

CARLISLE
CITY COUNCIL



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REPORT TO EXECUTIVE

PORTFOLIO AREA: POLICY, PERFORMANCE MANAGEMENT, FINANCE AND RESOURCES

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07 July 2003

Public

Key
Decision:

Yes

Recorded in
Forward Plan:

Yes

Inside Policy Framework

Title: **THREE YEAR BUDGET 2004/05 TO 2006/07 - FIRST
FORECAST AND TIMETABLE**

Report of: **The Head of Finance**

**Report
reference:** **FS8/03**

Summary:

The report summarises the projected cost of supporting service levels and the potential resources available to the Council over the three-year period to 2006/07 and comments on a range of issues that will impact on the provision of services and the level of Council Tax over that period. A timetable to guide the budget process is also attached for information.

Recommendations:

The Executive are recommended:

1. To receive the report and respond with guidance to officers in compiling budgets for 2004/05 to 2006/07 including any requirements or emphasis to redirect resources over that period.
2. To refer the report and their response to it to the Corporate Resources Overview and Scrutiny Committee on 24th July for observations.

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CITY OF CARLISLE

To: The Executive FS8/03

07 July 2003

THREE YEAR BUDGET 2004/05 TO 2006/07 – FIRST FORECAST

1. INTRODUCTION

1. This report is the first forecast of the Budget projections for the three-year period 2004/05 to 2006/07, and addresses a number of issues which will impact on the Council as the Budget is developed. A timetable to guide the process is also attached for information.
 2. The previous twelve months has seen unprecedented changes taking place in the City Council, including the transfer of the Housing stock, the externalisation of Leisure facilities, together with a major re-organisation of the Council's management structure. It is hoped that this current three-year period will be one of relative consolidation, albeit there are some major initiatives to be undertaken during the period, not least the transfer of the Buildings DSO to Carlisle Housing Association, and the investigation of options for the future management of Tullie House. In addition, the Council will need to prepare for the prospect of Regional Government, which has recently been announced by the Government for the Northwest area.
 3. The main principles guiding the formulation of the budget over the next three years are set out in the following Policy documents which will be formally submitted to and approved by Council on 15th July to form part of the Budget and Policy Framework:
 - Medium Term Financial Plan (see FS11/03 (amended) elsewhere on the agenda)
 - Corporate Charging Policy (See FS11/03 (amended) elsewhere on the agenda)
 - Capital Strategy (See FS10/03 and PS 04/03 elsewhere on the agenda)
 - Asset Management Plan (see FS10/03 and PS04/03 elsewhere on the agenda)
1. This report, (and all relevant subsequent budget related reports), is prepared on the basis that it will be presented to the Executive and then referred to the Corporate Resources Overview and Scrutiny Committee for consultation and observations.
 2. Members are reminded that it is important that the figures and projections quoted in this report are seen in a broad policy context and are not used as a substitute for the detailed estimates to be presented later in the year.

2. REVENUE SUPPORT GRANT PROJECTIONS

2.1 The new Formula Grant System was introduced in December 2002. Despite the stated objectives of the new system, in effect there has been little radical change from the previous system, and it appears no simpler, fairer, and provides no more surety on future grant projections than the previous system.

2. The Government Spending Review 2002 covered the period 2003/04 to 2005/06. The 2004 Spending Review covering the period 2005/06 to 2007/08 is due to be published in July 2004. As reported in last years projections, the 2002 Review provides for overall Government Grant increases of 7.7% (2003/04); 4.9% (2004/05) and 6.9% (2005/06), and the increased contribution to be raised from Council Tax is put at 6.2% per annum.
3. However Education, Personal Social Services and Police continue to be the Government's main priorities, and for the Environmental, Protective and Cultural Services block (from which District Council's get their main spending powers), the increases projected were 5.3% (2003/04); 2.8% (2004/05) and 3.3% (2005/06).
4. As always, caution must be exercised in viewing these projections, as other factors can and do impact on the final allocation of grant. For the current financial year, the City Council received a better grant allocation than anticipated (7.1%), principally due to the resource equalisation measures put into place in the new system, however, it would be unwise to plan on a similar occurrence for the next three year period. The Government has retained the 'floors and ceilings' system which restricts the worst (and best) effects of data changes on grant allocation, however they have not yet published what the floors and ceilings percentages will be. For the purpose of this first budget forecast therefore the current Medium Term Financial Plan projections have been based on **3%**.
5. Finally, it should be noted that the Government has now commenced the review into the balance of funding issue, and how what is raised locally and nationally affects local government. It is not yet known when the results of the review will be available.

3. PRIORITISATION OF RESOURCES

3.1 As previously stated, the new Grant regime did not give any greater certainty on future years grant allocations, and this is a substantial obstacle to planning over a three year period. However, the Council is asked to adopt a three-year planning horizon in its Medium Term Financial Plan, and resources will be estimated on

the best information available. Planning over a three-year period is particularly important to the City Council in the absence of additional external funding, to enable resources to be redirected to priority areas.

2. The Executive recently undertook an informal prioritisation exercise to ensure that the Council's resources are focussed on the main priorities from the Corporate Plan, and this was reported to the Executive on 9th June. A further, all party exercise is planned for the near future to further guide and inform the three-year financial planning process.

4. INFLATION FORECASTS AND GENERAL ASSUMPTIONS

4.1 In preparing projections over a three-year period there is an inevitable risk from failing to accurately predict the impact of inflation and the other demands that add to the Council's long-term expenditure. Even at the current historic low levels of inflation, the leverage is still very considerable, with £1.4m added to the General Fund requirements in the third year of the review period.

2. The following assumptions underpin the overall inflation projections for the review period:

- A 3% pay provision annually from 2004/05
- A freeze on "general" corporate purchasing to reflect the improved spending power obtained through the new corporate purchasing system. Equivalent to £25,000 pa.
- 2.5% inflation on other general supplies and services
- 3.5% increase from fees and charges in line with the current Corporate Charging Policy (inflation +1% to yield £160,000).
- Natural salary turnover saving of £230,000 (2%) p.a, based on previous experience.

Detailed inflation forecasts will be made for each category of service during the year to guide the production of the detailed estimates.

2. The following assumptions underpin the Treasury and Debt Management forecasts:

- Interest Rate Changes

A revised forecast of 3.6% in 2003/04 compared to the original forecast of 4.1%, which all other things being equal has a budget impact of £190,000 (0.25% equates to £95,000). However, at this point in time this impact has not been built into the forward years estimates due principally to the strength of Council balances. For 2004/05 and 2005/06 the forecast is revised to 4% (previously 4.2) and 4.5% respectively. These

forecasts are based on recent forecasts from Morley Fund Management who manage the Council's Investment Fund. Such forecasts are subject to revision in the light of market sentiment and other factors and they will be refined as necessary during the budget process.

- Provision for Debt Repayment

Debt repayment costs are presently calculated through the Minimum Revenue Provision (MRP) which for General Fund is calculated at 4% of the Council's outstanding debt. For technical reasons, the City Council has not been required to make an MRP for some years. This concession is due, under the current regulations, to end in 2010.

Notwithstanding this, in 2000/01 and 2001/02 the Council made a voluntary MRP as a means of mitigating the future requirement to again make an MRP. The 2003/04 base budget contains an MRP budget of £179,690.

The issue of MRP is one that is still to be resolved under the Prudential Code, which is due to come into force on 1st April 2004, subject to the Local Government Bill receiving Royal Assent in sufficient time. The presumption must be that, although the MRP is expected to be abolished, some form of debt repayment will be required. Details of this are still awaited, together with details as to whether or not Carlisle's technical exemption will continue.

- Cost of New Borrowing

Under the previously mentioned Prudential Code, permission to borrow i.e. credit approvals will be abolished, although Councils will still be expected to act prudently. In 2003/04, the City Council has received a borrowing allocation of £1,153,000, which equates to an interest cost of £46,000 (4%), excluding any debt repayment cost. At this stage, and in the absence of any further information, it may be reasonable to assume a similar level of borrowing for projection purposes on an annual basis.

4.4 The following items have not as yet been taken into account in current projections:

- Any savings identified in closing the 2002/03 accounts will be analysed to see if they could be considered a permanent reduction in budget. A report on the 2002/03 out-turn is considered

elsewhere on the Agenda.

- Incorporation of revised balances following closure of accounts 2002/03.
- Impact of supplementary estimates approved for 2003/04 (£200,000 insurance costs and £407,100 for Raffles Vision £249,100 and £158,000 for 2003/04 and 2004/05 respectively).

5. BUDGET TIMETABLE

1. An overview Budget Timetable to guide the overall process is attached at **Appendix A**. It is anticipated that there will be a need to arrange special meetings to enable the Executive to consult with interested taxpayers, trade unions and to enable Corporate Resources Overview and Scrutiny to consider and respond to the budget reports and the Executive proposals. It is also anticipated that special meetings of the Corporate Resources Overview and Scrutiny Committee may be required and this will be progressed following consultation with them.
2. More detailed budget guidance with specific targets will be issued to Service Managers shortly to further aid them during the process.

6. REVENUE BUDGETS PROJECTION 2003/04 TO 2006/07

1. The table below summarises the projected position as agreed by Council on 17 February 2003, with a further year's projection, based on the factors set out in this report, added for 2006/07:

	2003/04	2004/05	2005/06	2006/07
	Budget	Projected	Projected	Projected
	£	£000	£000	£000
Revenue				
Expenditure:				
Core Revenue	14,241,860	15,173	15,613	16,173
Expenditure				

New Recurring Savings	-583,000	-680	-680	-680
New Recurring Bids	261,600	262	262	262
Core Revenue Expenditure	13,920,460	14,755	15,195	15,755
Non-Recurring Revenue Expenditure				
- Existing Commitments	14,000	5	0	0
- New Non-Recurring Bids	406,500	51	44	0
Total General Fund Revenue Expenditure (City Council)	14,340,960	14,811	15,239	15,755
Parish Precepts	271,299	280	290	310
Total Revenue Expenditure	14,612,259	15,091	15,529	16,065
Less Contributions from:				
General Fund Balances	14,000	5	0	0
General Fund Balances – Shortfall - Note (i)	36,273	75	26	75
General Fund Balance (Hsg Ben) Note (ii)	515,000	530	375	0
Projected Net Budget Requirement for	14,046,986	14,481	15,128	15,990

Council Tax Purposes (3.5%)				
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Note (i) This is the current projected shortfall in funding (but see following paragraphs) based on a **3.5%** Council Tax Increase assumption and a **3%** External Grant Income assumption.

NB: Each 1% movement in Council Tax equates to c. £50,000, and each 1% movement in External Grant equates to c. £90,000.

Note (ii) Following LSVT, and under current rules, Housing Benefit costs fall to be met by the General Fund until compensated for by an increase in external grant in year 2006/07.

- As shown in the above table, the shortfall to be met in the three-year period 2004/05 to 2006/07 is relatively manageable. However, added to this must be the insurance costs, which have now added £200,000 per annum to the authority's expenditure. The forecast shortfall (before any new service bids for growth and improvement) is therefore:

2004/05 £275,000

2005/06 £226,000

2006/07 £275,000

- In addition to the above, other issues have been highlighted either in completing the 2003/04 budget (e.g. Pensions Fund Deficit, Increased cost of borrowing, Recycling, Single Status etc) or more recently (e.g. Concessionary Fares, Administration and Research for Members, Bitts Park Paddling Pool etc) , many of which are anticipated to have a future budget impact and require further investigation through the budget cycle. They also need to be identified and prioritised as part of the all-party exercise, which is planned to take place shortly.
- In conclusion, there is unlikely to be sufficient new capacity to address the budget pressures that face the Council. In consequence, the Council will remain dependent on the ability to generate savings, increase income and to redirect resources to meet major priorities.

7. CAPITAL PROGRAMME 2004/05 TO 2006/07

- A context summary of the likely scale of Capital Resources required over the period is contained in the Capital Strategy, which is considered elsewhere on

this agenda. Detailed capital bids will be received by the Executive for consideration as a basis of formulating recommendations for a capital programme to Council for approval as part of the budget process. This will be prepared and assessed in accordance with the priorities that will be agreed by the Council in approving the Capital Strategy on 15th July. Capital Resources will be carefully monitored throughout the period.

8. BALANCES AND RESERVES

1. Currently the Council's balances and reserves remain strong and at prudent levels, and position the Council well to deal with unexpected or strategic issues as they arise.
2. The Council's policy on balances and reserves is set out in the Medium term Financial Plan.

8.3 The Council's General Fund and Capital Fund uncommitted balances projected at 31 March 2003 and 2004, are as follows: -

Balances and Reserves	Actual 31/3/02 £000	Original 31/3/03 £000	Revised 31/3/03 £000	Projected 31/3/04 £000
General Fund Free Balance	5,310	3,551	7,308	5,190
HRA (Post LSVT)	-	1,430	2,745	2,052
DSO Reserve	512	550	497	262
Capital Projects Fund)	-	1,394	490
- Committed) 1,222	21	21	21
- Earmarked)	<u>355</u>	<u>295</u>	<u>295</u>
- Uncommitted		376	1,710	806
Renewals Reserve	2,625	1,849	2,974	1,865
Total Council Balances	£9,669	£7,756	£15,234	£10,175

9. CONSULTATION

1. The Corporate Resources Overview and Scrutiny Committee will be

consulted on relevant budget matters throughout the process. Following the 2003/04 budget cycle, the Committee indicated that they did not wish to receive the detailed service estimates, however, they did wish to consider any policy proposals (bids and savings reports). This has been built into the budget timetable.

2. The public Consultation, which took place earlier in the year, will be fed into the process via the prioritisation exercise. Further public consultation will take place later in the year.

10. RECOMMENDATIONS

The Executive are recommended:

- i. To receive the report and respond with guidance to officers in compiling budgets for 2004/05 to 2006/07 including any requirements or emphasis to redirect resources over that period.
- ii. To refer the report and their response to it to the Corporate Resources Overview and Scrutiny Committee on 24th July for observations.

9. IMPLICATIONS

- o Staffing/Resources – Any issues arising will be considered in future budget reports.
- o Financial – Included within the report.
- o Legal – None at this stage.
- o Corporate – CMT and the SFPG have considered this report.
- o Risk Management – the main risks attach to the potential scale of new initiatives, which could require base level funding, together with the Council's reliance on income from property and fees and charges.
- o Equality Issues – Any issues arising will be considered in future budget reports.
- o Environmental – As above.
- o Crime and Disorder – As above.

A BROWN

Head of Finance

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20 June 2003 AB/CH/FS8-03 3Yr Bud FF&T Exec 7.7

APPENDIX A

PROPOSED OVERVIEW TIMETABLE – 2004/05 TO 2006/07 BUDGET

	Executive	Corpc Resou

Detail	Meeting	Overview Scrutiny I
Consideration of Medium Term Financial Plan and Corporate Charging Policy	09/06/03 (draft) 07/07/03 (final)	12/06
Consideration of First Budget Forecast and Timetable	07/07/03	24/07
Consideration of: <ul style="list-style-type: none"> • Individual Charges Review Reports • Individual New Bids and Savings Reports (including Capital) 	29/09/03 and 27/10/03 (or special meeting to be arranged)	27/11 (or special meeting arranged)
Consideration of: <ul style="list-style-type: none"> • Detailed Core Service Estimates • Capital Estimates • First Summary Overall Position (if necessary) 	24/11/03	-
Detail	Executive Meeting	Corporate Resources Overview Scrutiny I
Consideration of: <ul style="list-style-type: none"> • Draft Revenue Support Grant Settlement and Summary of Overall Budgetary Position • Executive Draft Budget Proposals to be issued for Consultation (NB: capital approvals if applicable will not be known at this point) 	18/12/03	30/12 or Special Meeting convened
<u>Consultation Period</u> (4 week period 19/12/03 to 16/01/04) <ul style="list-style-type: none"> • Public Consultation • Business Community • Corporate Resources Overview & Scrutiny • Staff and Trade Unions 		

Detail	Executive Meeting	Corporation Resource Overview Scrutiny I
Set Council Tax Base and Precept Payment Dates	18/12/03	
Consideration of: <ul style="list-style-type: none"> • Consultation Feedback • Final Executive Budget Proposals 	02/02/04	
Formal Setting of Council Tax		

Financial Services

Carlisle City Council

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