets) support the 2020/21 budget proposals presented to the Council on 4th February 2020 (though given the limited time we have not been able to undertake a detailed review of these working papers);
- Budget proposal summaries should be prepared (paragraph 2.29 above) that clearly show budget development and the savings agreed and to be agreed in detail. This will highlight the total savings in relation to service spend;
- The impact of not using equivalent reserves for 2020/21 (around 5% of spend) should be highlighted as a contributory factor for rate increase;
- As above the reduction in RSG and Government grant should also be shown as effectively an increase rate requirement;
- The governance arrangements in place to agree and deliver savings need to robust and effective;
- The Council's General Fund balance is dangerously low and consideration should be given to refreshing it to meet DfC guidelines though, if this was done in 2020/21, it would increase the amount to be raised. It does, however, need to be addressed in the medium-term;
- That the Authority continues its development of a medium and longer term financial plan to review and address service and financial pressures, borrowing and investment to ensure sustainability.