

REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE

Date of Meeting: 17 December 2009

Public

Key Decision: Yes

Recorded in Forward Plan:

Yes

Inside Policy Framework

Title: REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY
POSITION 2010/11 TO 2014/15

Report of: DIRECTOR OF CORPORATE SERVICES

Report reference: CORP54/09

Summary:

This report provides a summary of the Council's revised revenue base estimates for 2009/10, together with base estimates for 2010/11 and updated projections to 2014/15. It includes the impact of the new savings and new spending pressures currently under consideration and the potential impact on the Council's overall revenue reserves.

Recommendations:

The Executive is requested to note the updated budget projections for 2009/10 to 2014/15 and make recommendations, in the light of the budget pressures and savings submitted to date, together with the potential use of balances and reserves, in order to issue a draft budget for consultation purposes.

Contact Officer: Steven Tickner

Ext: 7280

To: The Executive
17 December 2009

CORP54/09

REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY POSITION
2010/11 TO 2014/15

1. INTRODUCTION

- 1.1. This report summarises the budget projections and matters to be considered in respect of the net budget requirement for the Council for the period 2009/10 to 2014/15.
- 1.2. In particular, it advises on the Council's core revenue budgets for 2010/11 together with projections to 2014/15, and considers the potential impact of the new savings and new spending pressures currently under consideration and the potential impact on overall revenue projections and reserves. It is clear, even at this stage of the budget process, that all of the pressures currently identified cannot be accommodated within existing Council resources. Decisions will need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies.
- 1.3. It should also be noted that there are still a large number of significant issues affecting the projections that will not be known for some time. In particular the following are key to the budget process and details on these are considered further in the report:
 - Implementation of Job Evaluation project
 - Transformation arrangements
 - Government Finance Settlement – RSG and NNDR 2011/12 onwards
 - Specific Government Grant allocations including LABGI, and Housing & Planning Delivery Grant
 - Triennial Revaluation of the Pension Fund
 - Further impact of economic recession
 - Property review
 - Tullie House Governance Options
- 1.4. The report draws on information contained in a number of reports that have been considered by the Executive and Overview and Scrutiny Panels over the course of the financial year. The principal budget reports have been listed in **Appendix A** for reference purposes.
- 1.5. The Executive will issue its budget for consultation purposes on 17 December. Following this it will consider the final consultation feedback, together with the final

Government Grant settlement figure (if available) on 18 January and will subsequently recommend a budget to Council on 2 February 2010.

2. GENERAL FUND BUDGET PROJECTIONS 2009/10 REVISED TO 2014/15

2.1 The budget projections as currently forecast are summarised in the following table.

Further details are contained in the notes following the table and Appendices listed:

Summarised Position	2009/10 Original £000	2009/10 Revised £000	2010/11 Original £000	2011/12 Proj £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000
Total Projected Expenditure (See 3.1 & Appendix B)	21,909	23,845	19,119	18,379	18,424	18,824	18,933
Total Projected Resources (See 3.2 & Appendix C)	(21,909)	(23,845)	(17,636)	(17,829)	(18,105)	(18,392)	(18,690)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	1,483	550	319	432	243
Less: New Saving Proposals - Recurring - Non Recurring (See Para 4 & Appendix D)							
	0	0	(825)	(876)	(876)	(876)	(876)
	0	0	(40)	0	0	0	0
Add: New Spending Pressures - Recurring - Non Recurring (See Para 5 & Appendix E)							
	0	0	397	989	812	812	1,382
	0	0	261	0	0	0	0
Potential Budget Shortfall (See para 2.2)	0	0	1,276	663	255	368	749
Potential Shortfall Analysis: - Recurring - Non Recurring			(1,784) 3,060	(793) 1,456	(546) 801	(294) 662	749 0

2.2 It should be noted that the potential shortfall projected above is the projected position that would occur only if all of the new Savings and Spending Pressures were accepted. The Executive are asked to consider the issues in this report and make proposals on the savings, new spending pressures and use of reserves as set out in this report in order to issue a draft budget for consultation purposes.

2.3 It should also be noted that these projections are subject to Council Tax base and Surplus, Housing & Planning Delivery Grant, Regional Housing Pot Capital Grant,

Disabled Facilities Grant, and LABGI allocation, all of which will be notified, in early 2010.

3. CURRENT PROJECTIONS

3.1 Total Existing Projected Expenditure

The total existing expenditure commitments from the 2009/10 budget and any subsequent approvals by Council are set out in **Appendix B**. The following should be noted:

- The forward year projections at this stage exclude the new spending and saving proposals being put forward for consideration as part of the current years budget deliberations.
- The current requirement for each Parish Precept for 2010/11 is now available and totals £435,000 (a 2.3% increase over 2009/10). The actual Parish requirement for each Parish is set out in **Appendix F**.

3.2 Total Projected Resources

The figures set out in **Appendix C** include the provisional Local Government Finance Settlement announced by the Secretary of State in December 2007 and confirmed on 26 November 2009, with no changes to the provisional figures for 2010/11.

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2010/11 onwards.

The resources also assume for projection purposes:

- A nil increase in Government Grant from 2011/12 onwards. This is consistent with MTFP projections. However, it is likely that there will be a cut in grant from 2011/12 and this pressure has been included at a 5% reduction each year in Appendix E.
- An illustrative 3.5% increase in Council Tax increase for 2010/11 to 2014/15.
- No Council Tax Surplus 2010/11 onwards. The actual figure for 2010/11 will be available in January.
- An assumed taxbase of 34,411.73 (the actual for 2010/11 will not be available until January).

For information, broadly:

- Each 1% (£1.85) movement in Council Tax impacts on the Council by £63,000
- Each 1% movement in RSG/NNDR grant will impact by £103,000.
- Each £34,000 increase or decrease in expenditure impacts on the Council Tax Requirement by £1.

4. SAVING PROPOSALS (see Appendix D)

- 4.1 The saving proposals were presented to the Executive at its meeting of 23 November (CORP51/09), supported by individual charges review reports. At that meeting the Executive requested that the savings and individual charging reports be forwarded to the relevant Overview and Scrutiny Panels as part of the budget consultation process.

5. NEW SPENDING PRESSURES (see Appendix E)

- 5.1 The Executive at its meeting of 23 November (CORP50/09) considered the new spending pressures. At that meeting the Executive requested that the spending pressures be forwarded to the relevant Overview and Scrutiny Panels as part of the budget consultation process.
- 5.2 This report considers the revenue pressures only. Report CORP54/09 considered elsewhere on this agenda gives details of any capital bids submitted, although any recurring expenditure resulting from the acceptance of Capital bids will fall to be met from revenue budgets, and initial projections on the impact have been made.

6. PROJECTED IMPACT ON REVENUE BALANCES

- 6.1 The general principles on each of the Reserves are set out in the Medium Term Financial Plan. In terms of meeting ongoing revenue expenditure, the general guiding principle which Council approved is that:

‘Wherever possible, reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit, and steps taken to address the situation in the following years’.

- 6.2 The Council’s overall levels of balances are set out in **Appendix G** and have currently been adjusted assuming withdrawal to support all of the current budget proposals. The Projects Reserve has been used as a first call for the current projected revenue budget deficit as set out in paragraph 2.1. The new movement of the reserve is as follows and clearly shows the projected call on reserves is unsustainable given the current pressures. A risk based review of reserve levels has been undertaken and shows a prudent level of reserves to be £3.8million.

Balance as at:	Projected Balance £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000
31/03/2010	1,300	(1,784)	3,060
31/03/2011	2,576	(793)	1,456
31/03/2012	3,239	(546)	801
31/03/2013	3,494	(294)	662
31/03/2014	3,862	749	0
31/03/2015	4,611	0	0

7. MEDIUM TERM OUTLOOK AND BUDGET DISCIPLINE 2009/10 to 2014/15

- 7.1 The current budget projections for the next five-year period are challenging and indicate that substantial savings will be required to enable the Council to contain its ongoing commitments within available resources.
- 7.2 Notification of Government general and specific grants i.e. RSG, NNDR, Housing and Planning Delivery Grant, LABGI etc is received on an individual basis late in the budget process. This makes forward financial planning more difficult. At the moment the overall projections of a cash freeze in funding from Government are not considered realistic, with a high likelihood that there will be some significant cuts in the grants awarded in future.
- 7.3 In terms of expenditure pressures, there are significant issues affecting the budget, which are not yet known. These include the Triennial Pensions revaluation. Other initiatives are underway that are not currently included, but which may also give rise to additional budgetary pressures include the Sands Development and Caldew Riverside for which there may be revenue implications.
- 7.4 The City Council needs to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years, and the Executive will table recommendations in this respect at this meeting..
- 7.5 Under section 25 of the Local Government Act 2003 the Section 151 Officer is required to prepare a statutory report which considers the robustness of the estimates and the adequacy of reserves and which determines levels of borrowing. A full report will be prepared and included within the Executive's draft budget proposals for consultation purposes, however a draft is attached at **Appendix H**. At this stage it should be noted that the current projected revenue deficit requires substantial savings to be identified to meet the ongoing projected shortfall and that the impact on reserves is not sustainable.

8. CONSULTATION

- 8.1 The Executives draft budget will be issued for consultation on 17 December. The consultation feedback, together with the final Government Grant settlement (if available), will be considered by the Executive on 18 January, following which the Executive will make final budget recommendations to Council on 2 February 2010.

9. RECOMMENDATIONS

- 9.1 The Executive is requested to note the updated budget projections for 2010/11 to 2014/15 and make recommendations, in the light of the budget pressures and savings submitted to date, together with the potential use of balances and reserves, in order to issue a draft budget for consultation purposes.

10. REASONS FOR RECOMMENDATIONS

- 10.1 To enable the Executives draft budget proposals for consultation purposes to be prepared.

11. IMPLICATIONS

- Staffing/Resources – The core estimates assume a continuance of the existing levels of resources, however the effect of achieving the transformation savings will need to be incorporated. Any changes to the base level of resources are contained within the reports on new spending pressures and new savings previously considered by the Executive and summarised within this report.
- Financial – Included within the report.
- Legal – Not applicable.
- Corporate – Included within the report.
- Risk Management – There is a continuing risk to the Council's budget from reliance on income and grants. There is also a risk that the savings projected to be achieved from the Transformation programme are not achieved. There is also a risk around the projections due to uncertainties of the amounts included for items such as RSG which are dependent on more information coming from Central Government. The budget issues being raised clearly point to increasing pressures on the Council's budgets arising from the economic downturn, along with ongoing funding of priority services. The pressures cannot be met from existing resources and decisions will need to be taken to enable a balanced budget position to be reached.
- Equality Issues – Not applicable.
- Environmental – Some of the bids have environmental issues as set out in the pro-formas.
- Crime and Disorder – Not applicable.
- Impact on the Customer – Principally Council tax and charges impacts.

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PRINCIPAL REPORTS CONSIDERED DURING THE BUDGET PROCESS TO DATE

Report Ref	Date	Title
CORP35/09	15/09/09	Medium Term Financial Plan (incorporating the Corporate Charging Policy) 2010/11 to 2014/15
CORP36/09	15/09/09	Capital Strategy 2010/11 to 2014/15
DS75/09	15/09/09	Asset Management Plan 2010 -2015
CORP38/09	28/09/08	2010/11 to 2014/15 Budget Update and Timetable
CORP49/09	23/11/09	Revenue Base Estimates and Updated MTFP Projections 2010/11 to 2014/15
CORP48/09	23/11/09	Provisional Capital Programme 2010/11 to 2014/15
CORP50/09	23/11/09	Summary of New Revenue Spending Pressures
CORP51/09	23/11/09	Summary of Savings Proposals
LDS83/09	23/11/09	Charges Review – Licensing
LDS85/09	23/11/09	Charges Review – Legal and Democratic Services
DS96/09	23/11/09	Charges Review – Development Services
CS52/09	23/11/09	Charges Review – Community Services
CORP47/09	23/11/09	Treasury Management 2009/10 and 2010/11
CORP54/09	17/12/09	Revenue Estimates: Summary of Overall Budgetary Position 2010/11 to 2014/15
CORP55/09	17/12/09	Capital Estimates: Summary of Overall Budgetary Position 2010/11 to 2014/15
CORP57/09	17/12/09	Draft Treasury Management Strategy Statement and Investment Strategy and Minimum Revenue Provision Strategy 2010/11

EXISTING EXPENDITURE COMMITMENTS

EXPENDITURE PROJECTION	2009/10		2010/11 Estimate £000	2011/12 Proj £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000
	Original Estimate £000	Revised Estimate £000					
Core Expenditure:							
Core Base Expenditure	12,547	13,411	13,165	13,136	13,136	13,136	13,136
Treasury Management	980	116	64	31	12	(13)	(29)
Inflation Projection	2,693	2,693	3,473	4,189	4,925	5,679	6,454
2009/10 agreed Savings	(456)	(456)	(1,375)	(1,398)	(1,426)	(1,627)	(1,627)
2009/10 agreed Spending	506	506	518	518	518	518	518
Total Core Expenditure	16,270	16,270	15,845	16,476	17,165	17,693	18,452
Non Recurring Exp:							
Pre 2008/09 approvals	736	736	396	0	0	0	0
Treasury Management	0	526	904	896	801	662	
2009/10 agreed Spending	4,478	3,952	1,539	560	0	0	0
Carry Forwards from 2008/09	0	1,005	0	0	0	0	0
Supplementary Estimates	0	931	0	0	0	0	0
Total non Recurring Expenditure	5,214	7,150	2,839	1,456	801	662	0
Total City Council Budget Requirement	21,484	23,420	18,684	17,932	17,966	18,355	18,452
Parish Council Precepts	425	425	435	447	458	469	481
Total Requirement	21,909	23,845	19,119	18,379	18,424	18,824	18,933

RESOURCE PROJECTIONS

RESOURCES PROJECTION	2009/10 Original Estimate £000	2009/10 Revised Estimate £000	2010/11 Estimate £000	2011/12 Proj £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000
Projected External Finance:							
- Revenue Support Grant	(10,320)	(10,320)	(10,372)	(10,372)	(10,372)	(10,372)	(10,372)
- NNDR Grant	0	0	0	0	0	0	0
- Surplus on Collection Fund	17	17	0	0	0	0	0
- Area Based Grant	(49)	(49)	(75)	0	0	0	0
- C/Tax for Parish Precepts	(425)	(425)	(435)	(447)	(458)	(469)	(481)
- Council Tax Yield	(6,507)	(6,507)	(6,754)	(7,010)	(7,275)	(7,551)	(7,837)
Total Income based on 3.5% Tax increase Projections	(17,284)	(17,284)	(17,636)	(17,829)	(18,105)	(18,392)	(18,690)
Plus Approved Contributions from Balances:							
- Pre 2009/10 non recurring commitments	(736)	(736)	0	0	0	0	0
- 2009/10 non recurring commitments	(4,478)	(4,478)	0	0	0	0	0
- Pre 2008/09 recurring Projects Reserve c/fwd	589	589	0	0	0	0	0
Asset Investment Fund c/fwd	0	(1,005)	0	0	0	0	0
Supplementary Estimates	0	0	0	0	0	0	0
Total Use of Reserves	(4,625)	(6,561)	0	0	0	0	0
Total Projected Resources	(21,909)	(23,845)	(17,636)	(17,829)	(18,105)	(18,392)	(18,690)

SAVING PROPOSALS

Detail	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Expenditure Reductions					
- Inflation (Expenditure) (From 2.8% to 0%)	(503)	(503)	(503)	(503)	(503)
- Pay Award (From 2.5% to 1%)	(280)	(280)	(280)	(280)	(280)
- Revenues & Benefits Shared Service	(42)	(93)	(93)	(93)	(93)
Total Savings	(825)	(876)	(876)	(876)	(876)
Increased Income					
- Concessionary Fares Grants	(20)	0	0	0	0
- Land Charges	(20)	0	0	0	0
Total Additional Income	(40)	0	0	0	0
Total Savings	(865)	(876)	(876)	(876)	(876)
Split:					
Recurring	(825)	(876)	(876)	(876)	(876)
Non Recurring	(40)	0	0	0	0

New Spending Pressures

Detail	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
Recurring					
- Pension Increase (1.5%)	0	206	206	206	206
- Reduction in Grant Settlement (One off 5%)	0	515	515	515	515
- Treasury Management	0	0	0	0	570
Shortfall In Income					
- Lanes Head Rent	77	77	0	0	0
- Loss of Viaduct Car Park Income	181	100	0	0	0
- Loss of Contract Parking Income	31	31	31	31	31
- Shortfall on Car Parks MTFP Target	48	0	0	0	0
- Bereavement Services	60	60	60	60	60
Total Recurring	397	989	812	812	1,382
Non-Recurring					
- LABGI	23	0	0	0	0
- Small Scale Community Projects	80	0	0	0	0
- Revenues & Benefits Shared Service	158	0	0	0	0
Total Non Recurring	261	0	0	0	0

PARISH PRECEPTS 2010/11

Parish Council	Precepts Paid 2009/10 £	Precepts Requested 2010/11 £	Percentage Increase
Arthuret	45,920	46,608	1.50
Beaumont	4,443	4,510	1.51
Bewcastle	3,500	3,500	0.00
Brampton	88,878	88,878	0.00
Burgh-by-Sands	12,800	12,800	0.00
Burtholme	1,700	1,735	2.06
Carlatton & Cumrew	1,500	1,600	6.67
Castle Carrock	4,192	4,192	0.00
Cummersdale	4,650	4,900	5.38
Cumwhitton	3,000	3,300	10.00
Dalston	35,200	40,480	15.00
Denton Upper	1,027	1,053	2.53
Farlam	2,775	3,191	14.99
Hayton	13,320	13,720	3.00
Hethersgill	6,500	6,500	0.00
Irthington	5,356	5,356	0.00
Kingmoor	7,044	7,278	3.32
Kingwater	1,000	1,000	0.00
Kirkandrews-on-Esk	6,856	7,062	3.00
Kirklington	1,800	1,800	0.00
Midgeholme	0	0	0.00
Nether Denton	2,982	3,042	2.01
Nicholforest	4,000	4,000	0.00
Orton	3,000	3,500	16.67
Rockliffe	2,800	2,800	0.00
Scaleby	4,500	5,000	11.11
Solport & Stapleton	2,800	2,800	0.00
Stanwix Rural	39,550	40,540	2.50
St Cuthbert Without	20,650	21,000	1.69
Walton	4,565	4,565	0.00
Waterhead	1,000	1,000	0.00
Westlinton	2,500	2,000	-20.00
Wetheral	85,000	85,000	0.00
TOTAL	424,808	434,710	2.33

* Stapleton Parish Council has now merged with Solport

COUNCIL RESERVES

Council Reserves	Actual 31/03/09 £000	Revised 31/03/10 £000	Proj 31/03/11 £000	Proj 31/03/12 £000	Proj 31/03/13 £000	Proj 31/03/14 £000	Proj 31/03/15 £000
Revenue Reserves							
General Fund Reserve	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)
Projects Reserve i	(5,261)	1,300	2,576	3,239	3,494	3,862	4,611
Sub Total	(9,061)	(2,500)	(1,224)	(561)	(306)	62	811
Collection Fund	(28)						
Job Evaluation	(399)						
Residents Parking	9						
Building Control	23						
Licensing Reserve	(14)						
Routledge Reserve	(42)						
Sheepmount Reserve	(105)						
Conservation Fund	(191)						
LSVT Warranties	(488)						
Total Revenue Reserves	(10,296)	(2,500)	(1,224)	(561)	(306)	62	811
Capital Reserves							
CLL Reserve ii	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts	(10,544)	(4,568)	(4,086)	(1,787)	(1,716)	(1,744)	(3,449)
Asset Investment	(2,048)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Lanes Capital Reserve	(281)	(296)	(311)	(326)	(341)	(356)	(370)
Total Capital Reserves	(13,395)	(7,386)	(6,919)	(4,635)	(4,579)	(4,622)	(6,341)
Total Available Council Balances	(23,691)	(9,886)	(8,143)	(5,196)	(4,885)	(4,560)	(5,530)
Other Reserves iii	(104,437)						
Total Reserves	(128,128)						

(i) refer to paragraph 6.2 for further details,

(ii) The Renewals reserve was deleted as part of last years budget process and the balance above reflects the potential requirement to replace CLL assets at the end of the contract.

(iii) These reserves are of a technical nature and are not cash backed. They are not available either to fund expenditure or to meet future commitments.

DRAFT STATUTORY REPORT OF THE DIRECTOR OF CORPORATE SERVICES (until 16 December, thereafter, REPORT OF ASSISTANT DIRECTOR (RESOURCES))

1. In setting its Budget Requirement, the Council is required under the Local Government Act 2003 (Section 25) to consider:
 - (i) The formal advice of the statutory responsible financial officer (Director of Corporate Services) on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
 - (ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the new Prudential Code that now governs local authority borrowing.

2. Robustness of the Estimates

Whilst relevant budget holders are responsible for individual budgets and their preparation, all estimates are scrutinised by Financial Services staff, the Senior Management Team and the Strategic Planning Group prior to submission to members.

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates.

The Council has no history of overspending against budget, indeed, in the past there has tended to be a degree of underspending. Improved budget monitoring backed up by specific action where appropriate and base budget procedures have proven effective in addressing this issue.

There are risks however involved in projecting budgets particularly over the medium term and the year-end position will never exactly match the estimated position in any given year. Areas of specific risk in the current five-year period under consideration are:

- The Governments 2007 spending review (CSR07) indicated that Central Government funding of Local Government will be much tighter over the medium term. Early indications are that the next grant settlement due to be received from 2011/12 will provide local authorities with a significant cut in grants. Early indications are that this cut could be a minimum of 5%. Coupled with the requirement to identify 3% cashable efficiencies for redirection to priorities, this will increase the pressure to provide efficiency and improve value for money in the provision of council services including the progression of shared service initiatives.
- The Transformation programme is expected to achieve £1million recurring savings from 2010/11, however further savings will be required in order to return reserves to back to recommended levels and any failure to achieve these targets will result in increased pressures on the Council's reserves.
- The level of interest receipts and return on Treasury Management activities are subject to market rates. Members are advised of this risk every year and it should be noted that in the current economic climate with low base rates, investment income is particularly difficult to estimate, with forward years assumptions on investment rates very difficult to predict. The Council is also having to deal with a reduced number of counterparties it is able to place deposits with following the Icelandic banking crisis
- To improve the accuracy of base budgets and to avoid year end underspending, income budgets have been set at more realistic levels based on usage to date, price

increases etc. This does however increase the risk that income budgets may not be achieved as indeed has been experienced in previous years and specifically in the current year due to the recession. There is a specific risk that after 2010/11 Land Charges income will revert back to its recurring level after being reduced for 2 years. If this level of income is not achievable on a recurring basis, then there will be a pressure on the Council's budgets. This will need to be monitored closely. There is also an increasing significant reliance on Grant Income. A risk assessment has been produced which is monitored by SMT to plan for and mitigate where possible the effects of the recession on Carlisle's residents and businesses.

- Central contingencies – there have been no contingency budgets built in to the existing estimates. This means that any unforeseen expenditure that cannot be contained within existing budgets will require a supplementary estimate to cover any costs. The budget proposals will significantly limit the capability to deal with any of these events and these may have to be found from within other budgets and reserves should the need arise.

At this stage it should be noted that the current projected revenue deficit still requires substantial savings to be identified to meet the ongoing projected shortfall and to build reserves back to minimum recommended levels needs more specific savings targets.

The Transformation programme is expected to achieve £1million recurring savings from 2010/11, however further savings will be required in order to return reserves back to recommended levels.

The Council has committed to Carlisle Renaissance and has agreed funding until 2011/12. A team has been appointed to assist with the delivery. As part of this budget process specific revenue budgets have been earmarked to assist with the delivery of the project for a period, but currently there are limited earmarked budgets for the actual delivery of the transformational projects and these will require external funding to deliver.

There are also potentially significant capital budget requirements arising from other initiatives and ongoing feasibility studies that currently have no funding allocations.

The main risks to the robustness of the estimates is the impact of the Transformation programme which is not yet fully developed. The use of reserves will be necessary to fund this budget in the short term however it is not acceptable in the longer term and should only be seen as a short term fix. The proposals to be put in place need to bring reserve levels back to an acceptable level in the following 5 years. This is dependant upon the necessary steps being taken to resolve the ongoing projected deficit, as part of the Transformation programme. Specifically it will require the delivery of the savings proposals identified and continuing work to deliver further savings. Regular budget monitoring, particularly in the area of the Transformation programme is imperative during this period. The requirement of the Council's future Capital Programme also needs to be clarified.

2. Adequacy of Reserves

The level and usage of the Council's Reserves is undertaken annually as part of the Medium Term Financial Plan.

Viewed against the current projections, the Council's Reserves have dropped to below minimum levels from 2010/11 onwards. The appropriateness of the level of reserves can only be judged in the context of the Council's longer term plans and an exercise has been undertaken to review the level of reserves through the use of a risk assessment matrix. The initial findings of this exercise suggest that £3.8m is a prudent level of General Fund Reserves which will be required as a general working capital / contingency to cushion the

Council against unexpected events and emergencies. However, given the short term commitments highlighted in the budget proposals, it is necessary that the current General Fund reserve be used to fund the short term deficits. Stringent plans will be required in order to replenish the level of reserves in the following years and the budget proposed must identify the steps necessary to do this.

The Councils policy on reserves is that wherever possible reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit and steps taken to address the situation in the following years. The deficit projections must therefore be addressed and the Executive must set out in its Budget Discipline and Saving Strategy how it expects Officers to address the situation in setting the 2010/11 budget and preparing for the 2011/12-budget cycle. .

Based on current projections, Council Reserves will fall to below minimum recommended levels in the years 2010/11 to 2014/15. Necessary steps must be taken to resolve the ongoing projected deficit from 2010/11 by delivery of savings proposals currently identified and identification of further savings via the Transformation Programme. It is accepted that the level of reserves will need to reduce until the impact of the transformation is effective and that the £3.8m General Fund Reserve is used in the short term but that this is replenished over the following 5 years through a stringent savings strategy.

3. Determination of Borrowing

The new Prudential Accounting regime enables the Council to borrow subject to meeting criteria of affordability. The draft Prudential Indicators have been established and these will be finalised for Council approval once decisions on the overall Capital Programme have been made.

For the period under review the need for borrowing will be kept under consideration and will be dependent on the level of capital receipts being generated and the potential of future capital projects. Due to projects currently under consideration, the capital programme for 2010/11 to 2014/15 may require the use of Prudential Borrowing to sustain levels depending on the levels of capital receipts that can be generated in the future.

There is a risk however in the long-term sustainability of funding the capital programme from a reducing availability of capital receipts over the longer-term and the use of prudential borrowing will be kept under review.