

# REPORT TO EXECUTIVE

## PORTFOLIO AREA: FINANCE

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Date of Meeting: 18 January 2010

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Public

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Key Decision: Yes

Recorded in Forward Plan:

Yes

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Inside Policy Framework

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

**Report of:** ASSISTANT DIRECTOR (RESOURCES)

**Report reference:** RD64/09

**Summary:**

This report provides an update to CORP54/09, which was considered by the Executive on 17 December. The report has been amended to mirror the Executive's draft budget proposals which were issued for consultation purposes on 17<sup>th</sup> December and has been updated to take account of any further known changes since that date.

This overall budgetary summary set out in this report incorporates the significant savings required of approximately £3million, over the next 3 years in being able to maintain a balanced budget and replenish revenue reserves in this very challenging financial environment for the Council.

Members should note that there is still some outstanding information particularly on Government Grant allocations. Depending upon the timing of any announcements the final figures will be revised in the Executive's budget proposals presented to Council on 2 February.

**Recommendations:**

The Executive is requested to note the draft updated budget projections for 2009/10 to 2014/15, together with the potential use of balances and reserves, in order to recommend a budget to Council on 2 February 2010.

**Contact Officer:** Steven Tickner

**Ext:** 7280

To: The Executive  
18 January 2010

RD64/09

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

**1. INTRODUCTION**

- 1.1. This report provides an update to CORP54/09, which was considered by the Executive on 17 December and summarises the budget projections and matter to be considered in respect of the net budget requirement for the Council for the period 2009/10 to 2014/15. Members should note that this report has been amended to reflect the Executive's draft budget proposals issued on 17 December with other changes detailed in paragraph 2.4 below.
- 1.2. It should be noted that there are still a large number of significant issues affecting the projections that are still unknown or waiting confirmation. In particular, the following are key to the budget process:
  - 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
  - Changes to Council Surplus calculation
- 1.3. The Council is facing a difficult financial position and it is clear that all of the pressures identified will place significant strain on the reserves of the Council in the short term. To enable reserves to return to acceptable levels over the following 5-years, decisions need to be made to limit spending to unavoidable and high priority areas, together with making significant savings and efficiencies.
- 1.4. This 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.

## 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)	21,860	23,796	19,044	18,378	18,423	18,823	18,932
Total Projected Resources (See 3.2 & Appendix C)	(21,860)	(23,796)	(17,482)	(17,746)	(18,019)	(18,303)	(18,598)
<b>Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending</b>	<b>0</b>	<b>0</b>	<b>1,562</b>	<b>632</b>	<b>404</b>	<b>520</b>	<b>334</b>
<b>Less:</b> New Saving Proposals - Recurring - Non Recurring  (See Para 4 & Appendix D)							
	0	0	(942)	(2,289)	(2,594)	(2,616)	(2,639)
	0	0	(68)	0	0	0	0
<b>Add:</b> New Spending Pressures - Recurring - Non Recurring  (See Para 5 & Appendix E)							
	0	0	426	1,101	924	924	1,494
	0	0	648	625	0	0	0
<b>Potential Budget Shortfall (See para 2.2)</b>	<b>0</b>	<b>0</b>	<b>1,626</b>	<b>69</b>	<b>(1,266)</b>	<b>(1,172)</b>	<b>(811)</b>
Potential Shortfall Analysis: - Recurring - Non Recurring			(1,718) 3,344	(2,012) 2,081	(2,067) 801	(1,834) 662	(811) 0

2.2 Any proposed budget shortfall will need to be met by appropriation from Council Reserves.

2.3 It should also be noted that these projections are subject to final notification of RSG, Council Tax Surplus/Deficit, Disabled Facilities Grants and Regional Housing Pot Capital Grant, all of which will be notified in early 2010.

2.4 The main changes from the previous report (CORP54/09) are shown in the table below:

Summarised Position		2010/11 Estimate £000	2011/12 Proj £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000
Potential Budget Shortfall (Per CORP54/09)		1,276	663	255	368	749
Changes per Executive's draft budget proposals:						
- Transformation Savings		0	(1,000)	(1,000)	(1,000)	(1,000)
- Car Parking Charges		(14)	(14)	(14)	(14)	(14)
- Car Parking income MTFP Target		(48)	0	0	0	0
- Pay Award Provision		(5)	(301)	(606)	(628)	(651)
- Council Tax Reduction to 2% 2010/11		98	103	106	110	114
Further Changes:						
- Council Taxbase adjustment		(19)	(21)	(21)	(22)	(23)
- Council Tax Surplus/deficit						
- Vacancy Management		200	400	0	0	0
- Efficiency Reviews		187	225	0	0	0
- Rents		(98)	(98)	(98)	(98)	(98)
- Additional Area Based Grants		(28)	0	0	0	0
- Rating		77	77	77	77	77
- National Insurance		0	35	35	35	35
Revised Potential Budget (Surplus)/ Shortfall		1,626	69	(1,266)	(1,172)	(825)

### 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. The final RSG figures are subject to a consultation process, which ends on 6 January 2010, and therefore revisions (although unlikely) may be required to the Executive's budget presented to Council on 2 February. If the figures are not available at that point it is recommended that any variation to the settlement be funded from Council reserves.
- The Council Tax surplus/deficit cannot be calculated until the statutory date of 15 January and the current projections do not include any estimation for the likely deficit. Therefore, once calculated, any revisions will be included within the Executive's budget proposals tabled at the meeting on 18 January.
- 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:  
An illustrative 2.0% increase in Council Tax increase for 2010/11 and 3.5% for 2011/12 to 2014/15.

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.
- 4.2 The savings set out in **Appendix D** now reflect the additional savings to be made from the Transformation programme of £1million from 2011/12.

## 5. **NEW SPENDING PRESSURES (see Appendix E)**

- 5.1 The Executive at its meeting of 23 November (CORP50/09) considered the new spending pressures.

- 5.2 This report considers the revenue pressures only. Report RD63/09 considered elsewhere on this agenda gives details of any capital bids submitted.
- 5.3 There is significant pressure on the Council's revenue reserves, however, a capitalisation direction application has been submitted to capitalise some of the one off costs associated with Transformation. If successful, approximately £1.2million will be able to be transferred and funded from capital resources. The outcome of this application will not be known until 29 January.
- 5.4 Increases in rates identified for Council Buildings (£77,000) can be contained from additional rent increases due from the rental reviews that will occur in 2010/11 (£98,000).

## 6. PROJECTED IMPACT ON REVENUE BALANCES

- 6.1 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	1,278	(1,718)	3,344
31/03/2011	2,904	(2,012)	2,081
31/03/2012	2,973	(2,067)	801
31/03/2013	1,707	(1,834)	662
31/03/2014	535	(811)	0
31/03/2015	(276)	0	0

- 6.2 Viewed against the current projections, the Council's Reserves are under significant pressure 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 a risk based assessment of the adequate level of reserves suggests that £3.8million is a prudent level of General Fund Reserves which will be required as a general working capital / contingency cushion to the Council against unexpected events and emergencies. However, in the short term it is required to utilise some of this reserve in order to

meet the short term issues facing the Council. The budget proposals put forward put in place plans to redress this use of reserves and by 2013/14 reserves will return to the minimum required level.

- 6.3 The Council's 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.

## **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. The budget discipline as issued by the Executive on 17 December for budget consultation is attached at **Appendix H**.
- 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 was prepared and included within the Executive's draft budget proposals for consultation purposes, and is attached at **Appendix I**. 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 As part of the budget consultation process the draft revenue budget has been considered by the Resources Overview and Scrutiny Panel, Trade Unions, Large Employers Affinity Group and Non-Domestic Ratepayers. The Executive will consider feedback elsewhere on the agenda.
- 8.2 The financial implications arising from this report will form part of the Executive's budget proposals which will be considered by full council on 2 February 2010.

## **9. RECOMMENDATIONS**

- 9.1 The Executive is requested to note the updated budget projections for 2009/10 to 2014/15, together with the potential use of balances and reserves in order to recommend a budget to Council on 2 February 2010.

## **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 have also been 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					
<b>Core Expenditure:</b>							
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
<b>Total Core Expenditure</b>	<b>16,270</b>	<b>16,270</b>	<b>15,845</b>	<b>16,476</b>	<b>17,165</b>	<b>17,693</b>	<b>18,452</b>
<b>Non Recurring Exp:</b>							
Pre 2008/09 approvals	687	687	321	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
<b>Total non Recurring Expenditure</b>	<b>5,165</b>	<b>7,101</b>	<b>2,764</b>	<b>1,456</b>	<b>801</b>	<b>662</b>	<b>0</b>
<b>Total City Council Budget Requirement</b>	<b>21,435</b>	<b>23,371</b>	<b>18,609</b>	<b>17,932</b>	<b>17,966</b>	<b>18,355</b>	<b>18,452</b>
<b>Parish Council Precepts</b>	<b>425</b>	<b>425</b>	<b>435</b>	<b>446</b>	<b>457</b>	<b>468</b>	<b>480</b>
<b>Total Requirement</b>	<b>21,860</b>	<b>23,796</b>	<b>19,044</b>	<b>18,378</b>	<b>18,423</b>	<b>18,823</b>	<b>18,932</b>

**RESOURCE PROJECTIONS**

<b>RESOURCES PROJECTION</b>	<b>2009/10 Original Estimate £000</b>	<b>2009/10 Revised Estimate £000</b>	<b>2010/11 Estimate £000</b>	<b>2011/12 Proj £000</b>	<b>2012/13 Proj £000</b>	<b>2013/14 Proj £000</b>	<b>2014/15 Proj £000</b>
<b>Projected External Finance:</b>							
- 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	0	0	0	0	0	0	0
- C/Tax for Parish Precepts	(425)	(425)	(435)	(446)	(457)	(468)	(480)
- Council Tax Yield	(6,507)	(6,507)	(6,675)	(6,928)	(7,190)	(7,463)	(7,746)
<b>Total Income based on 2.0% Tax increase for 2010/11 then 3.5% thereafter</b>	<b>(17,235)</b>	<b>(17,235)</b>	<b>(17,482)</b>	<b>(17,746)</b>	<b>(18,019)</b>	<b>(18,303)</b>	<b>(18,598)</b>
<b>Plus Approved Contributions from Balances:</b>							
- 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
<b>Total Use of Reserves</b>	<b>(4,625)</b>	<b>(6,561)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Projected Resources</b>	<b>(21,860)</b>	<b>(23,796)</b>	<b>(17,482)</b>	<b>(17,746)</b>	<b>(18,019)</b>	<b>(18,303)</b>	<b>(18,598)</b>

**SAVING PROPOSALS**

<b>Detail</b>	<b>2010/11 £000</b>	<b>2011/12 £000</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>Expenditure Reductions</b>					
- Inflation (Expenditure) (From 2.8% to 0%)	(503)	(503)	(503)	(503)	(503)
- Pay Award (From 2.5% to 1% to 2013/14)	(285)	(581)	(886)	(908)	(931)
- Revenues & Benefits Shared Service	(42)	(93)	(93)	(93)	(93)
- Transformation Savings	0	(1,000)	(1,000)	(1,000)	(1,000)
<b>Total Savings</b>	<b>(830)</b>	<b>(2,177)</b>	<b>(2,482)</b>	<b>(2,504)</b>	<b>(2,527)</b>
<b>Increased Income</b>					
- Concessionary Fares Grants	(20)	0	0	0	0
- Land Charges	(20)	0	0	0	0
- Car Prking Charges	(14)	(14)	(14)	(14)	(14)
- Rents	(98)	(98)	(98)	(98)	(98)
- Additional Area based Grant	(28)	0	0	0	0
<b>Total Additional Income</b>	<b>(180)</b>	<b>(112)</b>	<b>(112)</b>	<b>(112)</b>	<b>(112)</b>
<b>Total Savings</b>	<b>(1,010)</b>	<b>(2,289)</b>	<b>(2,594)</b>	<b>(2,616)</b>	<b>(2,639)</b>
Split:					
<b>Recurring</b>	<b>(942)</b>	<b>(2,289)</b>	<b>(2,594)</b>	<b>(2,616)</b>	<b>(2,639)</b>
<b>Non Recurring</b>	<b>(68)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**New Spending Pressures**

Detail	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000
<b>Recurring</b>					
- 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
- Ratings	77	77	77	77	77
- National Insurance	0	35	35	35	35
<b>Shortfall In Income</b>					
- 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
- Bereavement Services	60	60	60	60	60
<b>Total Recurring</b>	<b>426</b>	<b>1101</b>	<b>924</b>	<b>924</b>	<b>1,494</b>
<b>Non-Recurring</b>					
- LABGI	23	0	0	0	0
- Small Scale Community Projects	80	0	0	0	0
- Revenues & Benefits Shared Service	158	0	0	0	0
- Vacancy Management	200	400	0	0	0
- Efficiency Reviews	187	225	0	0	0
<b>Total Non Recurring</b>	<b>648</b>	<b>625</b>	<b>0</b>	<b>0</b>	<b>0</b>

**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
<b>TOTAL</b>	<b>424,808</b>	<b>434,710</b>	<b>2.33</b>

\* Stapleton Parish Council has now merged with Solport

**COUNCIL RESERVES**

<b>Council Reserves</b>	<b>Actual 31/03/09 £000</b>	<b>Revised 31/03/10 £000</b>	<b>Proj 31/03/11 £000</b>	<b>Proj 31/03/12 £000</b>	<b>Proj 31/03/13 £000</b>	<b>Proj 31/03/14 £000</b>	<b>Proj 31/03/15 £000</b>
<b>Revenue Reserves</b>							
General Fund Reserve	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)
Projects Reserve i	(5,261)	1,278	2,904	2,973	1,707	535	(276)
<b>Sub Total</b>	<b>(9,061)</b>	<b>(2,522)</b>	<b>(896)</b>	<b>(827)</b>	<b>(2,093)</b>	<b>(3,265)</b>	<b>(4,076)</b>
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)						
<b>Total Revenue Reserves</b>	<b>(10,296)</b>	<b>(2,522)</b>	<b>(896)</b>	<b>(827)</b>	<b>(2,093)</b>	<b>(3,265)</b>	<b>(4,076)</b>
<b>Capital Reserves</b>							
CLL Reserve ii	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts	(10,544)	(8,294)	(5,336)	(3,287)	(3,416)	(3,694)	5,399
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)
<b>Total Capital Reserves</b>	<b>(13,395)</b>	<b>(11,112)</b>	<b>(8,169)</b>	<b>(6,135)</b>	<b>(6,279)</b>	<b>(6,572)</b>	<b>2,507</b>
<b>Total Available Council Balances</b>	<b>(23,691)</b>	<b>(13,634)</b>	<b>(9,065)</b>	<b>(6,962)</b>	<b>(8,372)</b>	<b>(9,837)</b>	<b>(1,569)</b>
<b>Other Reserves</b> iii	(104,437)						
<b>Total Reserves</b>	<b>(128,128)</b>						

(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.



## **SECTION E - PROPOSED BUDGET DISCIPLINE AND SAVING STRATEGY**

1. The Council has adopted a 5-year financial strategy as set out in its Medium Term Financial Plan to assist in the integration of financial planning with the priorities set out in the Corporate Plan. The current medium term financial projections point to a shortfall in the Council's budgets, which will require additional savings to be identified. In addition, the scope for the Council to continue support for initiatives in future years and to redirect resources to priority areas will be dependent on the extent to which the Council is successful in realising savings and redirecting resources. The requirement to identify savings or raise additional income in future years is a continuing pressure facing the Council.

1. The savings outlined in this document are necessary to ensure that the Council is able to restore its reserves to recommended levels over the next five years, however it is clear that a much more radical approach is needed to secure a safe and healthy financial future for the Council. Indeed, the current economic downturn alone compels the Council to take rigorous action and it is predicted that 75% of all local authorities will make drastic budget cuts next year.

The Council is currently undergoing a Transformation process to review all services and to make significant savings. In 2009/10, £1million recurring savings were built into the budget. However, given the current pressures, a further £1million is needed in order to build reserves back up to a prudent level by 2014/15.

2. The savings strategy developed during 2008/09 will continue to concentrate on the following areas to deliver the savings required to produce a balanced longer term budget, however the exact work programme will be dependant on progress with the Transformation programme.

- Service Improvement Reviews – the financial target for these reviews is a requirement to achieve a minimum 5% reduction in the gross cost of those services.
- Asset Review – the focus of the Asset Review is on producing a Development and Investment Plan for the City Council's property portfolio with the aim of delivering additional income or reduced costs on a recurring basis.
- Service delivery models – As part of the transformation programme, alternative options for service delivery will be considered in order to make significant financial savings whilst still delivering good standards of service. The options under consideration will be shared services and commissioning of services.
- As part of the transformation programme a review of those services which do not fall within the Council's core priorities or which are not statutory will be undertaken to ensure that services are properly aligned to what the Council wants to achieve.

3. Members and Officers are reminded that it is essential to maintain a disciplined approach to budgetary matters and as such:

- Supplementary estimates will only be granted in exceptional circumstances.

- Proposals seeking virement should only be approved where the expenditure to be incurred is consistent with policies and priorities agreed by the Council.
4. In order to continue the improvements in the links between financial and strategic planning, the Strategic Planning Group will continue to meet regularly to progress forward planning on these issues.

**STATUTORY REPORT OF THE 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 (Assistant Director (Resources)) 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 'rolling' 3-year requirement to identify 4% year on year 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 of £1million recurring will also be required from 2011/12 on top of the savings already included for efficiency reviews and vacancy management 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 reserves. This will need to be monitored closely. There is also an increasing significant reliance on Grant Income. A risk assessment has been produced which will be 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 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 required to achieve a further £1million recurring savings from 2011/12. This will bring reserves back to acceptable levels by 2013/14 (i.e. £4.168million) and starts to rebuild the Projects Reserve (i.e. to £1.17m by 2014/15).

However, the reserves position will have to be revisited and the impact on the budget may need to be reviewed once the Government has announced the 2011/12 onwards Revenue Support Grant allocations.

The Council is committed to Carlisle Renaissance and a team has been appointed to assist with the delivery and currently funded to 31 March 2011. 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 to fund this budget is not acceptable in the longer term and should only be seen as a short term fix. The proposals put in place should help to bring reserve levels back to an acceptable level in the following 5 years, however, this is dependant upon the necessary steps being taken to resolve the ongoing projected deficit, as the projections are not sustainable for future years. 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 has identified this and taken steps 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 2012/13. 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 delivers required efficiency savings 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.**