

CARLISLE CITY COUNCILEXECUTIVE BUDGET PROPOSALS 2004/05 to 2006/07FEBRUARY 2004

The following document contains the Executive's budget proposals to the City Council, which is set out as follows:

Section	Detail
A	General Fund Revenue Budget 2003/04 to 2006/07 <ul style="list-style-type: none"> • Schedule 1 – Proposed Budget Reductions • Schedule 2 – Recurring Spending Proposals • Schedule 3 – Non – Recurring Spending Proposals • Schedule 4 – Summary Net Budget Requirement • Schedule 5 – Total Funding and Council Tax Impact
B	Capital Programme 2003/04 to 2006/07 <ul style="list-style-type: none"> • Schedule 6 – Estimated Capital Resources • Schedule 7 – Proposed Capital Programme
C	Housing Revenue Account Budget 2003/04
D	Reserves and Balances Projections to 2006/07 <ul style="list-style-type: none"> • Schedule 8 – Usable Reserves Projections
E	Budget Discipline
F	Report of the Head of Finance

The proposals are based on:

- Reports of the Head of Finance considered at the Executive meeting of 4th February 2004:
FS53/03 - 2004/05 to 2006/07 General Fund Revenue Budget
FS55/03 - Housing Revenue Account 2003/04
FS54/03 - Provisional Capital Programme 2004/05 to 2006/07
FS57/03 – Treasury Management and Investment Strategy 2004/05
FS33/03 (amended) - Review of Reserves and Balances
- Consultation feedback from the following sources:
Corporate Resources Overview and Scrutiny Committee, 12th Jan 2004
Non-Domestic Ratepayers, 14th January 2004
Trade Unions, 13th January 2004
Public Consultation ending 19th January 2004
- The Council decision on 13th January 2004 to provide support to political groups at a cost of £48,000 p.a.

The proposals for the revenue budget will result in:

- A Council Tax increase of 2.6% for the City Area (Parishes Precepts will be in addition in the rural areas).
- The following new commitments being taken from Council balances to support Council expenditure:

	<u>Recurring</u>	<u>Non-Recurring</u>	<u>Total</u>
2004/05 -	Nil	£0.414m	£0.414m
2005/06 -	£0.139m	£0.139m	£0.278m
2006/07 -	£0.279m	£0.093m	£0.372m

SECTION A

GENERAL FUND REVENUE BUDGET 2003/04 TO 2006/07

1. GENERAL FUND REVISED ESTIMATES 2003/04

- 1.1 It is recommended that the revised net expenditure for 2003/04 is approved totalling £15.685m compared to the original budget of £14.612m be approved as set out in **Schedule 4**, together with a consequential reduction in balances of £1.073m. This includes an increase of £25,000 in respect of Irthing Centre Rent as detailed in **Schedule 2 Note 5**.

2. GENERAL FUND REVENUE ESTIMATES 2004/05 to 2006/07

- 2.1 It is recommended that the base budgets for 2004/05 to 2006/07 (excluding new Spending Bids and Savings) submitted in respect of services and including existing non-recurring commitment and Parish Precepts be approved as follows:

- 2004/05 - £14.688m
- 2005/06 - £15.082m
- 2006/07 - £15.618m

The following being noted:

- All budgets are included on a cash limited out-turn basis, with no central contingencies for unforeseen expenditure.
- The budgets include £48,000 p.a. impact of the Council decision on 13th January 2004 to provide support to political groups.
- The budgets include £139,000 voluntary increase in the Minimum Revenue Provision for 2004/05 and a further increase of £50,000 pa until the offsetting effects of the commutation adjustment is fully neutralised in approximately 2009. The increased cost is forecast to be fully offset by improvements in the Treasury Management portfolio.
- The income generated from reducing the Council Tax discount on Second Homes is estimated at £62,000 p.a., and this will be directed towards initiatives to be determined by the Executive in consultation with the Local Strategic Partnership. It is the intention to direct the funding towards Regeneration initiatives.

- 2.2 It is recommended that the base budgets be further reduced by those proposals for budget reductions as detailed in **Schedule 1** totaling:

- £764,890 in 2004/05
- £859,590 in 2005/06
- £859,590 in 2006/07

- 2.3 It is recommended that the base estimates be further increased by those new spending proposals as detailed in **Schedules 2 and 3** totaling:

- £666,000 in 2004/05
- £441,000 in 2005/06
- £406,000 in 2006/07

Schedule 1

Proposed Budget Reductions	Note	£ 2004/05	£ 2005/06 and 2006/07
Increased Income			
Income in excess of 3.5% Corporate Charging Policy Target :			
- Land Charges		75,000	75,000
- Legal		-1,320	-1,320
- Car Parks		132,690	132,690
- Development Control		15,220	15,220
- Building Control		15,000	15,000
- Licensing		1,810	1,810
- Bereavement		73,570	73,570
- Tullie House	1	-43,700	0
Total		268,270	311,970
Council Tax Summons Income		30,000	30,000
Civic Centre Roof Top Income		15,000	15,000
Housing Benefit Admin Grant		45,000	45,000
Investment Income		162,000	162,000
Land Management Accounts		10,000	10,000
Newark St Car Park Income		20,000	20,000
Civic Centre Lettings	2	50,000	100,000
C. Tax Discount on 2nd homes (County)		46,000	47,000
Total Additional Income		646,270	740,970
Expenditure Reductions:			
Renewals Reserve Contributions – Cemeteries		35,000	35,000
Democratic Representation		12,000	12,000
Council Tax Software		6,620	6,620
Parks General Supplies and Services		5,000	5,000
Highways Claimed Rights		40,000	40,000
Telephones		15,000	15,000
Grounds Maintenance – Industrial Estates		5,000	5,000
Total Expenditure Reductions		118,620	118,620
TOTAL SAVING PROPOSALS		764,890	859,590
Split:			
Recurring		808,590	859,590
Non-Recurring		-43,700	0

Note 1: The income reduction for Tullie House has been approved for 2004/05 only pending the results of the Tullie House Development Plan which will look at identifying additional income potential.

Note 2: It is anticipated that space vacated by CHA will be let during 2004/05.

Schedule 2

Recurring Spending Proposals	Note	2003/04 £	2004/05 £	2005/06 £	2006/07 £
Sheepmount	1		0	0	0
Single Status CTS	2		40,000	40,000	40,000
CCTV Monitoring			30,000	30,000	30,000
Millennium Project			15,000	15,000	15,000
Litter Bin Budget			5,000	5,000	5,000
Street Cleaning Contract			10,000	10,000	10,000
LLPG/GIS Officer	3		0	55,000	55,000
Parish IT Support	4		3,000	3,000	3,000
Irthing Centre Rent	5	25,000	10,000	10,000	10,000
Admin – MSES			16,000	9,000	9,000
Admin - Strategy and Performance			17,000	17,000	17,000
Special Collections			30,000	30,000	30,000
Council Tax Discount on Second Homes (Regeneration Schemes)	6		62,000	63,000	64,000
Additional Crematorium Assistant			15,000	15,000	15,000
Shaddonmill rent			0	0	10,000
Total Recurring Spending Proposals			253,000	302,000	313,000

Note 1: The negotiations regarding the ongoing cost of running the new Sheepmount Development have not yet been concluded and have not been built into the estimates at this stage. A further report to the Council regarding the Sheepmount project is anticipated in March 2004.

Note 2: The ongoing cost of Single Status has been re-assessed at £40,000 pa. All other costs have now been incorporated into the base estimates.

Note 3: It is anticipated that additional Planning Delivery Grant may be received which will cover the ongoing cost of this initiative in future years.

Note 4: This is to cover the IT training, support and maintenance requirements of Parishes.

Note 5: There is an amount of £25,000 to be met in the current financial year (2003/04), in respect of the backdated rent increase.

Note 6: The initiatives to which the second homes discount will be allocated will be subject to consultation with the Local Strategic Partnership (LSP). It is the Executive's intention to direct this resource to Regeneration Issues.

Schedule 3

Non-Recurring Spending Proposals	Note	2004/05 £	2005/06 £	2006/07 £
North Pennines AONB (to 07/08)		6,000	7,000	8,000
City Centre Marketing		20,000		
Increase In Events Budget	1	25,000		
Advice Agencies	2	60,000		
Rural Regeneration		15,000	15,000	
Community Sports Development		85,000	85,000	85,000
Concessionary Fares	3	60,000		
CPA/IIP Improvement Plan	4	90,000		
Abandoned Vehicles	5	20,000		
Raffles Vision	6	32,000	32,000	
Total Non-Recurring Proposals		413,000	139,000	93,000

Note 1: Any expenditure from this budget will be subject to future approval of the Executive as to the detail.

Note 2: A review of Advice Agencies with regards to the level of support and accommodation will be undertaken early in 2004/05.

Note 3: Any future expenditure commitment will be subject to the results of the Pilot scheme and the consultation exercise to be undertaken with Pensioners.

Note 4: This budget has been provided to address issues raised by the IIP/CPA inspections. Any future commitment will be subject to a future report to the Executive detailing the specific improvements that have been achieved.

Note 5: The budget has been provided for a Pilot scheme after which the effectiveness will be reviewed.

Note 6: The budget has been provided on a two year basis pending progress on the overall Raffles Development.

- 2.4 As a consequence of the above, the Net Budget Requirement for Council Tax Purposes for 2004/05 and projected to 2006/07 be approved as set out in Schedule 4 below:

Schedule 4

2003/04 Original £000	2003/04 Revised £000	Summary Net Budget Requirement	2004/05 Budget £000	2005/06 Proj'd £000	2006/07 Proj'd £000
		Recurring Revenue Expenditure:			
14,242	14,171	Core Revenue Expenditure	14,224	14,708	15,268
-583	-1,514	New Savings (Schedule 1)	-809	-860	-861
261	557	New Spending (Schedule 2)	253	302	313
13,920	13,214	Core Revenue Expenditure	13,668	14,150	14,720
		Non-Recurring Revenue Expenditure			
14	14	- Existing Commitments: (Note 1)	156	44	0
0	-50	- Non Recurring Saving (Schedule 1)	44	0	0
407	744	- New Policy Approvals: (Schedule 3)	413	139	93
0	1,492	- Carry Forward			
14,341	15,414	Total General Fund Revenue Expenditure (City Council)	14,281	14,333	14,813
271	271	Parish Precepts	308	330	350
14,612	15,685	Total Revenue Expenditure	14,589	14,663	15,163
		Less Contributions from:			
0	0	General Fund Balances - Recurring	0	-139	-279
		General Fund Balance – Non Recurring			
-14	-862	Existing Commitments (Note 1)	-156	-44	0
-515	-515	- Housing Benefits (Note 2)	-97	0	0
-36	-261	New Commitments	-414	-139	-93
14,047	14,047	Projected Net Budget Requirement for Council Tax Purposes	13,922	14,341	14,791

Note1: Non - recurring Revenue commitments arising from existing commitments from earlier years are as follows:

Non Recurring Commitments from earlier years	2004/05	2005/06	2006/07
Cumbria Sport	5,000	0	0
LSP Co-ordinator	30,000	22,500	0
Planning (Local Plan)	15,000	15,000	0
Voice In Europe	6,000	6,000	0
Industrial Estate Study	25,000	0	0
Post 14 Education	50,000	0	0
Planning Grant	25,000	0	0
Total Policy Commitments	156,000	43,500	0

Note 2: Under new grant arrangements, it is anticipated that £97,000 will be required to fund Housing Benefits (See Section C (HRA), Paragraph 2)

- 2.5 As a consequence of the above and having made the appropriate calculations required under Section 32 of the Local Government Finance Act 1992, the Executive is putting forward a proposal for an increase in Council Tax for 2004/05 of 2.6%. This is set out in **Schedule 5** below.
- 2.6 It should be noted that the funding projections in **Schedule 5** are based upon:
- A final Government Grant entitlement of £8.300m, as advised by the Government on 29th January 2004, and projections of a further 2.5% increase for 2005/06 and 2006/07.
 - A Council Tax Increase of 2.6% for 2004/04, with projected indicative increases of 3.5% for 2005/06 and 2006/07.

Schedule 5

2003/04 Budget	Total Funding and Council Tax Impact	2004/05 Budget	2005/06 Projection	2006/07 Projection
32,246.4	Taxbase	32,803.6	32,970	33,130
£000		£000	£000	£000
13,776	Projected Net Budget Requirement for Council Tax Purposes (Schedule 4):			
271	- City	13,614	14,011	14,441
14,047	- Parishes	308	330	350
	- Total	13,922	14,341	14,791
5,018	Funded By:			
5,175	- Council Tax Income	5,237	5,448	5,666
3,516	- Revenue Support Grant	5,545	5,684	5,826
67	- Non Domestic Rates Grant	2,755	2,824	2,894
271	- Estimated Council Tax Surplus	77	55	55
14,047	- Parish Precepts	308	330	350
	TOTAL	13,922	14,341	14,791
£155.61	<u>City Council Tax:</u> Band D Council Tax	£159.66	£165.24	£171.03
£5.26	Increase over previous year: £	£4.05	£5.58	£5.79
3.5%	%	2.6%	3.5%	3.5%
	NB: - The above <u>excludes</u> the impact of the Parish Council Tax proposals in the rural areas.			

SECTION B.

CAPITAL PROGRAMME 2003/04 TO 2006/07

1. REVISED CAPITAL BUDGET 2003/04

- 1.1 That the revised 2003/04 General Fund Capital Programme budgets be approved at £8.027m as shown in **Schedule 7**, to be financed as shown in **Schedule 6**.

2. CAPITAL BUDGET 2004/05 TO 2006/07

- 2.1 That the Capital Resources and proposed Capital Programme for 2004/05 to 2006/07 be approved to be financed and allocated as shown in **Schedule 6 and 7** below:

Schedule 6

2003/04 Revised £000	Estimated Capital Resources	2004/05 £000	2005/06 £000	2006/07 £000
1,153	Borrowing	1,222	1,109	1,109
177	Specified Capital Grants – Disabled Facilities	177	177	177
1,491	Capital Receipts			
500	- Estimated B/F 2003/04	332	0	510
	- In Year (Note 1)	2,850	1,470	1,306
3,753	Projects Fund (Note 2)	1,729	498	126
325	Capital Grants – Sheepmount	1,300	91	0
200	- IEG	0	0	0
1,054	- Recycling	0	0	0
945	Renewals Reserve			
	Vehicles and Equipment	1,805	835	290
1,060	Reserves and Balances	0	0	0
10,658	Total available Capital Resources	9,415	4,180	3,518
8,027	Total proposed Capital Programme (see Schedule 7)	8,595	3,172	2,311
2,631	Potential Excess Resources	820	1,008	1,207
	Comprised of:			
	Projects Fund	820	498	126
	Capital Receipts	0	510	1,081
	(Note 1 and 2)			

Note 1: The capital receipt projections arise from the sale of land and Post Right to Buy Receipts. The usage of the PRTB receipts will be subject to clarification from the Government. As always the extent to which the Council is meeting its expected capital receipt target will be closely monitored.

Note 2: The potential surplus resources have been adjusted to take account of the Revenue Budget shortfall, which will be a first call on the Projects Reserve Funds.

Schedule 7

2003/04 Revised £000	Proposed Capital Programme:	Note	2004/05 £000	2005/06 £000	2006/07 £000
	2003/04 Schemes:				
200	IEG		0	0	0
100	Ledger Replacement		0	0	0
1,204	Recycling		0	0	0
500	Customer Contact		0	0	0
10	Car Park Improvements		0	0	0
80	Asset Database		0	0	0
232	Bousteads Grassing Imp's		0	0	0
140	Bitts Park Paddling Pool		0	0	0
	2004/05 Commitments:				
543	Raffles Vision		158	0	0
630	Leisuretime Investment		270	250	0
560	Sheepmount (Gross Budget)	1	2,394	100	0
30	Petteril Bank Community Project		90	0	0
56	Shaddonmill		24	24	12
911	Millennium Artefacts		0	60	0
200	Asset Investment Fund	2,3	200	200	200
620	Vehicles Plant and Equipment	4	1,805	835	290
937	Private Sector Renewal	5	768	768	768
	New Starts 2004/05:				
384	Disability Discrimination Act		100	0	0
238	Major repairs to Council property		250	250	250
0	Industrial Estate Maintenance	2	500	500	500
0	Leabourne Road Regeneration	2	100	100	0
0	Newark Street Car Park	2	150	0	0
0	Corporate IT Infrastructure		35	0	0
225	Cremator Replacements		0	0	200
0	Litter Bins		50	0	0
0	Street Lighting		50	0	0
117	GIS	2	256	85	91
0	Document Image Processing	2	45	0	0
0	Electricity Supply	2	1,000	0	0
110	Civic Centre	2	200	0	0
0	Disabled Grants	2	150	0	0
8,027	Total Programme		8,595	3,172	2,311

It should be noted that there are a number of initiatives are currently being pursued that may have capital implications, but which are not yet included in the above programme. These include:

- Implications of Sports Feasibility Study
- Implications of Three Rivers Strategy
- Talkin Tarn negotiations
- Housing Strategy

Notes:

Note 1: The budget for the Sheepmount is based on previous expenditure projections and external funding projections. It also includes £394,000 for the refurbishment of the existing changing rooms. The budget does not however contain any estimation of final costs resulting from the recent tender exercise, which is currently being evaluated.

Note 2: The budgets identified have been earmarked based on estimates for the schemes shown. Progression with the schemes will be subject to further reports and formal project appraisal to both the Executive and Council before release of any monies will be approved.

Note 3: In terms of resourcing the Asset Management Plan, - the Council has approved the principle that 50% of capital receipts generated over £101,000 to a maximum of £500,000 pa (i.e. a maximum of an additional £200,000 p.a.), should be applied to support the Plan. This will be subject to Council approval as to the detail.

Note 4: With respect to Vehicles and Plan, Council is asked to agree the permanent delegation of the following issues to the Head of Finance:

- To make decisions on whether to finance those items of vehicles and equipment due for renewal each year by an appropriation from the Renewals Reserve maintained for that purpose, or if considered appropriate by way of an operational or finance lease.
- To suspend Contract Procedure Rule Number 10 in so far that it relates to the assignment of leases on any vehicles/plant finance by way of an operational or finance lease.

All replacements to be subject to the Heads of Service, being able to justify each vehicle or item of plant to be renewed.

Note 5: The allocation of the Private Sector Housing provision in 2004/05 will be subject to a report by the Head of Environmental Protection Services. It should be noted that the final Government Allocation in respect of Disabled Facilities Grants for 2004/05 has not yet been received. A revised resolution will be submitted directly to Council on 12th February 2004 if the allocation is received by that date.

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SECTION C.

HOUSING REVENUE ACCOUNT BUDGET 2003/04

1. That the revised estimates of expenditure on the Housing Revenue Account for 2003/04 be approved in the sum of £0.565m, it being noted as a consequence that a deficiency of £0.466m will fall to be financed from Housing Revenue Account balances. The HRA will then be estimated to stand at £2,293m at 31 March 2004. Of this balance, £1,388m will be transferred to the Projects Fund to support other Council initiatives, and £905,000 will be retained to fund any potential deficit on Housing Benefits as explained in Paragraph 2.
2. Following the transfer of the Council's Housing Stock to Carlisle Housing Association on 9th December 2002, it was estimated that under the previous grant funding arrangements, up to £1.6m of Housing Benefit costs would fall to be met by the General Fund in the three year period following transfer. However under the new grant arrangements it is assumed that this will be met by an equivalent amount of Housing Subsidy payable from the Department of Works and Pensions (DWP). However, the exact amount due from DWP will not be known until after the submission and audit verification of the 2004/05 subsidy claim. Therefore £905,000 has been set aside in the HRA/Benefit Reserve to fund the next 2 years potential shortfall. It is anticipated that £97,000 of this will be required to finance the difference between the original projected requirement and revised projected requirement for 2004/05.
3. It be noted that it is anticipated that the Housing Revenue Account will be formally closed as at 31st March 2004 when the approval of the Secretary of State will be required to enable the account to be closed and the closing balance to be transferred to the General Fund.

SECTION D.

RESERVES AND BALANCES PROJECTIONS TO 2006/07

1. As a consequence of Sections A, B and C detailing the Council's General Revenue, Capital and HRA budgets, the overall effect on the Council's usable Reserves and Balances is set out in **Schedule 8** below:

2. It should be noted that these balances take into account the recommendations arising from the Review of Reserves and Balances recently undertaken.

Schedule 8

Detail	Note	Actual 31/3/03 £,000	Original 31/3/04 £,000	Revised 31/3/04 £,000	Proj'd. 31/3/05 £,000	Proj'd. 31/3/06 £000	Proj'd 31/3/07 £000
General Fund Reserve	1	7,903	3,375	3,800	3,800	3,800	3,800
HRA /Benefit Reserve	2	2,758	2,877	905	808	808	808
Projects Reserve	3	1,109	806	2,299	820	498	126
Renewals Reserve	4	2,972	1,727	2,977	2,237	1,813	1,953
Pensions Reserve	5	0	0	1,000	1,000	0	0
CTS Reserve		519	262	100	50	0	0
Lanes Capital Reserve		206	206	221	236	251	266
Asset Disposal Reserve		33	33	100	100	100	100
Total General Usable Balances		£15,500	£9,286	£11,402	£9,051	£7,270	£7,053

Note 1: Target is 20% of Net Revenue Expenditure plus £1m.

Note 2: See Section C, paragraph 3.

Note 3: The movement on the Projects Fund is as follows:

Balance as at:	Projected Balance £000	In Year Revenue Requirement £000	In Year Capital Requirement £000
31/03/04	2,299	-570	-909
31/03/05	820	-322	0
31/03/06	498	-372	0
31/03/07	126		

* On current three-year financial projections, the Projects Fund would be virtually exhausted by the end of 2006/07. If this is to continue to be a source of future capital resource, then this situation will need to be kept under review.

Note 4: This reserve is used for the replacement of items of vehicles and equipment.

Note 5: This sum has been earmarked as a contingency against the anticipated costs of funding the Pensions scheme from 2005/06 onwards. This issue will be addressed fully in the next three-year MTFP.

BUDGET DISCIPLINE 2004/05

1. For a considerable number of years the Council has been required to make savings to fund additional expenditure requirements and enable reasonable Council Tax increase options to be put forward. The Council has adopted a 3-year financial strategy as set out in its Medium Term Financial Plan to assist in the integration of financial planning with the priorities set out in the Corporate Plan. The requirement to find savings or raise additional income in future years will continue due to the number of new spending pressures facing the Council. In the light of this, the Executive recommends the following Budget Discipline to the Council.
2. Steps will be taken to address the situation whereby revenue reserves are being used to fund recurring expenditure in 2005/06 and 2006/07 and this will be prepared early in the new Financial Year in line with the principles detailed in the Medium Term Financial Plan (MTFP).
In particular, in preparation for the 2005/06 Budget Cycle the Executive requests the Chief Executive to:
 - Conduct a review of the capacity to introduce charges and trading opportunities as enabled by the Local Government Act 2003, in order to continue to raise the proportion of income contributed by users of services compared to Council Tax payers.
 - Carry out a performance review of Services to focus on improved efficiency and any redirection of resources to priority areas.
 - Investigate the scope to achieve greater efficiencies and cost savings from the progression of corporate procurement initiatives.
 - Review future financial requirements in the light of the prioritisation process being undertaken by the Executive and Council.
3. The Executive, Portfolio Holders and Budget Holders are reminded that:
 - It is essential to maintain a disciplined approach to budgetary matters. Supplementary estimates will only be granted in exceptional circumstances.
 - Proposals seeking virement should only be approved where the expenditure to be incurred is consistent with policies and priorities agreed by the Council.
 - All requests for additional resources including supplementary estimates and virements over stated limits will require the written support of the Portfolio Holder at the time of the request.
4. The Executive requests the Head of Finance to produce a more detailed paper setting out fully the principles on which the 2005/06 to 2007/08 Budget will be prepared and for this to be presented early in the new municipal year. In addition, the Head of Finance is asked to report on a regular basis to the Executive on the monitoring of expenditure against budgets.
5. In order to continue the improvements in the links between financial and strategic planning, the Strategic Financial Planning Group will continue to meet regularly to progress forward planning on strategic and financial issues.

REPORT OF THE HEAD OF FINANCE

1. As in previous years the Council is required to set its Budget Requirement. However this year there are a number of new matters arising from the introduction of the Local Government Act 2003 that the Council must also consider:
 - (i) The Council has to consider the formal advice of its Chief Financial Officer (for the City Council this is the Head of Finance) on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
 - (ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the new Prudential Code that now governs local authority borrowing.

2. Head of Finance Opinion on the Estimate Process and Reserve Levels
Section 25 of the Local Government Act 2003 requires the Head of Finance to report to the Council when it is making the statutory calculations required to determine its Council Tax or precept. Initial government guidance states,

'The authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. What is required is the professional advice of the CFO on these two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together.'

3. Robustness of the Estimates

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

The Council's revenue and capital budgets are 'joined up' both for next year's budget and for the longer term. This means that the cost of the proposed capital programme is reflected in the revenue estimates. This will be kept under review with the implications of the Prudential Code.

The Council has no history of overspending against budget. Indeed, as with many district councils, there has tended to be a degree of underspending. Improved budget monitoring procedures have been introduced during 2003/04 to address this issue. I consider that the revised estimates for 2003/04 and the base estimates for 2004/05 reflect a more accurate picture of the projected outturns than has been the case over recent years.

However budgeting is an inherently risky business and the year-end position can never exactly match the estimated position in any year. Areas of specific risk do remain, the main ones in the 2004-05 budget being:

- The level of interest receipts and return on Treasury Management activities. Members are advised of this risk every year but clearly actual interest returns are determined by a variety of factors largely outside the Council's control. At over £1.6m, interest receipts are an important element of the Council's budget;
- Income from fees and charges – to avoid understating likely income (and therefore underspending) income budgets have been set at a best estimate based on income to date, price increases etc. It is acknowledged in the past income budgets may have been a bit too prudent. This does however give a greater risk that income budgets may not be achieved;
- Central contingencies – there have been no contingency budgets built in to the base estimates. This means that any unforeseen expenditure will require a supplementary estimate to cover any contingencies that do arise (e.g. regional government);
- Benefits estimates – whilst the budgeted net cost of benefits is relatively small at £354,000 it is the product of gross expenditure and income of over £23m. Calculation of the budget is also very complex and depends on estimates of a variety of factors in the benefit subsidy calculation, together with changes to the method of financing introduced by the Government for 2004/05. Whilst due diligence has been shown in arriving at this estimate, these factors mean that there does remain a risk that the outturn may vary from the budget;
- A major financial implication for the Council for 2005/06 onwards in the triennial review of the pension fund. It is anticipated that the effect of this review will be significant on the Council's base budget position. To cushion the impact, Council are being requested to earmark £1m from their revenue reserves.

Taking the above matters into account it is my opinion that the budget presented for Council approval is sufficiently robust.

4. Adequacy of Reserves

A full report on the level and usage of the Council's reserves was undertaken recently and is considered elsewhere on the agenda (FS33/03 amended) for formal Council approval.

Whilst viewed in isolation the Council's reserves appear high, the appropriateness of the level of reserves can only be judged in the context of the Council's longer term plans. The Council's medium term financial projections show that the Council will be in significant revenue deficit from 2005/06. This position must be addressed and the Executive is recommended to take steps to address this position in preparing for the 2005/06 budget cycle. Whilst clearly there is a risk that other savings cannot be identified, the risk is considered to be fairly low.

Therefore, it is my opinion that reserves are currently at an appropriate level and form a crucial element in the council's longer-term financial strategy.

5. Determination of Borrowing

The new Prudential Accounting regime has been reported to members on a number of occasions. In a nutshell it moves the determination of what individual authorities can borrow from government sanction to local determination based on affordability. Under the new regime each year a council must determine what is the maximum level of borrowing it will incur. This decision must take account of the prescribed indicators of affordability.

In considering the capital programme (FS54/03) Members took account of the new Prudential Code for capital accounting. For the period under review it has been recommended that borrowing will take place only up to the level of that supported for Revenue Grant purposes and the capital programme 2003-07 is largely funded from capital receipts with some grant funding.

There is a risk however in the long-term sustainability of funding the capital programme from a reducing availability of capital receipts over the longer-term. Over the shorter-term there is a risk from the ODPM's view on usage of PRTB receipts and steps are being taken to clarify this position.

The Council must formally consider the prescribed indicators under the code and these are set out in report FS57/03 Treasury Management and Investment Strategy 2004/05, which is considered for formal approval elsewhere on the Council agenda.