



REPORT TO EXECUTIVE

PORTFOLIO AREA: GOVERNANCE & RESOURCES

Date of Meeting: 22 November 2010

Public

Key Decision: Yes

Recorded in Forward Plan:

Yes

Inside Policy Framework

Title: 2010/11 REVISED REVENUE BASE ESTIMATES AND
UPDATED MTFP PROJECTIONS: 2011/12 TO 2015/16

Report of: ASSISTANT DIRECTOR (RESOURCES)

Report reference: RD54/10

Summary:

This report provides a summary of the Council's revised revenue base estimates for 2010/11, together with base estimates for 2011/12 and updated reserve projections to 2015/16. New spending pressures and savings are considered elsewhere on the agenda. It should be noted that the figures in this report are indicative and the final position is subject to decisions being taken further in the budget process.

The report also provides an update on the key budget considerations.

Recommendations:

The Executive is requested to:

- (i) note the revised base estimates for 2010/11 and base estimates for 2011/12;
- (ii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken.

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To: The Executive
22 November 2010

RD54/10

REVENUE BASE ESTIMATES AND UPDATED MEDIUM TERM FINANCIAL PLAN
PROJECTIONS 2011/12 TO 2015/16

1. INTRODUCTION

- 1.1. This report considers the revised base estimates for 2010/11 together with the estimates for 2011/12 and updated projections to 2015/16. The report also sets out any known revisions to the Medium Term Financial Plan (MTFP) projections.
- 1.2. The base estimates have been prepared in accordance with the guiding principles for the formulation of the budget over the next five year planning period as set out in the following Policy documents that were approved by Council on 14 September 2010:
- ◆ Medium Term Financial Plan and Charging Policy (Report RD27/10)
 - ◆ Capital Strategy (Report RD26/10)
 - ◆ Asset Management Plan (Report RD37/10)
- 1.3. Members should be aware that there are a number of significant factors affecting the budget that are currently unresolved. In particular the following are key to the budget process and details on these are considered further in the report:
- Government Finance Settlement - RSG and NNDR (including implications of grant funding for Concessionary Fares moving to County Council)
 - Triennial Revaluation of the Pension Fund
 - Transformation
- 1.4. It should also be noted that any new spending pressures and new savings identified during the course of this budget process are detailed within reports RD56/10 and RD57/10 considered elsewhere on the agenda. The potential impact of these proposals are **not** reflected within this report, as there are a number of options for member consideration. However it is clear at this early stage of the budget process that all of the pressures currently identified cannot be accommodated within existing Council resources. Decisions will need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies (and probable use of reserves) to enable a balanced budget position to be recommended to Council in February 2011.

2. SUMMARY OF BASE BUDGET ESTIMATES

- 2.1. The base estimates are calculated on the assumption that core services will continue at approved levels incorporating decisions agreed by Council as part of the previous year's budget process and including all subsequent decisions made by Council.
- 2.2. Work is being carried out to assess whether the broad assumptions in the MTFP are correct now that the detailed core estimates for 2011/12 have been prepared.
- 2.3. The table below sets out the base level General Fund requirement for 2010/11 and 2011/12 with projections to 2015/16. The 2010/11 variance reflects the uses of earmarked reserves approved since the MTFP was approved in September.

Table 1 – Base Budget Summary

		2010/11 Original £000	2010/11 Revised £000	2011/12 Original £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000
Net Base Budget Parish Precepts (PP)		20,340 435	20,592 435	16,978 446	15,846 457	16,148 468	16,792 480	17,587 492
Total		20,775	21,027	17,424	16,303	16,616	17,272	18,079
Original MTFP Projectons			20,775	17,390	16,303	16,616	17,272	18,079
Variance		20,775	252	34	0	0	0	0
Analysis of Variance:								
Non-Recurring:								
Re-profiling of carry forwards	1		(34)	34				
Tranformation costs	2		286					
Total Variance		0	252	34	0	0	0	0

Notes

Note 1 - This relates to carry forwards that were approved as part of the 2009/10 outturn which will be spent in 2011/12.

Note 2 - This relates to the use of Transformation reserve to fund one off costs associated with the Transformation programme (Report RD48/10 elsewhere on this agenda gives further information)

- 2.4. **Appendix A** details the movements between the original and revised budgets for the 2010/11 base budget requirement. Members will be aware from the Charges Review reports considered elsewhere on this agenda that a number of income streams are

below projected levels in the current financial year. However there are a number of identified savings that offset this position and the current forecast is that the budget will be contained within existing approved resources for 2010/11. This will be kept under review as part of the budget monitoring process for 2010/11 with the position for 2011/12 onwards being considered as part of the budget process.

- 2.5. **Appendix B** details the movements between the Original Budget for 2010/11 and the Original Budget for 2011/12 incorporating all decisions made by the Council to date.

3. UPDATED MTFP PROJECTIONS

- 3.1 The budget projections as currently forecast in the MTFP are summarised in Table 2 below:

Table 2 – Current Budget projections

	Recurring Commitments (Surplus) £	Non-Recuring Commitments £	Carry Forwards £	Total £
2010/11	(1,721,000)	3,459,000	1,518,000	3,256,000
2011/12	(2,012,000)	2,171,000	34,000	193,000
2012/13	(2,067,000)	866,000		(1,201,000)
2013/14	(1,834,000)	662,000		(1,172,000)
2014/15	(811,000)	0		(811,000)
2015/16	(309,000)	0		(309,000)

- 3.2 Other than the minor changes detailed at Table 1 there have been no major revisions to the budgets at this stage. The revised estimates for 2010/11 will be recommended to Council as part of the budget process.
- 3.3 There are, however, some significant pressures arising on the budget, and the above forecasts do not, at this stage, include any estimated impact of those pressures. The Savings and New Spending Pressures are considered separately on this agenda and once Member proposals are made the impact will be included in the projections. The Executive will be asked to consider the issues in those reports and any subsequent reports issued in December and make proposals on the savings, new spending pressures and use of reserves as set out in the reports in order to issue a draft budget for consultation purposes.

4. OUTSTANDING KEY ISSUES

4.1. Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR)

The figures incorporated into this report are based on the 2008/09 Local Government Finance Settlement confirmed by the Secretary of State in November 2009 of £10.372m with a 5% reduction provided for in the MTFP. Further reductions have

now been announced which will require a further 21% reduction on a phased basis over the next four years. Final confirmation of the RSG settlement figures will not be announced until later this year.

Concessionary Fares funding

As part of the RSG consultation paper issued in July, the DCLG provided funding options for the transfer of the administration of the Concessionary Fares function from District to County Councils. The consultation period ended in October and details of the results are still awaited. Final confirmation of the RSG settlement figures will not be announced until later this year.

4.2. Triennial Pensions Valuation

The results of the next valuation exercise are expected during December 2010 which will be effective from 1 April 2011. There are no clear indications as yet as to what the anticipated results will be, however given the recent change in valuation basis (from RPI to CPI) the expected increase in employer's contributions may not arise. Initial projections indicate that the 1.5% increase included in the 2010/11 budget process will be adequate but will require the Council to move from a 20 year recovery period to 25 year recovery period. A report will be presented to a future Executive meeting once final confirmation of contribution rates has been received.

4.3. Transformation

The current MTFP includes budgeted recurring savings of £3million for the transformation programme. However further significant savings will be required following the Government's announcement on the Spending Review. This is considered further in report RD57/10 – Savings Delivered and New Proposals, considered elsewhere on the agenda.

A capitalisation Direction application was submitted in October 2010 for approximately £0.504m to capitalise the one-off costs of the Transformation programme incurred in 2010/11. If this application is successful, the costs can be transferred from revenue to capital and be funded from capital resources. This will provide revenue savings that can be used to 'top up' the Transformation Reserve.

4.4. Resource Assumptions

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2011/12 onwards. The resources projections assume:

- The MTFP assumes a 5% reduction in Government Grant allocation from 2011/12 onwards. However, additional cuts in grant from 2011/12 have been

announced and this pressure has been included in RD56/10 at a further 21% reduction on a phased basis.

- A 3.5% increase in Council Tax increase for 2011/12 to 2015/16. However a council tax freeze has been announced (on a voluntary basis) for 2011/12 with the DCLG providing funding for a compensatory payment (equivalent to a 2.5% council tax increase) to offset the loss of income. This pressure has been included in RD56/10.
- No Council Tax Surplus for 2011/12 onwards. The actual figure for 2011/12 will be available in January.
- An assumed taxbase of 34,604.97. The final taxbase for 2011/12 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2011/12 is for a total of £446,000 (which assumes an increase of 2.5% on the 2010/11 figure). The actual Parish Precept requirement for each Parish will be reported to the Executive in December.

For information, broadly:

- Each 1% (£1.95) movement in Council Tax impacts on the Council by £67,000
- Each 1% movement in RSG/NNDR grant will impact by £91,000.
- Each £35,000 increase or decrease in expenditure impacts on the Council Tax requirement by £1.

5. NEW SPENDING PRESSURES

- 5.1. In addition to the projected deficit set out in the MTFP, the recent monitoring work has revealed that there are further pressures facing the Council. These, and other pressures, are set out elsewhere on this agenda (see report RD56/10). Any pressures approved during this budget cycle will need to be considered in the light of the resources available.

6. SAVINGS AND ADDITIONAL INCOME PROPOSALS

- 6.1 The savings and additional income proposals to be considered, as part of this report are presented elsewhere on this agenda (see report RD57/10).
- 6.2 In considering these savings, Members need to bear in mind the original revenue deficit as set out in paragraph 3, the pressures identified in RD56/10 and the other significant factors affecting the budget that are currently unresolved which are key to the budget process as set out in paragraph 4.

7. PROJECTED IMPACT ON REVENUE RESERVES

- 7.1. The Council's overall levels of reserves are set out in **Appendix C** and have been adjusted following the finalisation of the 2009/10 accounts and reflect all decisions

made by Council to date, but do **not** include any impact of new bids and savings which are considered elsewhere on the agenda.

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

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

- 7.3 The Projects Reserve has been used as a first call for the current projected revenue budget deficit (excluding any new pressures identified at this stage). Current projections show that the Projects Reserve is likely to be fully utilised and a call required on the General Fund Reserve up until 2013/14 is required.

8. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2011/12 to 2015/16

- 8.1. 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.
- 8.2. Notification of Government general and specific grants is received on an individual basis late in the budget process. This, coupled with the recent announcements regarding further reductions in RSG, cuts to other specific funding streams, removal of ring fencing and the number of separate core grants reducing from 90 to 10, makes forward financial planning more difficult.
- 8.3. In terms of expenditure pressures, the significant issue affecting the budget which is not as yet known is residual transformation savings. The Transformation exercise is underway and savings have already been identified. Phase 2 of the project is currently underway and as this stage progresses cumulative savings of £2million will need to be identified. However further savings will be required following the CSR announcement and it is anticipated that a further saving of £2.2m plus other budget pressures will be required to be found over the next four year period.
- 8.4. The City Council needs to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years, and the Executive will make recommendations in this respect in December.

8.5. Under section 25 of the Local Government Act 2003 the Council's S.151 Officer is required to prepare a statutory report which considers the robustness of the estimates and the adequacy of reserves and which determines levels of borrowing. A full report will be prepared and included within the Executive's draft budget proposals for consultation purposes. At this stage it should be noted that the current revenue deficit requires substantial savings as detailed above to be identified to meet the ongoing projected shortfall.

9. CONSULTATION

9.1. The Resources Overview and Scrutiny Panel will consider this report on 7 December 2010, and their views fed back to the Executive on 13 December. The draft budget proposals will then be issued by the Executive on 20 December, and will be subject to wider internal and public consultation.

10. RECOMMENDATIONS

The Executive is requested to:

- (i) note the revised base estimates for 2010/11 and base estimates for 2011/12;
- (ii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken.

11. IMPLICATIONS

- Staffing/Resources – The base estimates assume a continuance of the existing levels of resources. Any changes to the base level of resources are contained within the reports on new spending pressures and new savings considered elsewhere on the agenda.
- Financial – Included within the report.
- Legal – Not applicable.
- Corporate – SMT and SPG have been involved in the compilation of the estimates.
- Risk Management – The budget issues being raised at this meeting clearly point to increasing pressures on the Council's budgets some arising from the economic downturn, along with ongoing funding of priority services. The pressures cannot all be met from existing resources and decisions will need to be taken to enable a balanced budget position to be reached and recommended to Council.
- Equality Issues – Not applicable.
- Environmental – Not applicable.
- Crime and Disorder – Not applicable.

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	No	N/A
Disability	No	N/A
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	No	N/A
Health inequalities	No	N/A
Rurality	No	N/A

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

This report summarises the overall budget position (prior to any new additional revenue pressures and savings) for 2011/12 and future years. The report has no direct impact on the above.

If an equality Impact is necessary, please contact the P&P team.

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MOVEMENTS BETWEEN ORIGINAL & REVISED BUDGETS 2010/11

	£	£
Original Estimate 2010/11		18,673,000
<u>Non-Recurring Impact:</u>		
Use of Reserves:		
- EEAC (Fuel Poverty)		40,000
- Job Evaluation (Career Development Support)		75,000
- Transformation Reserve (RD21/10)		286,200
- Carry Forward requests from 2008/09		1,518,000
Revised Estimate 2010/11		20,592,200
Shortfall in Income:		
- Lanes Head Rent	320,000	
- Development Control Fees	230,000	
- Land Charges Personal Search Fees	83,000	
- LA Agency Fees - Renovation Grants	70,000	
- Contract Parking Income	29,000	
- Investment Income	70,000	
- Area Based Grant	15,400	
- CCTV Shopwatch/Pubwatch	38,600	
		856,000
Increases in Expenditure:		
- Energy	80,100	
- Recovery of Court Costs	30,000	
- MRP - Capital Programme Increase	43,000	
- Transport Fuel Costs	68,000	
		221,100
Offset by identified savings:		
- Transformation Savings	(598,000)	
- Pay Award	(114,000)	
- Concessionary Fares	(100,000)	
- Trade Waste - sale of contract	(125,200)	
- Recycling vehicles hire and repairs	(110,000)	
- Savings on Greenbox contract	(22,300)	
- Improved Car Parking Income	(40,000)	
- NNDR Net Adjustment	(16,700)	
- Surface Water charges	(5,000)	
		(1,131,200)
Current Forecast Balance in hand		54,100
Revised Estimate 2010/11		20,592,200

MOVEMENTS BETWEEN ORIGINAL BUDGET 2010/11 & ORIGINAL BUDGET**2011/12**

	£	£
Original Estimate 2010/11		18,673,000
<u>Impact of 2010/11 budget process approvals:</u>		
Use EEAC Reserve		40,000
Use of Job Evaluation Reserve		50,000
Carry Fowards from 2009/10		34,000
- Ongoing impact of additional savings approved		
- Land Charges	20,000	
- Concessionary Fares	20,000	
- Area Based Grant	28,000	
- Pay Award	(296,000)	
- Transformation	(1,000,000)	
- RBS Shared Service	(51,000)	(1,279,000)
- Impact of additional spending proposals approved		(52,000)
- Impact of recurring spending pressures:		
- Pension Contributions	206,000	
- National Insurance	35,000	
- Loss of Car Park Income	(81,000)	160,000
- Non-Recurring commitments/deletions:		
Expenditure Reductions:		
- LABGI	33,000	
- Economic Strategy (LABGI)	(288,000)	
- Small Scale Community Projects	(80,000)	
- RBS Shared Service	(158,000)	
- Efficiencies	38,000	
- Learning City Manager	(50,000)	
- Arts & Events review	(15,000)	
- Treasury Management	(8,000)	
- Housing Strategy	(109,000)	
- Planning Posts	(93,000)	
- Land Charges	(241,000)	
- Development Control charges	(39,000)	
- Shared Services/Efficiencies	(50,000)	
- Health & Safety Inspections	(42,000)	
- Carlisle Renaissance	(300,000)	
- Regeneration Officer	(4,000)	
- Area Based Grant	75,000	(1,331,000)
<u>Recurring Impact:</u>		
- Inflation		
- All Costs (including Pay Award)		716,000
- Other Recurring Impact		(33,000)
Original Estimate 2011/12		16,978,000

COUNCIL RESERVES

Council Reserves	Actual 31/03/2010 £000	Revised 31/03/2011 £000	Projected 31/03/2012 £000	Projected 31/03/2013 £000	Projected 31/03/2014 £000	Projected 31/03/2015 £000	Projected 31/03/2016 £000
Revenue Reserves							
General Fund Reserve	(3,800)	(1,710)	(1,607)	(2,873)	(3,800)	(3,800)	(3,800)
Project Reserve	(1,051)	0	0	0	(245)	(1,056)	(1,365)
Collection Fund	(5)						
Job Evaluation	(493)	(418)	(368)	(343)			
Residents Parking	97						
EEAC Reserve	(277)	(187)	(147)	(107)			
Transformation reserve	(1,479)						
Building Control	23						
Licensing Reserve	(14)						
Routledge Reserve	(42)						
Sheepmount Reserve	(92)						
Conservation Fund	(191)						
LSVT Warranties	(488)						
Total Revenue Reserves	(7,812)	(2,315)	(2,122)	(3,323)	(4,045)	(4,856)	(5,165)
Capital Reserves							
CLL Reserve (i)	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts (iii)	(7,741)	(4,805)	2,901	4,974	6,447	7,458	9,804
Asset Disposal Reserve	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)
Lanes Capital Reserve	(311)	(326)	(341)	(356)	(371)	(386)	(411)
Total Capital Reserves	(10,622)	(7,701)	(10)	2,048	3,506	4,502	6,823
Total Available Council Balances	(18,434)						
Other Reserves (ii)	(83,247)						
Total Reserves	(101,681)						

(i) This reserve relates to CLL assets which may need to be replaced at the end of the contract.

(ii) These reserves are of a technical nature and are not cash backed (i.e. they are not available either to fund expenditure or to meet future commitments.)

(iii) These have been amended to reflect the use of capital receipts to fund the capital programme as set out in RD 53/10