REPORT TO THE EXECUTIVE

CARLISLE CITY COUNCIL
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PORTFOLIO AREA: GOVERNANCE AND RESOURCES

Date of Meeting: **26 July 2010**

Public

Key Decision: **Yes** **Recorded in Forward Plan:** **Yes**

Inside Policy Framework

Title:	**DRAFT MEDIUM TERM FINANCIAL PLAN (INCORPORATING THE CORPORATE CHARGING POLICY) 2011/12 TO 2015/16**
Report of:	**Assistant Director (Resources)**
Report reference:	**RD27/10**

Summary:

The Medium Term Financial Plan sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its current five year financial plan. The Plan links the key aims and objectives of the Council, as contained in the Corporate Plan, to the availability of resources, enabling the Council to prioritise the allocation of resources to best meet its overall aims and objectives. The MTFP will inform the budget process and will be updated for changes when known.

Following consideration by the Executive and the Resources Overview and Scrutiny Panel, final recommendations will be made to Council on 14 September 2010

Recommendations:

The Executive is asked to:

(i) Comment on the draft MTFP for consideration by the Resources Overview and Scrutiny Panel on the 29 July.

Contact Officer: Steven Tickner **Ext:** 7280

Note: In compliance with Section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: Council Budget Resolution 3rd February 2009.

CITY OF CARLISLE

To: The Executive RD27/10
26 July 2010

DRAFT MEDIUM TERM FINANCIAL PLAN 2011/12 to 2015/16

1. BACKGROUND INFORMATION AND OPTIONS

1.1 The Medium Term Financial Plan (MTFP) is the key policy document to guide the Council's forward financial planning process. The attached report details the current Plan for the period 2011/12 to 2015/16. The MTFP is reviewed annually starting with the assumptions made in the Budget Resolution approved by Council on 2 February 2010. The starting point for the MTFP is to show the impact of the Council Resolution and raise awareness of the issues that are on the horizon that will need to be considered as part of the detailed budget process.

1.2 The Corporate Charging Policy has also been reviewed and included within the MTFP. It provides a framework providing potential policy options for each Charging area. This recognises that different approaches may be required for different services and that there are a variety of influences that need to be acknowledged in charge setting.

1.3 The MTFP does not take account of major changes in grant funding announced in the Budget, with further details to be provided on 20 October 2010, or other changes in funding, charging and expenditure.

2. KEY DATES

2.1 Following consideration of the current MTFP and other key Policy documents by the Executive and Resources Overview and Scrutiny Panel, these will be formally approved by Council on 14 September 2010.

2.2 A timetable for the budget process will be prepared and the overall budget position for revenue and capital, and individual reports on spending pressures, saving proposals, and charging reports will be considered by the Executive at its meeting on 22 November. These reports will be scrutinised by the three Overview and Scrutiny Panels at the end of November and beginning of December.

2.3 Due to the expected 25% (minimum) reduction in Government grants, particularly RSG, over the next four years to be announced on 20 October 2010 and their impact on the MTFP, the budget process is likely to be the toughest in recent years.

3. CONSULTATION

3.1 The draft MTFP has been considered by the Senior Management Team and the Joint Management Team.

3.2 The Resources Overview and Scrutiny Panel will consider the MTFP on 29 July, and recommendations made to full Council on 14 September.

The Budget Process and MTFP are also informed by consultation with wider stakeholders, including residents. Each year the Council consults with the Business Community and also carries out public consultations as appropriate

4. RECOMMENDATIONS

(i) Comment on the draft MTFP for consideration by the Resources Overview and Scrutiny Panel on the 29 July.

5. IMPLICATIONS

- Staffing/Resources
- Financial
- Legal
- Corporate
- Risk Management
- Equality & Diversity
- Environmental
- Crime and Disorder
- Impact on Customers

Included within Medium Term Financial Plan (MTFP) as attached

6. IMPACT ASSESSMENTS

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
Does the policy/service impact on the following?		
Age	**Yes**	**Positive**
Disability	**Yes**	**Positive**
Race	**No**	**N/A**
Gender/ Transgender	**No**	**N/A**
Sexual Orientation	**No**	**N/A**
Religion or belief	**No**	**N/A**
Human Rights	**No**	**N/A**
Social exclusion	**Yes**	**Positive**
Health inequalities	**Yes**	**Positive**
Rurality	**Yes**	**Positive**

If you consider there is either no impact or no negative impact, please give reasons:

The MTFP has a particular impact on age and disability through the provision of concessionary fares and ridership. The identification of new challenges, such as increased homelessness, and acknowledgement of the financial pressures that they could bring to bear on the organisation is itself a positive step. The plan includes the precept for Parish Councils.

The Objectives in Charging Policy are clearly linked to the equality considerations:

- Promote access to services for low-income households;
- Promote equity or fairness;

P MASON

Assistant Director (Resources)

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DRAFT
MEDIUM TERM FINANCIAL PLAN
2011/12 to 2015/16

JULY 2010

CONTENTS

POLICY AND CONTEXT

1.1 Purpose

The Medium Term Financial Plan (MTFP) provides the corporate financial planning framework to provide strategic direction to the Council for the next five years and to ensure that the financial resources of the Council are directed to achieving the Council's key corporate priorities. The objectives of the MTFP are to:

- Guide the integration of financial planning with the priorities set out in the Corporate Plan to ensure that spending decisions contribute to the achievement of the Council's priorities,
- Guide and be informed by Directorate and other relevant strategies and plans of the authority, which set out how resources will deliver the outcomes and priorities specified in the Corporate Plan,
- Forecast a minimum five -year corporate and financial planning horizon, with longer periods developed where necessary,
- Manage performance management and decision making procedures to help achieve the best use of available resources,
- Consider the implications of the use of financial resources on the levels of Council Tax and other Council charges.
- Review the policy over the level of reserves held by the Council,
- Set out processes to monitor and evaluate proposed and actual spending to ensure that value for money is obtained.

The overarching policy guidelines of the MTFP are that resources will be redirected to Council priorities via the budget process within the overall caveats that: -

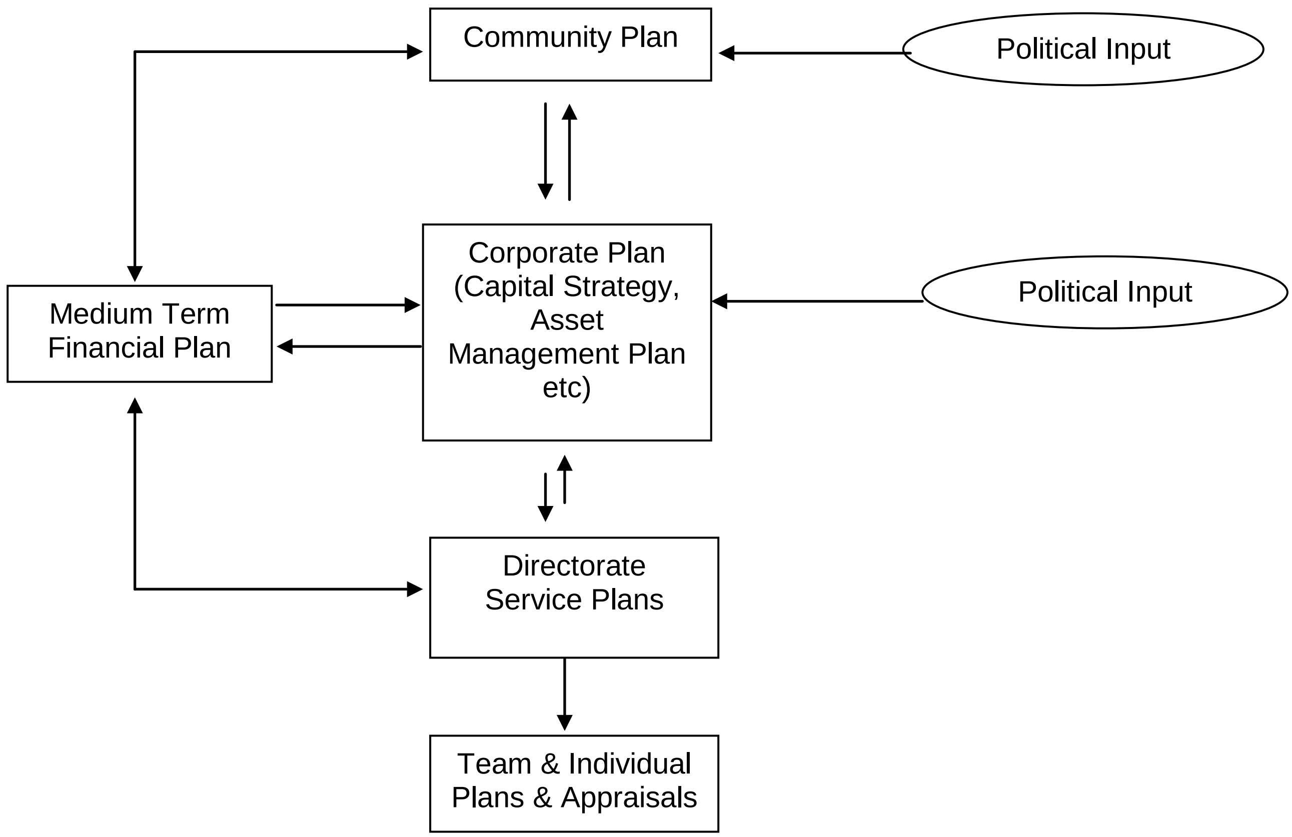
- Redirection of resources towards areas of high priority will be contained within existing budgets, unless increases can be justified and funded through the budget process.
- Council Tax increases will be limited to fair and reasonable levels, taking account of national guidance from Government
- External grants and income will be maximised wherever possible to mitigate the effects of budget increases.
- Partnership working and funding opportunities will be explored wherever feasible.
- The projected budget deficits in later years will be addressed by the approved Savings Strategy

1.2 Government Policies

Nationally, the Government sets out policy which can result locally in the Council having to provide additional resources to meet nationally set targets, often without corresponding increases in grant assistance. Some initiatives do receive grant assistance, but for a limited period only, resulting in spending pressures for the Council when grant stops and the service needs to be maintained. This situation can only be resolved by the Council absorbing these new policy initiatives and meeting the cost from redirection of existing resources.

1.3 The Council's Strategic Planning Framework

This is the mechanism for generating the Council's key priorities and targets for the next five years and for ensuring that the financial and planning processes are aligned and consistent. The Strategic Planning Framework guides consists of:



Community Plan

The community plan is 'owned' by the Carlisle Partnership (our Local Strategic Partnership). It reflects and develops the aspirations of the communities of Carlisle and provides a strategic context for the partnership activities of all members of the LSP. For the City Council it is particularly important that the **Corporate Plan** enables delivery of the Community Plan; there must be congruence between the strategic objectives of both plans.

The communities of Carlisle are consulted and involved in the development of the Community Plan. This Community Plan helps to inform the strategic thinking of partner organisations.

The LSP's Community and Council's Corporate Planning process informs and supports the Local Area Agreement for Cumbria.

Corporate Plan 2010

The Corporate Plan explains how the City Council will contribute towards the Carlisle Strategic Partnership's Community Plan. Within this commitment, the Council has recently set out two new priority areas for the basis of allocation of its revenue and capital resources:

- Economy
- Local Environment

The Corporate Plan is reviewed in the light of emerging national, regional and local issues.

Directorate Service Plans

The primary purpose of a Service Plan is to provide a link between the resources used to deliver services and the delivery of agreed outputs. Service Plans are inextricably linked to each Directorate's budget.

Service Plans therefore interpret the Corporate Plan into meaningful activities for Directorates and provide a framework for their performance management.

Other Council Strategies, Plans and Policies

The MTFP takes account of other Council Plans and Strategies of the Council, which have a potential impact on the use of resources by the Council. Particularly consideration is given to the following key strategies: -

- The Capital Strategy, which provides information on the proposed level of investment in capital projects and the consequent impact on the revenue budget.
- The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy, which sets out the assumptions for financing requirements and interest rates and their effect on the revenue budget.
- The Asset Management Plan, which provides forecasts of necessary investment in the Council's land and property portfolio.
- Local Plan/Local Development Framework.
- The IT Strategy, which has been reviewed as part of the ICT Shared Services Project.
- The Workforce Development Plan, which highlights the need for a thorough review of the Council's staffing needs and skill levels to ensure that the Council improves its performance to deliver excellent services to the local community in the future.
- There are also a number of strategies, (some of which are currently under development) which set out policy direction for key Council priority areas, and these include the Movement Strategy, Economic Strategy, and Housing Strategy.

1.4 Budget Priorities and Budget Allocations

Financial resources and performance are linked to the current Council priorities and work has commenced on providing links to the recently agreed priorities as set in paragraph 1.3 above, in terms of determining service objectives for each priority. This work is continuing and the aim of this process is to see if the Council's budget is being used to best effect, and in accordance with priorities, and identify where additional resources may be required to improve performance and to achieve the Council's future aspirations in accordance with the transformation process. Conversely it may also be possible to reallocate resources from services which are not performing satisfactorily, and which may also be of a lower priority, to high priority areas which need greater support.

1.5 Performance Review

This process allows outturn expenditure and outcomes to be measured against budgeted expenditure and targets.

Currently, out-turn expenditure is measured against budgeted expenditure as part of the final accounts process and outcomes are measured against targets via the performance management framework. During the latter part of 2009/10, links between quarterly performance information were made, on an exception basis, to financial information for some services. This continues during 2010/11 with the financial data being recorded on the Council's new performance monitoring system, Covalent. The quarterly budget and performance monitoring reports are considered by Officers and Members to monitor progress throughout the year.

The integration of performance and financial information has been vital to the development of Value for Money profiles. These profiles are being used to challenge the current service delivery models as we interrogate the costs and outcomes associated with our services.

FORECASTING RESOURCES AND COMMITMENTS

Forecasting is the mechanism by which the Council obtains a firm indication of the level of funding available in future years and matches this to known and anticipated commitments.

2.1 Current Budget Forecast

The Council has well established mechanisms in place for forecasting resources and expenditure commitments over a five-year planning period. Projections will inevitably change over the period of the plan and will be kept under review. Factors affecting the assumptions made are set out in further detail in the MTFP.

The Council approved the current forecast for the period 2010/11 to 2014/15 on 2 February 2010 and this is shown in Appendices A to C as follows:

Appendix A – Summarises the net budget for the five years (£17.485m for 2010/11) approved for Council Tax Purposes by Council on 2 February and provides a forecast to financial year 2014/15. Indicative figures have also been included for 2015/16.

Appendix B – Provides an indicative forecast of how the projected gross budget (£64.820m in 2010/11) will be financed over the same period.

Appendix C – Analyses the Gross budget over main spending headings (only for 2010/11 as future years are not available).

2.2 Budget Deficit Forecast

The current medium term financial projections point to a potential significant call on Council reserves from 2010/11 onwards to fund the budget deficit.

The amount approved by Council in February 2010 as part of the budget process, to be taken from Council Reserves to support Council spending, updated by the outturn report approved in June and other adjustments approved to date, is set out in the Table below:

Year	Recurring Commitments (Surplus) £000	Non-Recurring Commitments £000	Carry Forwards £000	Total £000
2010/11	(1,721)	3,459	1,552	**3,290**
2011/12	(2,012)	2,171	0	**159**
2012/13	(2,067)	866	0	**(1,201)**
2013/14	(1,834)	662	0	**(1,172)**
2014/15	(811)	0	0	**(811)**
2015/16	(309)	0	0	**(309)**

There are a number of forecast pressures causing this budget deficit, including shortfalls of income due to the current economic climate, particularly Treasury Management investment returns and funding for the transformation agenda which has been earmarked to achieve £3million annual savings. The savings target will be reviewed to reflect the Council's revised RSG allocations.

In order to address the budget deficit position the Council has embarked upon a significant programme of service reviews, incorporated in the transformation agenda, to mitigate the impact on Council reserves.

There are remaining risks to the budget as set out in the budget resolution particularly in achieving the savings proposals approved. As in previous years, additional savings will need to be identified both to meet the projected shortfall and also to continue support for initiatives and redirect resources to priority areas as well as increasing reserves to their minimum levels. The savings strategy is set out in more detail below and will ensure that in the medium term the Council complies with its policy of not meeting recurring expenditure from Council Reserves.

2.3 Efficiency and Savings Strategy (including Value for Money)

A strategy to identify recurring budget savings and service efficiencies was approved by Council on 2 February 2010 as part of the budget resolution. The strategy will deliver savings and efficiencies for the 2010/11 budget and will concentrate on the following areas:

- Service Improvement Reviews – the target for these reviews is a requirement to achieve effective service delivery whilst pursuing a minimum financial reduction of 5% in the gross cost of those services. The financial reduction target will be reviewed to reflect the Council's revised savings targets.
- Asset Review – this will focus on producing a Development and Investment Plan for the 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 to 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.

The detailed programme of reviews, together with specific targets, is monitored by the Executive and SMT. They monitor how well services perform against both the objectives of the review and against the Strategy itself.

2.4 Significant Budget Issues

A number of high impact pressures on the Council's budgets have been identified and these are shown below. The impact of these potential revisions will be further analysed and reported throughout the budget process and revisions made to current budget deficit projections as required:

- Further impact of Economic recession
- Pensions revaluation
- Government Grant – Comprehensive Spending Review (October 2010)
- Revised Transformation targets
- Tullie House Governance Options
- Capital Programme - longer term priorities and revenue implications
- Asset Management Plan
- Concessionary Fares administration, i.e. proposals to move to Transport Authority (County Council).

2.5 The Capital Strategy

At the same time as the revenue budget is approved in February each year, the Council also approves its capital programme. The proposals for capital investment, together with the level of resources available to support the programme, are contained within the **Capital Strategy,** which provides guidance on the Council's Capital Programme and use of capital resources.

There are links between the capital programme and the revenue budget, as capital projects very often result in revenue costs e.g. to provide running costs for new facilities. These costs are reflected in the existing budget of the Council. Other projects, such as the Sands Development, are at an earlier stage of development and therefore have not yet been included in current projections.

2.6 Sensitivity Analysis

2.6.1 Financial Impact

The MTFP makes a series of forecasts about the future financial requirements of the Council. This is inherently a risky business and there will inevitably be some variations from these forecasts as time passes by. The following table assesses the potential cost or benefit of a variation of 1% in the major costs and income contained within the Plan.

Description	Base for Calculation £000	1% Variance £000
Pay Awards	18,089	181
Supplies & Services	3,589	36
Council Tax	(6,675)	(67)
General Inflation (currently 2.8%)	10,614	106
Income from Fees and Charges	(6,590)	(66)
Investment Interest - Movement in Rates	(25,000)	(250)
Pensions - Change in Contribution Rate	13,759	138
Revenue Support Grant	10,372	104

2.6.2 Population Impact

The resources of the Council are also affected by the demands of its customers. Over the next few years the population of the Council area is expected to grow by 0.7% per annum. The Council can therefore be expected to provide additional services to meet the needs of its growing/ageing population.

In 2010/11 the cost of providing Council services equates to a cost per head of population of £166.74, based on a population forecast of 104,856. A 1% increase in the Council's population would broadly equate to a further £174,382 needed to be raised to provide Council services at existing levels, which would equate to an increase in Council Tax of £5.05.

EXTERNAL FACTORS INFLUENCING THE MTFP

3.1 Economic Factors

3.1.1 State of the Economy

The economy is now slowly moving out of recession. The measures announced by the Government to reduce the amount of Public Spending and to reduce the Country's structural deficit will play a pivotal role in determining whether the economy grows over the coming years. If the Country falls back into a recession, the Council may find that its income levels suffer once more e.g. Car Park income would probably fall while there would be increased take up of Housing Benefit as unemployment rose. Treasury Management income will also be limited whilst interest rates remain low. Ultimately, homelessness could be a greater problem. The impact of the loss of income/increased costs is detailed in the sensitivity analysis section of the MTFP. The figures are changing rapidly with regard to the effects on the MTFP and these will need to be closely monitored in the short term in order to react effectively to changing situations.

3.1.2 Inflation

The general economic climate in the UK is currently showing signs of changeable inflationary pressures. Inflation at the end of 2009 dipped into the negative but since the start of the year there have been increases in both the Consumer Price (3.4%) and Retail Price (5.1%) Indices (June 2010). Although inflation has been rising throughout the course of 2010, analysts predict that the rise has reached its peak and inflation will again begin to fall.

As far as the City Council is concerned, inflation adds to the pressure on its finances if pay settlements and other costs exceed the estimates incorporated in the Council's budget. The Government has announced in the Budget that there will be a Public Sector pay freeze for employees earning over £21,000 and a flat rate award of £250 for those earning under this threshold. It is anticipated that local government pay will mirror national public sector positions. The current MTFP includes a 1% increase in pay for both 2010/11 and 2011/12.

In terms of treasury management, the Council's borrowing costs are fixed until 2020 due to the long term fixed rate nature of its current external loans. Investment income is more related to movements in the base rate and other short term interest rates. Raising such rates is seen as one of the primary means of controlling inflation and the MPC's primary remit is to control inflation. The base rate, has now been at 0.5% for over 12 months and investment rates are now not far above this level meaning that investment income is significantly below that of previous years and is likely to remain so for some time to come.

3.2 Government Policies and Initiatives

3.2.1 Government Spending Review and Local Government Finance Settlement

Spending Review

The overall amount available for distribution to Local Government is determined by the Government's Spending Review, in which the Government decides how much it can afford to spend, reviews its expenditure priorities and sets targets for improvement. The next announcement on the Spending Review will take place in October 2010, and will provide further details of the cuts averaging 25% over the next four years to Government Departments announced in the Emergency Budget in June.

Currently Formula Grant meets 16.0% of the Council's gross budget for 2010/11. This compares with 15.6% in 2009/10.

For 2011/12, the current financial projections assume a 5% reduction on the level of formula grant received from the Government. For information the details of the grant settlements for 2010/11 are reproduced below:

Block	2010/11
Relative Needs	4,498
Relative Resources	(1,733)
Central Allocation	7,455
Floor Damping	152
Total	**10,372**

For financial planning, it has been assumed that the Council will receive a 5% decrease in its formula grant over 2011/12 levels for future years. However early indications announced in June 2010 budget show that this reduction will be significantly more. Every 1% reduction reduces the Council's income by £104,000.

The current assumptions for population and Council Taxbase are as follows:

	2011/12	2012/13	2013/14	2014/15	2015/16
Taxbase - For Grant Settlement (From RSG Settlement)	35,868.40	35,868.40	35,868.40	35,868.40	35,868.40
Taxbase - Council Calculation for Tax Setting (2.79% growth)	34,604.97	34,701.52	34,798.33	34,895.42	34,992.78
Population - RSG Settlement*	104,856	104,856	104,856	104,856	104,856

* Population figures are shown based on those used for the RSG settlement. Population growth figures highlighted at paragraph 2.6.2 may adjust these estimates once new RSG settlements are announced.

The Council taxbase (equivalent number of Band D properties) for tax setting purposes is different from the taxbase used in the Grant settlement as it takes into account growth in taxbase during the year, reduced second homes discount and losses on collection (1.5%). If the actual growth in the taxbase, or council tax collected during the year, is higher or lower than predicted, the resulting effect on the Council Tax income is adjusted as part of the Council Tax surplus/deficit calculation undertaken annually on January 15th, and adjusted in the following year's Council Tax. The impact of the recession needs to be closely monitored to review both the surplus and collection rates.

3.2.2 Council Tax

The Council's policy on taxation levels is that these should be set wherever possible at fair and reasonable levels and that the Council Taxpayer should not automatically bear the largest burden for any additional spending that may be required by the authority. This policy was set following the extensive budget consultation exercise undertaken as part of the 2004/05 budget process.

The City Council has been successful in limiting the Council tax increase for 2010/11 to 2.0% (1.5% lower than trend). This was just above the average increase for Districts for 2010/11 (1.8%). For planning purposes the figures assume an annual increase in Council Tax of 3.5%. This will however be subject to review during the annual budget process, and will be particularly dependent on annual Government funding levels and future spending pressures. The new Coalition Government announced a Council Tax freeze for 2011/12 in the Emergency Budget in June 2010 although exact details are not expected to be released until the autumn about any additional funding for local authorities for this. A 1% change in the level of council tax will impact on the budget by £67,000. (i.e. £234,000 per annum based on 3.5% MTFP profile).

3.2.3 Local Government Finance

The assumptions made in this MTFP are that there will be no substantial changes to the existing system of local government finance in the next five years.

- Council Tax
  Revaluation, which is an important part of maintaining a credible and up to date taxbase

- Business Taxation
  The Business Rates Supplements Act 2009 has now come into force and gives levying authorities (in our case the county council) the power to levy a supplement from 1 April 2010. The county council are required to give notice to the billing authority if they intend to levy a supplement. Any BRS would be limited to a maximum of 2p per pound of Rateable Value and would not be applicable to properties with a Rateable Value of £50,000 or below.

  The Government introduced a temporary increase in the empty exempt threshold from Rateable Value of £2,600 to £18,000 for this year. From 1 April 2011 the limit will revert to £2,600 bringing more empty properties into a full charge once again.

- 2010 NNDR (Business Rates Revaluation)
  The MTFP assumes the effect of the revaluation on Council owned properties will be revenue neutral.
  Any significant changes in the rateable values of Council owned property will be taken into account in the MTFP during 2010/11 when rateable value trends are known.

Overall, the proportion of funding provided directly by the Government through RSG is dropping and will reduce significantly over the next four years. Councils are encouraged to find alternative methods of funding such as:

- Charging and Trading
  - Local Authorities should make greater use of their current powers to charge.

3.2.4 Specific Grants

Income from Specific Grants meets just over 50% of the Council's spending. The bulk of this is in respect of grants to meet rent allowances and Council Tax benefit, which meets nearly 100% of the total cost of providing these benefits by the Council.

Maximising income from grants and external funding sources continues to be a key priority for the Council. The difficulty with some specific grants however is that they can be time-limited with the amount granted often difficult to predict and plan for. Often when grants are reduced, this results in either a bid for additional funding through the budget process to preserve services or the need for further savings being identified to cover the loss of grant.

For the purposes of the MTFP, where changes to grant regimes and external funding are known, these have been incorporated into the financial projections. The potential for further changes is recognised in the risk assessment attached to the Plan. Details on some of the major grant streams is shown below:

<u>Local Authority Business Growth Incentive Scheme (LABGI)</u>

The Government have announced that the LABGI allocations previously announced will not be paid in 2010/11. The method of distribution of grant provides 50% funding to the County with 50% being directed to the districts. The Council was due to receive £33,000 in 2010/11 from this scheme will now not be received, although the Government are looking at alternatives to the LABGI scheme.

<u>Housing Benefits</u>

For 2010/11 the total distributed amount of administration subsidy is £515.4 million nationally. The overall amount represents a 5% real terms reduction against the 2009/10 settlement figure of £528.3m and is consistent with the Department's Comprehensive Spending Review CSR 07 settlement.

The Department of Works and Pensions' (DWP) allocation, under the Government's Comprehensive Spending Review, was £555 million in 2007/08, £541 million in 2008/09, £528 million in 2009/10 and £515 million in 2010/11. This represents an annual cash reduction of 2% (approximately 5% after taking inflation into account). This reduction is being passed on to local authorities to be met from local authority provided services i.e. housing benefits. The DWP significantly reduced Housing Benefit administration grant in 2005/06 and 2006/07. It is the view of the DWP that local authorities can make the required savings (17% reduction over 6 years in real terms) without affecting performance by embracing the shared service agenda. Carlisle's current notified Housing Benefit grant profile is shown in the Table shown below.

The Budget report 2008 announced that an additional £45m subsidy, nationally, would be provided solely for the purposes of assisting Local Authorities in their statutory duties to administer and process HB/CTB claims: directly linked to the related enquiries and claims associated with the economic downturn. There is a requirement to prove this additional resource is spent on Benefits administration and it will not form part of any future baselines.

It was subsequently agreed that a further £30m subsidy, nationally, (in addition to the previously agreed £45m) would be provided for the same purpose and under the same conditions.

The Budget report for 2009 announced the Government has set aside further additional funding as a result of the economic downturn to ensure Local Authorities can continue to deliver and improve effective support services for the unemployed Included in this figure is provision for additional administrative subsidy to respond to the expected increase in workload for LAs. Again, this additional funding will not form part of any future baselines. Allocation of this additional funding was based on actual increase in caseloads of Local Authorities over the period November 2008 to August 2009.

Year	Amount £	Cash Reduction p.a on Previous Year £	Reduction p.a adjusting for Inflation at 3% £
2005/06	963,249		
2006/07	943,314	19,935	48,234
2007/08	848,177	95,137	120,582
2008/09	817,738	30,439	54,971
2009/10	797,345	(92,802)	44,313
Recession Funding	67,917		
Recession Funding	45,278		
2010/11	757,478	2,707	62,591
Recession Funding	37,160		
Total	**4,369,823**	**52,709**	**268,101**

Comparing 2008/09 to 2009/10, Carlisle's Housing Benefit/Council Tax Benefit caseload has increased from an average of 8,500 to 9,320. This represents a 10% increase in caseload. However, the number of new claims submitted and processed within the year has increased from 5,826 to 6,869 (18%) and the number of changes in circumstances notified has increased from 16,147 to 19,445 (20%).

<u>Concessionary Travel</u>

The current concessionary fares scheme for pensioners and the disabled was extended to cover all bus services nationally from 1 April 2008. The Government has provided additional resources through a specific grant to help with the cost as follows:

	£
2008/09	492,000
2009/10	504,000
2010/11	518,000

Overall the estimated cost of extending the concessionary fares scheme nationally will cost this Council £368,000 in 2010/11 and subsequent years **over and above** the amount of funding provided by the Government through additional specific grant. The excess has been found from within existing Council budgets. These costs are based upon implementing a 24/7 concessionary fares scheme.

It is not yet known how the scheme will operate from 1 April 2011 as proposals are in place for the service to transfer to the County Council but no details have yet to be released as to the budgetary implications of this and also with regard to the funding arrangements.

Area Based Grant

The Government have recently announced that as part of their austerity measures, the amount of Area Based Grant awarded to Carlisle is to be reduced for 2010/11 by £18,000 with specific regard to Cohesion. The current MTFP assumes the Council will receive £103,000 in 2010/11, whereas the final initial allocation was to be £105,279. The revised allocation will be £87,279.

	Cohesion £	DEFRA £	Economic Assessment Duty £	Social Housing £	Climate Change £	Total (ABG) £
2010/11	75,000	399	6,000	1,380	22,500	105,279

3.2.5 Other Government Initiatives

Housing

In 2006, support for housing capital spending was transferred from the Revenue Support Grant to a specified capital grant from the Regional Housing Pot. The grant received for 2009/10 was approximately £1.6 million. A reduced sum has been assumed for future years (£1.122m), however the award for 2010/11 was lower than this expected figure at £0.768million and it is likely that the MTFP assumption will need to be lowered as part of the budget setting process for 2011/12. Members have approved the use of this grant for housing schemes within the capital programme as guided by the Housing Strategy.

3.2.6 Efficiencies

The current Spending Review expires in the Autumn of this year and required efficiencies to be found over the period 2007 to 2010 equating to cumulative savings of 10.3%. A new spending review will be undertaken in the autumn and it is likely that further savings will need to be found as the funding for local authorities is reduced. As indicated the June budget announced that there would be an average of 25% cut to non protected Government departments.

3.3 Pensions

The next actuarial valuation is due in autumn 2010 and, for the moment, a 1.5% increase has been assumed for the Council in the MTFP. The revaluation exercise will give options for making good any deficit on the pension fund and these could include changes to the recovery rate or changing the years of spread for recovery. 1% increase in the contribution rate would equate to £138,000. Early indications from the Actuary show that contributions rates for Carlisle City

Council are likely to have to increase by approximately 4 .5% p.a. from 2011/12. This would equate to an increase of £415,000 per annum over the existing MTFP projections.

3.4 Minimum Revenue Provision (MRP)

The MRP represents a provision that the Council must make to fund the repayment of external debt. Changes in government regulations have enabled the Council to substantially reduce its MRP provision both in 2008/09, 2009/10 and 2010/11 and these revisions have been incorporated within the MTFP. The MRP will, however rise as the Council's stock of capital receipts is used in support of the capital programme. This factor is also incorporated within the MTFP forecasts. The Council will continually review its MRP Strategy and choose the option for charging MRP that is most beneficial at that particular time.

Any future capital projects will need to be evaluated for their effects on potential MRP charges either through the continued use of capital receipts or through prudential borrowing.

INTERNALLY DETERMINED FACTORS INFLUENCING THE MTFP (Subject to review July – Nov 2010)

4.1 Inflation

Taking into account current economic forecasts the Council has to make assumptions on the level of inflation to be included in the forward projections within the MTFP. The measure to be used for inflation in the MTFP is CPI (i.e. excluding housing costs) and this is currently running at 3.4%.

There is an inevitable degree of uncertainty surrounding inflation projections. However, for the five -year period under review, a CPI inflation rate of 2.8% has currently been assumed.

Individual spending heads have also had different inflation projections attached and these are detailed further below.

4.1.1 Pay Costs

In 2010/11, the Council is expecting to spend £19million on employee related costs and this represents approximately 60% of the cost of running the Council, excluding the cost of housing benefits.

Clearly then, changes to pay costs will have the single biggest impact on the Council's budget. To offset the natural increases in pay costs, the Council has approved a policy to include a saving in its budget to reflect staff turnover.

The forecasts in the MTFP for pay costs have been calculated using the following assumptions: -

- A provision for basic pay increase of 1% p.a. for 2010/11 to 2012/13 then 2.5% p.a. thereafter.
- Increments will cost on average £150,000 p.a.
- Employer's National Insurance rates will rise from 2011/12 in line with the previous Governments announcements and this is expected to cost the Council £35,000p.a. and this is currently built into the MTFP projections
- Staff turnover will remain at around 3% of gross salaries. The budget provision for 2010/11 has been set at £544,200.

All the above factors will have to be reviewed in light of the Governments announcements in the Budget where it was announced that there would be a Public Sector pay freeze for 2 years for 2010/11 to 2011/12, for those employees earning over £21,000, and a flat rate rise of £250 p.a. for those earning under this amount. It is anticipated that any local government settlement will be in line with the rest of the Public Sector. Also announced were increases in the thresholds for employers national insurance from 2011/12 to counteract the previously announced rise in rates. Overall these should broadly equal each other out, and the current MTFP has the initial increase included for national insurance, so the reduction will need to be taken into account in the budget process.

4.1.2 General Inflation

The Council applies a policy of applying a general inflation increase to all running costs in its budget. The inflationary increase for the 5 years of the MTFP is based on the annual Consumer Price Index, which is currently running at 3.4% per annum (June 2010), although the current

MTFP still assumes an inflation rate of 2.8%. Inflation forecasts are expected to be 2% over the period of the MTFP. A 1% movement in the inflation rate would equate to £106,000.

4.1.3 Specific Application of Inflation

To assist with the identification of efficiency savings, for the past few years, general supplies and services have not been inflation linked and have been frozen at existing budget levels. The value of these services is £3.5 million and the annual saving from not applying inflation is £97,000 (based on 2.8% per annum)

Other specific costs cannot be categorised as general running costs e.g. energy or concessionary travel, the costs of which are currently running much higher than the CPI inflation rate. In other cases members may wish to apply a freeze on other expenditure heads to further assist with the identification of efficiency savings. In these cases a specific inflation provision is allocated and reflected in the Council's budget projections as part of the savings and pressures identified as part of the budget process.

4.1.4 Investment Income

Treasury management is a field that has its own dynamics many of which, most obviously the level of short-term interest rates, are outside the control of local authorities. Projections of interest rates and investment income yields accruing to the City Council must always be viewed in this context.

When the budget for investment income in 2010/11 was set last autumn, it was based upon achieving an estimated yield of 1.7% which reflected the benefit of investments placed in 2008/09 at higher rates rolling into 2010/11. Bank base rates has now been held at 0.5% for over 12 months while actual money market yields from new investments are currently running at 0.8-1.70%. The latest forecasts of interest rate movements provided by our treasury management consultants, Sector, indicate base rates will remain at this level throughout 2010/11 and then climb to 1.5% by the end of 2011 although such a forecast must be viewed with caution. These movements will affect the interest returns earned by the Council quite significantly. As in previous years, these projections are subject to regular review and amendment in the light of money market conditions.

The achievement of levels of investment income is dependent not only on interest rates but also on the authority's anticipated pattern of cash flow. Taking account of both these factors, the estimated investment income built into the current MTFP, with revised projections (not as yet incorporated into the MTFP) are as follows:

	Current MTFP
2010/11	514,000
2011/12	685,000
2012/13	802,000
2013/14	929,000
2014/15	1,068,000
2015/16	1,376,000

These projections are reviewed on a quarterly basis in the context of both money market conditions and anticipated cash flow.

4.2 Spending Pressures and Savings

As part of its budget process, service departments are required to identify high priority spending pressures and identify savings to meet those pressures. These proposals are then subjected to a detailed appraisal process and those approved are included in the forthcoming year's budget.

Details of all spending pressures and savings affecting services in 2010/11 are shown in detail in the budget resolution and are summarised below:

	2010/11 Original £000	2010/11 Revised £000	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Recurring Spending Pressures	426	426	586	409	409	979	979
Recurring Spending Reductions	(942)	(942)	(2,289)	(2,594)	(2,616)	(2,639)	(2,639)
Non-Recurring Spending/(Saving)	**(516)**	**(516)**	**(1,703)**	**(2,185)**	**(2,207)**	**(1,660)**	**(1,660)**
Non-Recurring Pressures							
- Existing	2,764	2,764	1,456	801	662	0	0
- New	648	648	625	0	0	0	0
Carry Forward Requests	0	1,552	0	0	0	0	0
Use of Reserves	0	115	90	65	0	0	0
Non Recurring Reductions	(68)	(68)	0	0	0	0	0
Net Non-Recurring Spending/(Saving)	**3,344**	**5,011**	**2,171**	**866**	**662**	**0**	**0**

These proposals form the basis of the 5-year projections contained within the MTFP. As can be seen from the table above, the Council has been successful in identifying recurring savings to redirect to priority spending areas.

4.3 Asset Management

The Council is required to draw up an Asset Management Plan (AMP) to ensure that the Council's property is maintained in a good condition, is suitable for purpose and that sufficient resources are available to meet maintenance costs. The AMP recognised a maintenance backlog of some £5.2 million. The level of repairs and maintenance in the Council's budget is subject to an annual repair and maintenance programme with bids for structural maintenance and disabled adaptations included within the capital programme. The Council is also investigating the suitability of either developing its in-house capability or establishing partnerships with other public sector bodies or the private sector to maximise the potential of the Council Assets on service delivery and financial returns.

4.4 Income

The City Council's revenue budget is heavily dependent on the income it generates, with 20% of the gross budget coming from this source. The main areas are:

4.4.1 Fees and Charges for Services

Fees and Charges for individual services generate in the region of £5m p.a. for the City Council. **Appendix D** sets out the Council's approach to the reviewing and setting of fees and charges on an annual basis. The overall aim is to increase the proportion of income raised from users of discretionary services to ensure that they meet the full cost of these services, rather than the costs falling on Council Taxpayers in general. In the past the income target has been set at 1% above the inflation rate, however the revised guidance strengthens the recognition that there will be different priority objectives for each income area and that for some areas maximising income may not be the key priority. Each charges review undertaken as part of the budget process must clearly set out the overall policy objective. In the past two years, increases in charges have not always resulted in expected income yields and projections are monitored carefully. Nevertheless the current MTFP assumes an overall increase in income from fees and charges of 3.8% p.a.

4.4.2 Significant Income Streams – further actions will need to be taken to account for the areas where income continues to be generated at less than the budget. The 2011/12 Charges Review will further consider this issue.

	2007/08 Actual £	2008/09 Actual £	2009/10 Actual £	2010/11 Budget £
Cemeteries & Crematorium	922,412	988,010	998,951	1,068,100
Development Control	500,612	621,026	566,350	637,100
Building Control	410,542	375,706	395,338	436,200
Land Charges	319,303	126,665	120,527	129,600
Licences	233,828	235,191	227,987	227,600
Parking	1,522,612	1,412,318	1,395,120	1,182,600
Total	**3,909,309**	**3,758,916**	**3,704,273**	**3,681,200**

There is a downward trend for the income from **Building Control.** The actual income generated for 2009/10 was below the 2009/10 budget. A new charging regime is to come into force from 1 October 2010 for Building Control where fees have to be calculated to take account of cost recovery only and any surplus/deficit generated has to be used in the following year to adjust the fees.

The income from **Land Charges** is estimated to be significantly lower in 2010/11 and as such the original budgets have been reduced by £221,000. This is primarily as a result of the downturn in the housing market but also as a result of more private search companies entering the market. No provision for reductions beyond 2010/11 has been made and budget levels will revert back to their original sums for 2011/12.

The income from **Parking** has been declining steadily over the past few years, and steps were taken to reduce the income targets. The decline now seems to have levelled out with income in 2009/10 broadly meeting the budgeted levels. A reduction was included in the 2010/11 budget for the potential closure of the viaduct car parks which has now not proceeded so income should exceed budgets in this year.

4.4.3 Property Rentals

Income received from property rentals is in the region of £5 million per annum. The Council has established an Asset Investment Fund for its property portfolio to ensure that the quality of its industrial estates and other commercial properties is maintained, thereby preserving the level of income generated by these assets. This amount totals £1million with a further million being earmarked for strategic property purchases. Increases in income from this source are subject to rent reviews arising from lease negotiations by Property Services.

The forecast yield from property rentals over the period 2010/11 to 2015/16 and included in the MTFP is shown in the following table: -

Description	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
The Lanes (See Paragraph below)	1,583	1,583	1,583	1,583	1,583
The Market	132	132	132	132	132
Industrial Estates (+2% p.a)	2,646	2,699	2,753	2,808	2,864
Miscellaneous Properties (+2% p.a.)	1,117	1,139	1,162	1,185	1,209
Total	**5,478**	**5,553**	**5,630**	**5,708**	**5,788**

The Council has an agreement with the managing agents of the Lanes development whereby the Council receives a proportion of the total rental income. This now equates to an annual rental income of £1.583m. This is different to previous years where the Council received a guaranteed rental income. This means that the rental income received is subject to fluctuations in the performance of the Lanes and in periods where there are a lot of voids, income may be lower than that forecast. The situation is monitored via Management Reports received from the Managing Agent. Indications for 2010/11 are that there are still problems in attracting tenants and rents are forecast to dip below the budgeted amount and further updates on this will be included in the budget process for 2011/12.

The Asset Management Plan provides advice on how the Council can use its land and property portfolio to ensure that it achieves best value and delivers cost-effective services.

4.4.4 Investment Income

Interest receipts from the investment of surplus revenue funds, balances and unapplied capital receipts continue to be a significant element of the City Council's budget. Based on an investment yield of 1.7% p.a., a figure of £513,000 was included as investment income in the 2010/11 Revenue Budget. This projection is regularly reviewed in the light of money market conditions and any change in balances e.g. resulting from increases in the level of capital receipts. The Council currently internally manages funds of about £30m. Further details of the Council's investment policies are contained in the annual Investment Strategy, which was approved by the Council on 2 February 2010 as part of the Treasury Management Strategy Statement.

4.4.5 Council Tax Income

Based on the Council Tax base projected for 2010/11 and an assumed annual growth of approximately 0.279% in the base over the next five years, a 2% increase in 2010/11 and 3.5% increase thereafter in Council Tax per annum will provide additional resources over the period 2010/11 – 2015/16 as follows: -

Year	Council Tax Band D £	Tax Base Projections	Yield £	Annual Increase £
2010/11	193.43	34,508.69	6,675,016	167,656
2011/12	200.20	34,604.97	6,927,915	252,899
2012/13	207.20	34,701.52	7,190,155	262,240
2013/14	214.45	34,798.33	7,462,502	272,347
2014/15	221.96	34,895.42	7,745,387	282,886
2015/16	229.73	34,992.78	8,038,891	293,504

These projections will need to be reviewed to take account of the 2011/12 freeze in Council Tax announced in the Budget.

4.5 The Capital Programme

The revenue implications of capital spending are identified in the project appraisal process to ensure that the full cost of any proposals for capital investment can be included in both the revenue and capital budgets of the Council. The budget projections therefore include an assessment of the revenue costs of existing capital projects. The potential revenue costs of projects, which are still under development, such as the Sands Development are not reflected in the MTFP.

The level of resources used to finance the capital programme, either from capital receipts, reserves or grants, has a direct bearing on the revenue budget as it reduces the amount of money the Council has to invest, thereby reducing its investment interest. The assumption made here is that the effect of the capital programme on investment levels will be broadly neutral, effectively meaning that the Council will only spend the capital resources it receives in any one year.

4.5.1 Prudential Borrowing

Nearly all formal controls on borrowing by local authorities have been relaxed since the introduction of the Prudential Code in April 2004. Furthermore, in 2010/11 the City Council received a capital grant of approx. £0.78m towards its capital programme. This was in lieu of the previous support given to estimated borrowing costs via the revenue support grant system. This system of providing support via a capital grant is expected to continue in the period covered by the MTFP.

Given the level of other resources available to the Council, particularly the balance of unapplied capital receipts, to fund the present programme, it has been assumed that borrowing will play no part in funding the Council's capital expenditure in the next five years. This does not rule out the future option of undertaking any prudential (or unsupported) borrowing should it be supported by a robust business case but for the time being other sources of capital finance are considered to be more economic and therefore more 'prudent'.

4.6 Reserves

It is the responsibility of the Assistant Director (Resources) to advise the Council on policies and protocols in respect of the use and level of reserves that it should hold. This information is required to ensure that members are kept fully informed of the effects of their decisions on the reserves held by the Council. A revised set of policy guidelines and associated protocols is attached at **Appendix E.** One new reserve was approved to be established as at 31 March 2010 for Transformation.

Viewed against current projections, the Council's reserves are under significant pressures from 2010/11 onwards. The Council balances are set out in **Appendix F**. In order to maintain the financial stability of the Council, the fundamental principle on the use of Reserves and Balances is that they should not normally be used to fund recurring expenditure. Where they are, however, the usage should be explicitly stated, and steps taken to address the situation in following years.

BUDGET PROCESS

5.1 Budget Process

The Revenue Budget Process is the main mechanism in place for forecasting spending requirements and resources over a 5-year planning period.

The budget is drawn together from:

- a base budget requirement, which determines the cost of providing existing services,
- bids for additional resources, which are required to meet identified spending pressures that meet Council priorities,
- forecasts of income from fees and charges, linked to the Corporate Charging Policy,
- forecasts of grant income,
- to arrive at a level of Council Tax to be charged to residents.

This well-established mechanism results in the approval of the annual budget in February.

Within the process, there are a series of key tasks that must be carried out, as follows: -

(a) The base budget must be established, taking account of factors such as

- inflationary increases in pay and operating costs,
- shortfalls or reductions in budgeted income levels,
- the level of external funding through grants or contributions from the government or other bodies.

(b) Bids for additional resources must be submitted by November each year and be accompanied by a full financial appraisal setting out the business case for the additional resources requested. The financial appraisal is a key document as it will provide information on: -

- the Council priorities requiring the resources,
- the consequences of not providing the resources,
- options considered to meet the pressure from within existing resources before arriving at the decision to bid for additional resources,
- the full cost of the bid over at least a five-year period to reflect any potential growth or reduction in costs over the period,
- any income that could be potentially generated to offset the cost of the bid,

Members will decide which bids will be supported following the outcome of the financial appraisal.

(c) The revenue effects of any capital investment proposals must be identified and incorporated into the revenue budget.

(d) Savings and efficiency proposals, which again must be accompanied by a full financial appraisal, must be submitted by November each year. Members will decide on the proposals to be taken forward following the outcome of the financial appraisal.

(e) Changes to Council priorities which require the redistribution of resources must be identified,

(f) The level of support provided by the Government through the Revenue Support Grant needs to be incorporated into the MTFP.

The potential financial impact of the new budget discipline is not currently wholly reflected in the MTFP, as in some cases it represents the first stage in assessing the options available to the Council to bridge the likely budget deficit over the next five years.

5.2 Modernising the Budget Cycle

The existing budget process has operated successfully for a number of years. However, the financial environment within which the Council now operates involving 3-year government settlements, faster closure of the Council's accounts, greater emphasis on efficiencies, performance and value for money means that the cycle needs to adapt to support these developments.

The Assistant Director (Resources), in conjunction with the Policy and Performance Manager, will therefore be reviewing current practices over the next twelve months to develop improved quarterly financial reports that will incorporate rolling budget forecasts linked to underlying performance and financial trends. This should assist better service and financial planning, allowing resources to be re-directed to areas of need at more frequent intervals than is currently the case. Potential funding issues will also be highlighted much earlier in the financial planning process. The ultimate aim is to better inform members and service managers of the financial impact of the decisions they take. This, in turn, will enable members to assess whether the Council delivers value-for-money to its taxpayers.

5.3 Consultation

The Executive approves its draft budget proposals in December each year. There then follows a formal consultation period (usually 4 weeks) when any interested person can submit their views on the proposals to the Council. This can be done by post, telephone or on-line through the Council's web-site.

In addition, formal consultation meetings are held with:

- The Large Employers Affinity Group (to include any Non Domestic Ratepayers)
- Trades Unions

The Council's Resources Overview and Scrutiny Panel also have a role in scrutinising the budget proposals.

The Executive considers feed back from the consultation process, before making its final recommendations to Council in February each year.

The Council has a Consultation Policy and is a member of Community Voice, a Cumbria wide collaboration of District Councils, Cumbria County Council, the police and PCT that consults local people regularly on their views with the intention of improving services. The results of the consultations inform policy development and feed into the Corporate Plan, MTFP and other individual service plans.

5.3 Value for Money

The Council is committed to a continuous programme of service improvement. The new budget discipline being developed will challenge how services are delivered across the Council to improve efficiency and deliver improved value for money. The Council has adopted a series of mechanisms to assess how it is performing in this area and these are being developed to include:

- Improved financial and service planning over both the short and long term,
- Involving and consulting customers about the way services are provided to see if they meet customer aspirations,
- Supply and demand analysis,
- Customer satisfaction surveys, focus groups and user groups,
- Performance management, benchmarking and the adoption of best practice in service delivery,
- Service reviews, including developing efficiency targets,
- Financial appraisal of projects taking account of quality, price and lifetime costs,
- Improved budgetary control mechanisms,
- Full risk assessments of proposals to change service provision,
- Attracting as much external investment as possible so the Council's resources go further,
- Member involvement through the Audit Committee and Overview and Scrutiny Panels,
- The adoption of shared services, where this is proven to benefit the Council both financially and in the quality of service delivery.

RISK ASSESSMENT

There are a number of inherent risks in the strategy as proposed and these are identified in **Appendix G**. It is the responsibility of the Assistant Director (Resources) in conjunction with other Assistant Directors to ensure that these risks are properly managed and risk mitigation measures taken where necessary.

Individual responsibilities are set out in the Financial Procedure Rules.

SUMMARY

The purpose of the MTFP is to provide members with forecasts of the likely financial position of the Council over the next five years to enable informed decisions on actions needed to achieve financial stability within agreed Council policies.

The MTFP presents a snapshot of the current financial position and will inevitably change over time. This will be monitored and reported throughout the year. The ultimate aim of the MTFP is to help members to make more informed financial decisions and therefore contribute to an improvement in its use of resources.

APPENDIX A

Carlisle City Council – Current Financial Projections for the period to 2015/16

2010/11 Budget £000	Summary Net Budget Requirement	2011/12 Proj'd £000	2012/13 Proj'd £000	2013/14 Proj'd £000	2014/15 Proj'd £000	2015/16 Proj'd £000
	Projected Resources					
(6,675)	Council Tax Income	(6,928)	(7,190)	(7,463)	(7,746)	(8,039)
(10,372)	Revenue Support Grant / NNDR	(9,857)	(9,857)	(9,857)	(9,857)	(9,857)
0	Area Based Grant	0	0	0	0	0
(3)	Estimated Council Tax Surplus	0	0	0	0	0
(435)	Parish precepts	(446)	(457)	(468)	(480)	(492)
(17,485)		**(17,231)**	**(17,504)**	**(17,788)**	**(18,083)**	**(18,388)**
	Recurring Revenue Expenditure					
15,845	Existing Expenditure	16,476	17,165	17,693	18,452	19,247
426	New Spending Pressures	586	409	409	979	979
(942)	Budget Reductions	(2,289)	(2,594)	(2,616)	(2,639)	(2,639)
15,329	**Total Recurring Expenditure**	**14,773**	**14,980**	**15,486**	**16,792**	**17,587**
	Non Recurring Revenue Expenditure					
2,764	Existing Commitments	1,456	801	662	0	0
648	Spending Pressures	625	0	0	0	0
(68)	Budget Reductions	0	0	0	0	0
115	Use of Earmarked Reserves	90	65	0	0	0
1,552	Carry Forward	0	0	0	0	0
20,340	**Current Revenue Expenditure**	**16,944**	**15,846**	**16,148**	**16,792**	**17,587**
435	**Parish Precepts**	446	457	468	480	492
20,775	**Total Revenue Expenditure**	**17,390**	**16,303**	**16,616**	**17,272**	**18,079**
(3,290)	**Contribution to/(from) Reserves**	(159)	1,201	1,172	811	309
17,485	**Net Budget for Council Tax Purposes**	**17,231**	**17,504**	**17,788**	**18,083**	**18,388**

APPENDIX B

Current Financing the Revenue Budget

Indicative forecasts of how the Council's projected gross budget will be financed for the period 2010/11 to 2015/16 are as follows: -

Source	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Council Tax (incl. Parishes)	7,110	10.97	7,374	11.76	7,647	12.16	7,931	12.28	8,226	12.35	8,531	12.81
Formula Grant	10,372	16.00	9,857	15.72	9,857	15.67	9,857	15.26	9,857	14.80	9,857	14.80
Collection Fund Surplus	3	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Area Based Grant	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Net Budget for Council Tax Purposes	**17,485**	**26.97**	**17,231**	**27.48**	**17,504**	**27.83**	**17,788**	**27.54**	**18,083**	**27.16**	**18,388**	**27.61**
Grants and Contributions (assumed a 2.8% increase per annum)	31,715	48.93	32,603	52.00	33,516	53.28	34,454	53.34	35,419	53.19	36,411	54.68
Other Income (assumed a 3.8% increase per annum)	12,445	19.20	12,793	20.41	13,152	20.91	13,520	20.93	13,898	20.87	14,288	21.46
Reserves and Balances	3,175	4.90	69	0.11	(1,266)	(2.01)	(1,172)	(1.81)	(811)	(1.22)	(1,104)	(1.66)
Total Gross Budget	**64,820**	**100.00**	**62,696**	**100.00**	**62,906**	**100.00**	**64,590**	**100.00**	**66,590**	**100.00**	**67,982**	**102.09**

The use of Reserves and Balances varies from the Budget Resolution approved by Council in February 2010 as a result of the 2009/10 outturn position and the carry forward of £1,552,000 into 2010/11

APPENDIX C

Subjective Analysis of the Forecast Gross Budget

The detailed subjective figures from 2010/11 will become available as part of the budget process.

Source	2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Employees												
Current	19,433	29.98										
Potential PWS	1,000	1.54										
Premises	3,842	5.93										
Transport	1,628	2.51										
Supplies & Services	5,680	8.76										
Third Party Payments	5,405	8.34										
Transfer Payments	26,911	41.52										
Support Services (Net)	(2,704)	(4.17)										
Capital Financing	1,638	2.53										
Precepts	435	0.67										
Supplementary Estimates	0	0.00										
Carry Forward Requests	1,552	2.39										
Total Gross Budget	**64,820**	**100**	**62,696**	**0**	**62,906**	**0**	**64,590**	**0**	**66,590**	**0**	**67,982**	**0**

APPENDIX D

CORPORATE CHARGING POLICY 2010

This appendix sets out the corporate approach to the setting of fees and charges.

Each service is required to consider how and to what extent each of the following applies to the fees and charges it proposes to set:

1. Objectives of Charge - Set out the principal objective(s) of setting the charge:

- Recover cost of service provision
- Generate Surplus Income (where permitted)
- Maintain existing service provision
- Fund service improvements or introduction of new service(s);
- Manage demand for service(s)
- Promote access to services for low-income households;
- Promote equity or fairness;
- Achieve wider strategic policy objectives (eg encouraging green policies);

2. Other factors influencing decisions on whether and how much to charge:

- The Council's historic approach to charging
- The views of local politicians, service users and taxpayers
- Other councils' and service providers approach to charging
- Levels of central government funding and policy objectives
- The Council's overall financial position
- Changes in demand for services
- Policy on Concessions
- Availability of powers to charge for discretionary services (eg pre application planning advice)
- Central government policy objectives

3. Targeting Concessions - The following target groups should be considered:

- Persons over the age of 65
- Unemployed
- Young persons under the age of 18
- Students in full time higher education
- Community Groups
- Those in receipt of supplementary benefits, tax credits, attendance allowance, disability living allowance and other appropriate groups

4. Trading

The Council is empowered to sell goods or services to other public bodies or trade commercially through a company with non-public bodies. The objectives should be considered for relevant services (including Building Cleaning and Maintenance, Vehicle Maintenance, Grounds maintenance, Legal Services, Human Resources, IT, Payroll, Planning and Development Services) as follows to:

- Deliver services more strategically on an area-wide basis
- Achieving greater efficiency
- Capitalise on expertise within the council
- Utilise spare capacity
- Generate income
- Support service improvement

5 Value For Money

- Has charging been used as a tool for achieving strategic policy objectives?
- Has the optimum use of the power to charge been used?
- Has the impact of charging on user groups been monitored?
- Has charging secured improvements in value for money?
- Has charging been used as a tool to reduce increases in Council Tax?

APPENDIX E

Council Policy on the Level and Use of Reserves

1. General

1.1. Reserves generally will not be used to fund recurring items of expenditure, but where it does steps will be taken to address the situation.

1.2 Reserves will not become overcommitted.

1.3 The Council benefits from its level of reserves as it is able to: -

- Meet its capital programme obligations, without recourse to borrowing,
- Fund exceptional increases in its net budget requirement without affecting the Council Tax charged to its taxpayers,
- Ensure that surplus resources are retained for the general benefit of the Council to protect against large increases in Council Tax.
- Benefit from significant income received from the investment of its reserves to contribute to the budget requirement of the Council, which is a key part of the Council's Treasury Management Strategy.

Taken together, the value of holding the existing level of reserves can be demonstrated by the fact that the Council has been able to contribute £2.136 million to its revenue budget through investment interest (£0.513m) and the use of balances (£1.623m).

2. The General Fund Reserve

2.1 The balance on the General Fund shall broadly equal £3.8m. This figure is assessed taking into account the risks and working balances required, including investment income generated, it is considered prudent to leave the reserve at this level. A risk based assessment of the appropriate level of this reserve was carried out for the 2010/11 budget process and this is attached overleaf.

2.2 If the balance in the short-term falls below £3.8m, the Council will top-up the balance to this level from the General Fund Income and Expenditure Account.

2.3 If the balance in the short-term exceeds £3.8m then the surplus will be transferred to the Council's Project Reserve.

3. Earmarked Reserves

3.1 Earmarked reserves will not be used for recurring items of expenditure, nor become over-committed.

3.2 For each earmarked reserve there will be a clear protocol in place setting out: -

- The purpose of the reserve.
- How and when the reserve can be used.
- Procedures for the management and control of the reserve.
- Processes for the review of the use of the reserve to ensure that it continues to have an adequate level of funds and remains relevant to the business of the Council.

4 Charitable and Other Bequests

The Council holds a number of bequests for use by the Council. These funds can only be released with the full approval of the Council under the terms set out when the bequest was given. In the first instance it will be the responsibility of the Executive to consider a report outlining proposals for the use of the bequest prior to submission of the request to Council.

5 The Responsibilities of the Assistant Director (Resources)

5.1 The Assistant Director (Resources) will review each reserve and its protocol annually and produce a report for the Executive as part of the annual accounts process detailing: -

- Compliance with the use of reserves and associated protocols,
- Movements in the level of reserves, including the purposes for which reserves were used during the previous financial year,
- The adequacy of the level of reserves and the effects on the Council's budget requirement,
- Any reserves which are no longer required,
- Proposals to set up new reserves, including purposes, protocols, funding sources and potential impact on the Council's Medium-Term Financial Plan.

5.2 The Assistant Director (Resources) will review this policy at least annually and will obtain the approval of the Council for any change required to either the policy or protocols associated with specific reserves.

RISK ASSESSMENT OF LEVEL OF RESERVES – 2010/11

Potential Risk	Risk Score	Weighting	Financial Exposure (£000)	Balance Required (£000)	Comment (Basis of Financial Exposure)
Base Budget Contingency for inflation or other unanticipated rise.	4	50%	187	93	Assumed at 1% of Net Revenue Budget
Underachievement of Charges Income targets and spending exceeds budgets	4	50%	219	109	Estimate of 5% Charges Income forecasts for 2010/11
Underachievement of Investment Income	4	50%	300	150	1% of exposure of average balance of £30m
Civil Emergencies	6	75%	180	135	Bellwin scheme cuts in at 0.2% of Net Budget (£37,368) and provides for up to 85% of eligible costs (assume £1m cost - not covered by insurance)
Insurance Excesses	2	25%	25	6	Based on 5% of insurance premia payments
Fall in Rental Income from Property	6	75%	250	188	5% of Rental Income (assumed at £5.0m for 2010/11)
Transformation Savings not met	1	25%	1,000	250	Transformation target 2010/11
Changes to existing government funding regimes	9	100%	519	519	5% of Total of RSG funding
Redundancy costs unable to be capitalised	1	25%	1,500	375	Potential redundancy costs 2010/11 as per capitalisation direction
Dependence on reserves and general balances	3	50%	934	437	General Fund Reserve Balance - Audit Commission Guidance states prudent level is 5% of Net Revenue Expenditure
Emergency Contingency		100%	1,000	1,000	Emergency contingency fund - Council practice to allocate £1m for any unforeseen emergencies
TOTALS			**6,114**	**3,262**	
Maximum Risk Based Reserve Balances				**6,114**	
Minimum Risk Based Reserve Balances				**1,529**	
Current Level of Reserves (Projected as at 31/03/10) (General Fund)				**3,800**	
Projected Shortfall/(Excess) of Current Reserve Balance over Risk Based Reserves				**-538**	

PROTOCOLS FOR THE USE OF COUNCIL RESERVES

Reserve	Estimated Balance 31/3/10	Purpose	Conditions of Use
Capital Reserves	£000		
Usable Capital Receipts	9,741	To provide funds to support the capital programme	Capital receipts can only be used to support capital spending or the repayment of debt. Management of the use of the receipts rests with the Assistant Director (Resources) but approval of their use must be given by Council.
Asset Investment Reserve	2,048	To provide resources to purchase properties and fund associated revenue costs (e.g. marketing) required as part of the Carlisle Renaissance project. To provide resources for investment in the Council's industrial estates to ensure rent yields are maintained / increased	Management of the reserve rests with the Assistant Director (Economic Development) who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council.
CLL Reserve	522	To provide funds to purchase equipment from CLL Ltd, should the leisure management contract either not be renewed or be terminated due to breach of contract on the part of CLL Ltd.	Management of the reserve rests with the Assistant Director (Community Engagement) but can only be used with the agreement of the Council. Use of the reserve should be accompanied by a report to Council providing details of the circumstances giving rise to the need for support to be provided by the Reserve.
Lanes Capital Reserve	311	To provide funds to meet potential exceptional capital works under the terms of the lease agreement.	Management of the reserve rests with the Assistant Director (Resources) who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council.

Reserve	Estimated Balance 31/3/10	Purpose	Conditions of Use
Revenue Reserves	£000		
General Fund Reserve	(3,800)	To be a general working capital / contingency to cushion the Council against unexpected events and emergencies	Management of the reserve rests with the Assistant Director (Resources). The use of the reserve is dependent on judgements taken when setting the Council's revenue budget on: - – Cash flow requirements, – Inflation and interest rates, – Demand led budget pressures, – Efficiency and productivity savings, – The availability of funds to deal with major unexpected events or emergencies, – Risks arising from significant new funding partnerships, major outsourcing arrangements or major capital developments. Approval to release funds from the reserve can only be given by the Council as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.
Projects Reserve	(1,051)	The balance at 31st March 2010 shall be earmarked to support potential revenue budget shortfalls identified by the 2010 Medium Term Financial Plan. Additions to the balances thereafter can be used either to support revenue budget shortfalls or projects within the Council's capital programme	Management of the reserve rests with the Assistant Director (Resources). Funding for the Reserve will be provided by windfall gains over and above those required to maintain the General Fund at its approved level, balances on reserves that are no longer needed and proceeds from the Local Authority Business Growth Incentive Scheme. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.
Collection Fund (Carlisle Share)	(5)	To be the collection account for sums due from local taxpayers.	Management of the fund rests with the Assistant Director (Resources). The use of the Fund is determined by statute. The main use is to adjust the level of Council Tax required in any one year to reflect surpluses or deficits on collection targets in prior periods.

Reserve	Estimated Balance 31/3/10	Purpose	Conditions of Use
Revenue Reserves (contd.)	£'000		
Residents Parking Reserve	97	To provide funds for small projects consistent with the Local Transport Plan.	Management of the reserve rests with the Assistant Director (Local Environment) but can only be used with the agreement of Cumbria County Council. Use of the reserve should be accompanied by a report to Council providing details of the projects supported by the Reserve. Funding is provided from the balance generated by the Residents Parking Initiative and must be reported to Cumbria County Council annually.
Building Control Reserve	23	To provide funds for improvements to the delivery of the Building Control function.	Management of the reserve rests with the Assistant Director (Economic Development). The balance is ring-fenced by statute to support improvements to the Building Control Service and is not available for general use by the Council. Funding is provided from surpluses generated by the service annually. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.
Conservation Reserve	(191)	To purchase historic buildings at risk or fund repairs and / or improvements to historic buildings	Management of the reserve rests with the Assistant Director (Economic Development). Funding is provided from the sale of property. Approval to release funds from the reserve can only be given by the Executive of the Council.
LSVT Warranties	(488)	To provide funds to meet claims arising in years 13 –25 following transfer of the housing stock in 2002 under environmental warranties given at the time of the transfer, when insurance has expired	Management of the reserve rests with the Assistant Director (Resources). The reserve is only able to be used to meet defined costs and is not available for general use by the Council. Approval to release funds from the reserve can only be given by the Council.
Routledge Reserve	(42)	To provide funds to purchase artefacts for Tullie House museum	The balance of this reserve relates to a bequest, which is not subject to charitable status. Management of the reserve rests with the Assistant Director (Community Engagement) but can only be used with the agreement of the Council. Use of the reserve should be accompanied by a report to Council providing details of the projects supported by the Reserve.

Reserve	Estimated Balance 31/3/10	Purpose	Conditions of Use
Revenue Reserves (contd.)	£'000		
Job Evaluation Reserve	(493)	To provide funds to cover the estimated cost of Job Evaluation.	The release of funds from this Reserve requires Council approval.
Licensing Reserve	(14)	This is a ringfenced surplus carried forward to fund future year's expenditure.	Management of the reserve rests with the Assistant Director (Resources). Approval to release funds from the reserve can only be given by the Executive of the Council.
Transformation Reserve	(1,479)	To fund any one off costs associated with transformation project	Management of the reserve rests with the Chief Executive. Approval to release funds from the reserve can only be given by the Executive of the Council.
EEAC Reserve	(277)	To hold the residual funds of the service pending future decisions with regard to the service	Management of the reserve rests with the Assistant Director (Economic Development). Approval to release funds from the reserve can only be given by the Executive of the Council.
Sheepmount Reserve	(92)	This is a fund held which will be needed for future drainage works at the Sheepmount.	Management of the reserve rests with the Assistant Director (Resources)

APPENDIX F

City Council Reserves Projections

Members should note that these financial projections now reflect the 2009/10 outturn position.

Analysis of Council Reserves	Outturn 31 March 2010 £000	Projected 31 March 2011 £000	Projected 31 March 2012 £000	Projected 31 March 2013 £000	Projected 31 March 2014 £000	Projected 31 March 2015 £000	Projected 31 March 2016 £000
Revenue Reserves							
General Fund Reserve	(3,800)	(1,676)	(1,607)	(2,873)	(3,800)	(3,800)	(3,800)
Projects Reserve	(1,051)	0	0	0	(245)	(1,056)	(1,365)
LSVT Warranties Reserve	(488)	(488)	(488)	(488)	(488)	(488)	(488)
Conservation Reserve	(191)	(191)	(191)	(191)	(191)	(191)	(191)
Sheepmount Reserve	(92)						
Collection Fund (Carlisle Share c	(5)						
Residents Parking Reserve	97						
Transformation Reserve	(1,479)						
EEAC Reserve	(277)	(237)	(197)	(157)			
Building Control Reserve	23						
JE Reserve	(493)	(418)	(368)	(343)			
Licensing Reserve	(14)						
Routledge Reserve	(42)						
Total Revenue Reserves	**(7,812)**	**(3,010)**	**(2,851)**	**(4,052)**	**(4,724)**	**(5,535)**	**(5,844)**
Capital Reserves							
Usable Capital Receipts	(7,741)	(3,255)	(1,212)	(1,341)	(1,619)	(3,046)	(4,951)
Unapplied capital grant	0	0	0	0	0	(478)	(528)
Asset Investment Reserve	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)
CLL Reserve	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Lanes Capital Reserve	(311)	(326)	(341)	(356)	(371)	(386)	(401)
Total Capital Reserves	**(10,622)**	**(6,151)**	**(4,123)**	**(4,267)**	**(4,560)**	**(6,480)**	**(8,450)**
Total Usable Reserves	**(18,434)**	**(9,161)**	**(6,974)**	**(8,319)**	**(9,284)**	**(12,015)**	**(14,294)**
Other Technical Reserves*	**(83,247)**						
Total All Reserves	**(101,681)**						

* Other Reserves are of a technical nature and are not cash backed. They are not therefore available either to fund expenditure or to meet future commitments.

APPENDIX G

RISK ASSESSMENT

Risk	Likelihood	Impact	Mitigation
The assumptions contributing to the Financial Plan prove to be incorrect.	Remote	Marginal	Review budget forecasts regularly and continually adjust for known and likely variations that impact on the forecast.
Spending exceeds budget or assumed income levels not achieved	Reasonably probable	High	Regular budgetary monitoring reports. Updates to medium term financial strategy.
Unforeseen spending	Remote	Marginal	Budget Monitoring. Adequate contingency reserve. Updates to medium term financial strategy.
New Schemes / Initiatives (including VAT)	Reasonably Probable	Marginal	Review priorities. Assess effects on budget. Updates to medium term financial strategy.
Dependence on reserves and general balances	Reasonably Probable	High	Compliance with CIPFA / Audit Commission recommendations on level of balances and reserves.
Transformation Savings not achieved	Remote	High	Review budget forecasts regularly and continually adjust for known and likely variations that impact on the forecast.
Changes to existing Government funding regimes e.g. RSG, Housing Benefits	Probable	High	Review service priorities, assess other funding opportunities, update medium term financial strategy.