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| REPORT TO EXECUTIVE | | | |
| PORTFOLIO AREA: FINANCE AND RESOURCES | | | |
| Date of Meeting: | 27 May 2002 | | |
| Public | | | |
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| Inside Policy Framework | | | |

Title: THREE YEAR BUDGET 2003/04 TO 2005/06 – FIRST FORECAST

Report of: The City Treasurer

Report reference: Financial Memo 2002/03 No 7

Summary:

The City Treasurer summarises the likely cost of supporting current services levels and the potential resources available to the Council over the three-year period to 2005/06 and comments on a range of issues that will impact on the provision of services and the level of Council Tax over that period.

Recommendations:

The Executive are recommended:

1. To receive and respond to the comments and projections in the report.
2. To refer the report and their response to it to the Corporate Resources Overview and Scrutiny Committee on 13th June for observations.
3. To refer the report and their response to it to Council on 16th July, who will approve the Budget Policy Framework for 2003/04.
4. To request via the City Council that the Executive give guidance to officers in compiling budgets for 2003/04 to 2005/06 including any requirements or emphasis to redirect resources over that period.

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CITY OF CARLISLE

To: The Executive Financial Memo

27 May 2002 2002/03 No 7

THREE YEAR BUDGET 2003/04 TO 2005/06 – FIRST FORECAST

1. INTRODUCTION

1. For the City Council this three-year period will bring about unprecedented change. Major services including Leisuretime, Housing and a major part of the DSO, are likely to transfer to new external service providers over

the next eighteen months, resulting in a significant revenue impact on the General Fund. In recognition of this, the Executive in formulating the Council's budget for 2002/03 resolved that the City Treasurer produce a more detailed paper setting out fully the principles on which the 2003/04 Budget will be prepared and for this to be presented to the Executive early in the new municipal year.

2. This report is the first forecast of the Budget projections for the three-year period 2003/04 to 2005/06. The report addresses a number of issues as a basis of informing Members on the anticipated budget parameters and on the issues likely to emerge as the Budget is developed.
3. The report, (and all subsequent budget related reports), is prepared on the basis that it will be presented to the Executive and then referred to the Corporate Resources Overview and Scrutiny Committee for observations. It will be for the Executive to formulate and consult upon its strategic response to the budget issues set out in this report, and any response to the Overview and Scrutiny process, and to recommend a Policy Framework for the approval of Council on 16th July.
4. Members are reminded that it is important that the figures and projections quoted in this report are seen in a broad policy context and are not used as a substitute for the detailed estimates to be presented later in the year. Further budget reports will be presented over the course of the year.
5. A number of Appendices are attached to this report and are summarised as follows:

A. Approved Budget Discipline 2002/03.

B. Corporate Charging Policy 2003/04

C. Forecast General Fund Budget 2002/03 to 2005/06.

A. Illustrative Council Tax Options based on 4.25% Grant Increases.

B. Illustrative Council Tax Options based on 2.5% Grant Increases

C. Illustrative Capital Programme 2002/03 to 2005/06.

2. BUDGET DISCIPLINE 2002/03

2.1 The City Council approved Budget Discipline for 2002/03 is set out at Appendix A. This sets out some of the broad principles for preparing the 2003/04 budget.

3. REVENUE SUPPORT GRANT PROJECTIONS

3.1 The recent Government White Paper – Strong Local Leadership -Quality Public Services, states that reform of the revenue grant distribution system is an urgent priority for the Government, and it is intended to introduce new grant formulae for the 2003/04 settlement. At the time of preparing this report, there is no indication of what may be contained in the new system; the proposed new methodology is due to be published in May 2002, and approved by Ministers in July. However given the short timescale between publication and approval of the new regime, it is anticipated that there will be no radical differences from the current regime. Members will be fully updated on any implications arising once the details are known, but should note that this clearly introduces a note of caution when viewing a three-year forecast that is completely covered by the new grant distribution regime.

2. Members should note that the latest Census data is due to be published in August 2002. It is not yet known how this may impact on the new Grant Distribution system.
3. For information, there is to be a ten-year cycle for the revaluation of houses for council tax banding, to take effect in 2007.
4. In the absence of any information on the new grant distribution regime, the current increase in external grant forecast for the City Council has been assumed for the next two years at 4.25% and this is assumed also to hold for 2005/06. It has however been assumed that the current 'floors and ceilings' system will be retained in similar form - this restricts the worst (and best) effects of the data changes which will underpin the grant settlement, and is the basis for the 2.5% 'worst case' scenario given later in this report.

4. STRATEGIC ALLOCATION OF RESOURCES

1. It is anticipated that the new Grant regime may give greater certainty provided by the Government's adoption of a rolling three year financial planning horizon, and this should encourage local authorities to plan on a similar basis. This will be particularly important for the City Council over the three year period to 2005/06 because of the scale of change taking place in the delivery of the City Council's own services and the impact that this will have on the cost and the organisation of the residual services.

With this in mind, greater focus should be directed to the impact of demand and resources over the three year period and the Executive and the City Council are encouraged to adopt a forward strategic financial planning process rather than view the Budget for 2003/04 as a single year issue.

2. The Government will complete a Comprehensive Spending Review by early summer covering the period 2003/04 to 2005/05. It is anticipated the Education will remain the key focus of spending plans, and that Shire District based services will not figure prominently in spending priorities over that period.

5. INFLATION FORECASTS AND GENERAL ASSUMPTIONS

1. In preparing projections over a three-year period there is an inevitable risk from failing to accurately predict the impact of inflation and the other demands that add to the Council's long-term expenditure. Even at the current historic low levels of inflation, the leverage is still very considerable, with £1.3m added to the General Fund requirements in the third year of the review period.
2. The following assumptions underpin the overall inflation projections for the review period:

- A 3% pay provision annually from 2003/04
- A freeze on "general" corporate purchasing to reflect the improved spending power obtained through the new corporate purchasing system. Equivalent to £25,000 pa.
- 2.5% inflation on other general supplies and services
- 3.5% increase from fees and charges in line with the current Corporate Charging Policy (inflation +1% to yield £180,000). See paragraph 6.
- Salary turnover saving of £174,000 (1.5%) p.a.

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

5.3 The following assumptions underpin the Treasury and Debt Management forecasts:

- Interest Rate Changes

A revised forecast of 4.75% in 2003/04 compared to the original forecast of 5.25%, which has a budget impact of £85,000. For 2004/05 and 2005/06 the forecast is revised to 5%. These forecasts are based on the latest information from Sector (as advised by UBS Warburg), the Councils Investment Advisers and will be refined further during the budget process.

- Provision for Debt Repayment

In approving the 2000/01 budget, Members adopted my advice to increase the provision for debt repayment by £30,000 per annum year on year until such time in 2010 when the Council would again be making full provision (4%) for the repayment of outstanding debt. A Government paper is awaited which may have implications on this policy.

- Cost of New Borrowing

The Council presently receives a General Fund capital borrowing allocation of £300,000 which has, at the Council's discretion been used exclusively in support of private sector housing improvements. It has been assumed that there will be a similar amount for 2003/04 to 2005/06.

The year on year cost of supporting a continued level of new debt at £300,000 pa is approximately £30,000 per annum year on year (based upon 5% borrowing cost and 4% debt repayment provision). This item should reflect in the Council's annual standard spending assessment increase, (but offset by the assumed level of annual repayments which the Council is not currently meeting in full).

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

- Any potential shortfall in pay provision for 2002/03 – 0.5% is equivalent to £55,000 p.a.
- Any savings identified in closing the 2001/02 accounts will be analysed to see if they could be considered a permanent reduction in budget.
- Incorporation of revised balances following closure of accounts 2001/02.
- Impact of supplementary estimates approved for 2002/03 (none approved to date).
- It has been assumed that the Millennium Project will be completed within the approved budget including that for archaeology – no provision has been made for any excess or further requirement from that already approved.

6. CORPORATE CHARGING POLICY

1. Following the adoption of the District Auditor's recommendations contained in his review of the Council's charging policies in 2000/01, the City Council approved a Corporate Charging Policy, outlining its charging policies together with guidance on comprehensive reviews of fees and charges as a basis for preparing the budget.
2. The Budget Discipline for 2002/03 approved by Council in February (see Appendix A), states in relation to the Corporate Charging Policy that:
 - In preparation for the 2003/04 Budget Cycle, the Executive are to institute a comprehensive review of Fees and Charges including the capacity to introduce new charges and the use of subsidies, in order to raise significantly the proportion of income contributed by users of service compared to Council Tax payers.
1. For the purposes of budget planning covering the three-year review period, I have currently assumed that the review of fees and charges will yield a minimum annual increase of 1% over inflation (3.5%) equivalent to an additional £180,000 pa over inflation. This forecast will be reviewed during the budget timetable to reflect the Executive's response to the issues posed by the budget framework.
2. The contribution that users make to service provision (e.g. 1% above inflation) needs to be reviewed in the context of past and forward projections of increases to Council Taxpayers (e.g. 7.5% 2002/03). It is instructive to note that for each 1% increment of income gained or lost, the impact is to reduce or increase Council Tax requirements by approximately £1.60 per Band D property. This remains an important consideration in determining the extent to which the cost of services should be shared between users and taxpayers.
3. The proposed Corporate Charging Policy for 2003/04 is attached at Appendix B for comments.

7. BUDGET ASSUMPTIONS – EXTERNALISATION PROGRAMME

7.1 The Council is currently embarking on an ambitious programme of externalisation work. The following assumptions have been made in the projections:

7.2 HOUSING STOCK TRANSFER AND DSO

- i) Subject to the approval of the tenants in a ballot in July 2002, Officers are working to achieve the transfer to the new RSL on 9 December 2002. This date has been adopted in this report to calculate the revenue impact on the General Fund in the three-year period covered by the outlook period.
- i. For budget planning purposes, and subject to the outcome of negotiations with Riverside being led by Hacas Chapman Hendy, it has been assumed that:-
 - The stock transfers on 9 December 2002

- o Office Accommodation is retained in Civic Centre to March 2004
 - o IT support and Cashier functions are retained for the same period.
 - o The Building Maintenance DSO transfers on 30 September 2003.
- i. The major initial impact on the General Fund (GF) is two fold. Firstly the GF must meet the local 5% contribution towards the cost of housing benefits in each of the first three years before there is any reflection in the Revenue Support Grant. Even then, the first year's increase in RSG, of approximately £170,000 in 2005/06 will reflect only the four-month benefit period in 2002/03 and it will not be until 2006/07 that the RSG reflects a full year contribution of approximately £500,000. The total net cost to the Council in the first four years will be approximately £1.6m and it is assumed for budget planning purposes that there will be a residual balance on the HRA of at least this sum.
 - ii. The second impact is the costs which the Council will have to meet relating to those support costs provided to the HRA which will not be required by the new landlord and which will not be wholly offset by the TUPE transfer arrangements. In the short term the new landlord will require some support, most likely accommodation for a period of up to twelve months and IT and Cashiering for the same period. Some support staff will transfer under the TUPE arrangements whilst others may transfer by negotiated agreement with the new landlord and the staff concerned. But there will be some work undertaken for the HRA, particularly by specialised staff, which is too small to justify a transfer and this is currently being addressed by our consultants (HACAS) who are advising on the restructuring of the remaining functions of the authority. There will also be costs, which simply cannot be saved. These include the pension enhancement costs of former HRA and DSO Building Maintenance pensioners, the loss of approximately half of the current level of profit contribution from the DSO, and the increase in interest costs on the Council's residual debt following the transfer of the housing stock.
 - iii. This is obviously a complex matter, particularly because of the phased transfer effects. For budget planning purposes I have previously calculated the likely effect in each of the three years before the full effect in 2004/5, as £210,000 in 2002/03, £660,000 in 2003/04 and £990,000 in 2004/05 respectively. From the work undertaken to date, the net gap following the proposed transfers together with other known budget pressures will be in the region of £650,000 in 2003/04, £970,000 in 2004/05 and £910,000 in 2005/06 (see Paragraph 8). The Lead Consultant will play an important role in confirming the potential additional costs, in negotiating on the Council's behalf with Riverside and in advising the City Council on the extent to which these costs can be mitigated by reviewing the residual functions and alternative structures for their delivery.

7.3 LEISURETIME EXTERNALISATION

The results of the Leisuretime Tender exercise will be known in the next few months. For the purposes of current projections, I have assumed that the effect on the Council will be neutral.

8. REVENUE BUDGETS PROJECTION 2003/04 TO 2004/05

1. Appendix C summarises all the factors referred to earlier in this report and which collectively make up the Council's net revenue requirements for Council Tax purposes, expressed at outturn prices for each of the three years 2003/04 to 2005/06 with a further indication as to the impact in later years. The Total Projected General Fund Requirement can be summarised as:

2002/03 Actual £14,342m

2003/04 Projected £15,824m

2004/05 Projected £16,357m

2005/06 Projected £16,872m

8.2 Based on the above spend projections, Appendices D and E illustrate the potential shortfall in funding based on an assumption of 4.25% and 2.5% (respectively) external grant increase, coupled with illustrative tax increases of 3% and 5%.

2. The forecasts detailed at Appendix D show that on the assumptions contained within this report, and particularly dependant on the new Grant distribution system achieving 4.25%, then with a 3% Council Tax Increase, the level of savings that the Council will have to meet is £657,000 in 2003/04 and an additional £309,000 in 2004/05, reducing to £561,000 and £204,000 respectively against an illustrative tax increase of

5%.

8.4 Appendix E shows similar projections for a 2.5% 'worst case' external grant settlement, and shows that a 3% tax increase in this scenario would require £799,000 savings in 2003/04 and an additional £460,000 in 2004/05, with the savings required dropping to £703,000 and £356,000 respectively with an illustrative 5% tax increase.

8.5 Both of the above projections take no account of any bids for new growth in spending, however it is obvious that capacity to support additional base level spending financed through Council Tax will remain very limited.

6. For information:

- Each 1% (£1.50) change in the Council Tax level will reduce or increase the need to generate savings by approximately £48,000 per annum throughout the review period.
 - Each £100,000 increase or reduction in expenditure results in a change of £3.15 to the Council Tax requirement.
 - To support a continuation budget and to avoid making any savings would require an unacceptable tax increase of 17% in 2003/04 and a further 8% in 2004/05 (assuming a 4.25% external grant settlement).
6. In conclusion, there is unlikely to be sufficient new capacity to address the short-term pressures brought about by the transfer of the housing stock and the consequential need to review the organisation and structure of the remaining services. In consequence the Council will remain dependent on the ability to generate savings, increase income, and to redirect resources to meet major priorities.
7. In addition, the impact of legislative and other initiatives on the spending requirements of the City Council will need to be examined and developed during the Budget timetable so that consideration can be given to the strategic allocation of resources at the time of setting the Budget for 2003/04.

9. CAPITAL STRATEGY AND ASSET MANAGEMENT PLAN

1. The Council's Capital Strategy and Asset Management Plan were submitted to the DTLR in July 2001. Both were assessed as 'Good' and subsequently the Council were awarded a capital allocation of £50,000 in 2002/03. Updated Plans are due to be submitted to the DTLR by 30th July 2002 and again will be used by the DTLR as a basis for allocating capital resources from the Single Capital Pot arrangements. It is anticipated that both Plans will again be assessed as 'good' and that a further capital allocation will be received. However it is not anticipated that any additional sum over and above the £50,000 will be made available by the DTLR.
2. A context summary of the likely scale of Capital Resources is attached as Appendix F. Detailed capital bids will be received by the Executive for consideration as a basis of formulating recommendations for a capital programme to Council for approval as part of the budget process. This will be prepared and assessed in accordance with the priorities which will be agreed by the Council in approving its Capital Strategy in July.

10. BALANCES AND RESERVES

10.1 The Council's balances and reserves remain strong, but under greater pressure. Members should keep in mind that any extensive reorganisation of the Council's services following the proposed transfer of Housing, DSO (part), and Leisuretime will have substantial short term funding consequences which could initially impact on the Council's General Fund balances. And indeed there may be substantial one off costs in any restructuring, which will also have to be covered by

balances.

10.2 Members must also bear in mind that all variations in budget spending impact positively or negatively on the Council's balances. Whilst balances remain strong and at prudent levels, the Council needs to remain well positioned to deal with unexpected or strategic issues as they arise, but particularly the uncertainty that must inevitably attach to any forecast based upon the scale of change on which the City Council has embarked.

10.3 It is recommended that the use of balances in any one budget year should continue to be determined on an entirely strategic/financial basis.

10.4 The Council's General Fund and Capital Fund uncommitted balances projected at 31 March 2002 and 2003, are as follows: -

| | Projected Balance as at 31 st March 2002 £'000 | Projected Balance as at 31 st March 2003 £'000 |
|-------------------------------|--|--|
| General Fund Free balance* | 3,675 | 3,551 |
| HRA (Post LSVT) | 0 | 1,430 |
| Capital Projects Fund | 611 | 376 |
| Renewals Reserves | 1,942 | 1,849 |
| DSO Fund | 550 | 550 |
| TOTAL | 6,778 | 7,756 |

*My advice has consistently been that the target for General Fund Free Balances should be in the region of £1m plus 20% of Net Revenue Expenditure (£3.5m). The Council is currently achieving that target (2001/02 projected is £1m plus 21.5% NRE).

11. CONSULTATION

The Corporate Resources Overview and Scrutiny Committee will be consulted on all budget matters throughout the process.

12. STAFFING/RESOURCES COMMENTS

Not applicable.

13. CITY TREASURER'S COMMENTS

Included within the report.

14. LEGAL COMMENTS

Not applicable.

15. CORPORATE COMMENTS

CMT have been appraised on the report.

16. RISK MANAGEMENT ASSESSMENT

The main risks attach to the scale of change encompassed by the budget proposals and their reliance on extrapolation.

17. EQUALITY ISSUES

Not applicable.

18. ENVIRONMENTAL IMPLICATIONS

Not applicable.

19. CRIME AND DISORDER IMPLICATIONS

Not applicable.

20. CONCLUSIONS AND RECOMMENDATIONS

20.1 Members will conclude from this report that the City Council is entering a difficult budget cycle and the scale of the savings to be identified should not be underestimated. In particular the impact of the Housing Stock, DSO and Leisuretime Transfer will represent a considerable challenge.

2. In addition, the pressures upon the Council in responding to changes in service demands and for supporting Best Value requirements, and the modernising agenda, will continue to present major challenges over the three-year period covered by the latest financial review.

20.3 Members are also reminded that the Government will shortly publish details of their proposed new grant allocation system, which may lead to major changes in the grant mechanisms for funding local authorities, from April 2003.

4. Members are recommended:

- To receive and respond to the comments and projections in the report.
- To refer the report and their response to it to the Corporate Resources Overview and Scrutiny Committee on 13th June for observations.
- To refer the report and their response to it to Council on 16th July, who will approve the Budget Policy Framework for 2003/04.
- To request via the City Council that the Executive give guidance to officers in compiling budgets for 2003/04 to 2005/06 including any requirements or emphasis to redirect resources over that period.

D THOMAS

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03 May 2002

AB/CH/f70203

APPENDIX A.

CARLISLE CITY COUNCIL – APPROVED BUDGET DISCIPLINE 2002/03

That having regard to the corporate impact of the proposed transfer of the Council's Housing Stock to the Riverside Group, subject to approval by tenants in a ballot, and the indication that significant savings will be required in 2003/04 and 2004/05, the Executive, Portfolio Holders and Budget Holders be directed as follows:

In preparation for the 2003/04 Budget Cycle, the Executive are to institute: -

- o A comprehensive review of Fees and Charges including the capacity to introduce new charges and the use of subsidies, in order to raise significantly the proportion of income contributed by users of services compared to Council Tax payers.
- o A review of Services in order to identify whether there are alternative or more economical methods of provision, or whether there is the potential to adjust or redirect service levels compared to demand or alternative provisions.
- o A review of the method of preparing estimates, including the automatic linking of supplies and services to predetermined levels of inflation provision.

The Executive, Portfolio Holders and Budget Holders are reminded:

- o It is essential to maintain a disciplined approach to budgetary matters. Supplementary estimates will only be granted in exceptional circumstances and for which it may be required to identify equivalent savings to offset the impact of the supplementary estimate.
- o In the event of any revision to national pay settlements exceeding the budget provision, savings equivalent to the excess will need to be identified so as to offset the impact in future years.
- o Future proposals seeking virement should only be approved where the expenditure to be incurred is consistent with policies and priorities agreed by the Council, and in accordance with the Financial Procedure Rules.
- o Net underspending on 2001/02 service estimates under the control of the Chief Officer may be carried forward to 2002/03 subject to;

-reporting to the Executive the source of the underspending or additional income and the application of these resources.

-the approval of the Council where the underspending exceeds £10,000. The City Treasurer will submit a comprehensive report identifying all such items for consideration at the time of reporting on the Final Accounts outturn for 2001/02, in July 2002.

The City Treasurer to produce a more detailed paper setting out fully the principles on which the 2003/04 Budget will be prepared and for this to be presented to the Executive early in the new municipal year. This report will address the key issues for the 2003/04 budget and in addition lay the foundation for the three-year period to 2005/06.

APPENDIX B

CARLISLE CITY COUNCIL

CORPORATE CHARGING POLICY 2003-04

1. Background

The City Council raises approximately £5.2 Million per annum from the fees and charges that it levies for its services (excluding rents, grant and other miscellaneous income). This is greater than the £4.8 Million per annum raised from Council Tax. Significant areas of fee and charge income generation are Cemeteries and Crematoria (£0.6 Million),

Indoor Leisure (£1.1 Million) and Car Parks (£1.1 Million).

The management of fees and charges is therefore fundamental to the financial performance of the Council, with revenue from fees and charges underpinning the base financial position of the Council. The fees and charges levied are also important to the achievement of the Councils overall objectives.

Decisions on the rate of recovery of costs, or subsidies given to local residents require clear policy guidance and this note sets out proposals for a corporate policy for fees and charges. Such a policy is recommended by the Audit Commission in its national study 'The Price is Right?' and the District Auditor in his report on Income, Charging and Best Value received July 2000.

A policy is also required to inform the Best Value process and to give guidance to Committees, Members and Officers in the annual process of setting, monitoring and controlling fees and charges.

The policy aims to provide a corporate framework for managers giving guidance on the achievement of policy objectives, setting out common systems for access and eligibility for concessions, clarifying decision making and maximising income where this is appropriate.

2. Policy Principles

The City Council approved the 2002/03 Corporate Charging Policy in September 2001. There are three overarching principles in setting fees and charges for services:

I. Principle One – A Corporate Approach

To help in the delivery of the Council's corporate objectives and to address strategic and cross cutting themes between departments.

II. Principle Two – Consistent Concessions

To clarify the basis by which the Council subsidises services and activities and to identify which citizens should benefit from the subsidies.

III. Principle Three – Income Targets

To raise income from services where this is appropriate. This should include consideration of charging for services where this is not currently the case.

Summary guidance to Service Managers and Committees undertaking the review of their fees and charges against these three overarching principles is given in the following sections. However, it is recognised that each Service is different, and Service Managers should develop more specific principles where appropriate for their particular services or client groups, within the parameters of the three main principles set out above, for consideration by the Executive.

3. Guidance on Policy Principle One – A Corporate Approach

Fees and Charges should be used a tool to help deliver the Council's corporate objectives and to address the strategic cross cutting themes set out in the Community Plan.

Examples of this are:

- Parking charges can be used in support of environmental, transport and city centre regeneration strategies, or to promote community safety by funding improved car park security.
- Leisure charges can be used to support strategies to improve health and well being.

- Simplifying access to concessions and increasing take up of services can help to tackle social exclusion as part of an anti-poverty strategy.

The existing Community Plan objectives, together with agreed Corporate Strategies and how existing charges may link to these are set out at Appendix 1.

It is proposed that the more detailed principles to be used in supporting thematic areas of work identified in the Community Plan be developed further within each Service within the annual budget (charges review) process. Where there is conflict in the achievement of the Council's corporate objectives, the pros and cons of the competing –often-incompatible – objectives will need to be clearly set out, and where this is identified, the Executive will assist in determining priority.

1. Guidance on Policy Principle Two - Consistent Concessions

A summary of the current Council concessions granted is set out in Appendix 2. It can be noted from this that there is a lack of consistency, and of a consistent policy base.

It is proposed that in future the Council move towards a consistent policy to the application of concessions for target disadvantaged groups resident in the city. In future, where concessions are offered, they should be standardised wherever possible, and over a period of time if necessary, to a common subsidy rate. It is also proposed that a one-stop shop approach is developed to determine eligibility, which will assist target groups in maximising take-up of concessions on offer.

It is fully recognised that there will be exceptions to the granting of concessions for some services / target groups and the case for these will be made to the Executive as part of the annual review.

Subject to the above proviso, concessions should be investigated to the following target groups:

- Unemployed
- People in receipt of Family Credit
- OAP's
- Young Persons under the age of 18
- Registered Disabled
- Students in Full Time Higher Education
- Community Groups

Clearly differences between the existing income position and that proposed may arise, and the implications of introducing change must be explored, with transitional arrangements (e.g. phasing in changes over a set period) made where necessary. It would be for Managers to show the cost and justification for concessions within their annual review.

1. Guidance on Policy Principle Three – Income Targets

Policy targets should guide income from fees and charges, subject to:

Having regard to the Council's commitment to deliver the corporate objectives through the application and tactical management of charges as set out in Policy Principle One

The application of the concession scheme as set out at Policy Principle Two

Having regard to any statutory constraints over charging levels

Maintaining levels of customer satisfaction in and demand for Council services

The policy income target for the period 2003/04 to 2005/06 has been set so as to produce an overall increase in income equal to inflation plus 1%. (It should be noted that a 1% change in the income raised from charges impacts a £1.60 change in the level of a Band D Council Tax).

For the financial year 2003/2004, this would mean that each Service has been given a corporate target for income generation of 3.5%. I.e. an additional 1% increase over and above the assumed Retail Price Index for 2003/04

(which has been assumed as 2.5%).

Managers should also investigate the scope for charging for services that have not been traditional charging areas in the past.

2. The 2003/04 Review of Fees and Charges

Service Managers should carry out their annual review of fees and charges for 2003/04 in line with the principles set out within this policy, and in accordance with the estimates timetable. This should include an assessment of the basis of the charge from first principles. Any practice of simple annual increments in line with the rate of inflation is inappropriate, as would be any copycat approach that simply compares prices with neighbour authorities, without taking into account other local factors.

Service Managers should carry out as much of the review as possible, and clearly identify those areas not yet reviewed with a specific timetable for action.

Each charge applied within the Authority should also be fundamentally reviewed at least once every five years as part of the Best Value Review process. The challenges raised by the issue of charging should lie at the heart of any searching Best Value review:

- o Why are we providing this service at all?
- o Who benefits?
- o Why do we subsidise it, and what are we trying to achieve by the subsidy?
- o How much do clients value the service, and how willing are they to pay for it?

The fundamental review process will examine the budgetary and cost setting process which underpins each charge, the level of subsidy, the standards and targets applied within each area of service, the levels of take up of service and investigations of demand and price sensitivity, recovery rates, and subsidy. The views of users and citizens should be sought and customers involved in the design of tariffs and review process.

1. Financial and Management Information Systems

As an incentive to Managers, any additional income achieved from a review of charges over and above the budget target will be shared on the basis of 75% returning to the Council's reserves and 25% being retained by the area of service to be used to improve the service. However, in order to prevent distortion of the Council's overall spending priorities, a financial limit of £10,000 has been set for that element to be retained by the Service Department. This would be on the general principle that any shortfall in targeted income (or excess of associated expenditure) will be reimbursed through savings from the service department concerned.

Clearly this policy requires close co-operation between the City Treasury and Service Managers in the setting of realistic annual targets for each area of service. Managers will be required to prove assumptions behind targets and to set realistic, achievable targets. There will also need to be sensible negotiations regarding future year base income targets.

In addition to the above, Service Managers will need to develop or introduce their own Management Information systems to give the user information required to make valid decisions.

8. Conclusion

The management of fees and charges is fundamental to the financial performance of the Council, and the adoption of a policy to guide the process is crucial to the achievement of Best Value for the authority.

The above policy principles and associated guidance are intended to address the requirement for a more corporate approach to the issue of fees and charges and to give Members and Managers a clear framework within which to work. At the same time it is intended that the Principles should not impose narrow constraints that could impede creative approaches to charging for specific areas.

The policy principles and guidance will be reviewed annually in advance of the budget cycle and amended as appropriate in the light of experience gained.

APPENDIX 1

Council Objectives and Linkages of Charges

| Objectives of the Corporate Plan | Corporate Strategies | Possible Charging Linkages |
|---|--|--|
| Reduce crime and disorder | Crime and Disorder Strategy | <ul style="list-style-type: none"> • Car Park Charges • |
| Promote sustainable transport | Transport Plan | <ul style="list-style-type: none"> • Car Park Charges • |
| Improve social well-being, health and education | Anti-Poverty Strategy Parks and Countryside | <ul style="list-style-type: none"> • Leisure Charges • Environmental Health Charges • Careline • Concession levels |
| Protect and improve our environment | Environmental Sustainability (LA21) Waste Management Parks and Countryside | <ul style="list-style-type: none"> • Environmental Health Charges • Car Park Charges |
| Develop employment and training opportunities | Economic Development Strategy | <ul style="list-style-type: none"> • Economic Development Charges |
| Satisfy housing need | Housing Strategy | <ul style="list-style-type: none"> • PDU's and Hostel Accommodation • Land Charges |
| Advance Carlisle as a regional and cultural capital | Economic Development Strategy Tourism Strategy | <ul style="list-style-type: none"> • Car Park Charges • Economic Development Charges |
| Spend the Community's money wisely | Budget Strategy | <ul style="list-style-type: none"> • all charges |

APPENDIX 2

Current City Council Concessions

Discount
Offered

Leisure Services:

- Leisure Access Card

Various Discounts: **50%**

60%

75%

- Tullie House (from opening of Millennium Gallery)

Child 50%

OAP's, Family Credit, Unwaged, Student 30%

Family Ticket 20%

Education Rate 60%

Group Rate 40%

- Cemeteries and Crematorium

Reduced charge for children up to age 18

Housing Services:

- No concessions offered

Environment and Development

- Pest Control

Free Service for OAP's and Registered Disabled 100%

- Bulk Waste

Free Service 100%

Economic Development

- Assembly Room Hire

Discount Mornings/Afternoon 62.5%

Discount Evenings 37.5%

Discount Double Session 50%

For:

OAP's

Registered Charities

Other Community Groups

APPENDIX C

| <u>FORECAST GENERAL FUND</u> <u>BUDGET 2002/03 TO 2005/06</u> | Original | Committed | Committed | Committed |
|--|----------|-----------|-----------|-----------|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
| | £,000 | £,000 | £,000 | £,000 |
| | 12,228 | 12,228 | 12,228 | 12,228 |
| | 2,668 | 2,698 | 2,728 | 2,758 |
| <u>Expenditure Requirement</u> | -1,670 | -1,670 | -1,670 | -1,670 |
| 1. <u>Core Base Level Expenditure</u> | -556 | -556 | -556 | -556 |
| Financing of General Fund debt | 305 | 365 | 425 | 425 |
| Investment Income (5%) | | 455 | 925 | 1,410 |
| New Savings Adopted in budget | | -50 | -100 | -150 |
| New Spending Adopted in budget | | 80 | 80 | 80 |
| Inflation | | 85 | 0 | 0 |
| Property Review Income | | 40 | 60 | 60 |
| NI Employers Increase (1%) | 12,975 | 30 | 60 | 90 |
| Interest – rate change (-2.5%) | 210 | 13,705 | 14,180 | 14,675 |
| Interest – use of balances | 170 | 385 | 750 | 750 |
| Debt Repayment new borrowings £300, pa | 13,355 | 515 | 530 | 545 |
| Existing Core Base Level Expenditure | 60 | 14,605 | 15,460 | 15,970 |
| LSVT/DSO provisional net impact | 850 | 14 | 5 | |
| LSVT Benefits Impact | -1,200 | | | |
| Total core Base Level Expenditure | -48 | | | |
| 2. <u>Non-Recurring expenditure</u> | 75 | | | |
| Previously Approved New Policy Initiative | 170 | | | |
| LSVT Transfer Costs | 0 | | | |
| Recovery of LSVT Transfer costs | -93 | 14 | 5 | |
| New Savings Adopted in budget | | | | 0 |
| New Spending Adopted in budget | 235 | 955 | | |
| Adverse Impact of Interest Rates (0.5%) | 598 | 955 | 632 | |
| Supplementary estimates | 833 | 250 | 632 | 632 |
| Total Non-Recurring Expenditure | 247 | 250 | 260 | 632 |

| | | | | |
|---|--------|--------|--------|--------|
| 3. <u>Capital Expenditure (funded from Revenue)</u> | 247 | 15,824 | 260 | 270 |
| | 14,342 | | 16,357 | 270 |
| Gross Capital Expenditure | | 13,705 | | 16,872 |
| Renewals Reserve | 12,975 | 385 | 14,180 | |
| Net Capital Expenditure | 210 | 515 | 750 | 14,675 |
| 4. <u>Parish Council Expenditure</u> | 170 | 14 | 530 | 750 |
| Total Parish Expenditure | -93 | 955 | 5 | 545 |
| 5. Total General Fund Requirement | 833 | 250 | 632 | 0 |
| Split: | 247 | 15,824 | 260 | 632 |
| General Fund (Revenue) – Recurring | 14,342 | | 16,357 | 270 |
| Recurring LSVT Impact | | | | 16,872 |
| Recurring LSVT Benefits Impact | | | | |
| General Fund– Non Recurring | | | | |
| Total General Fund (Capital) | | | | |
| Parish Precepts | | | | |
| TOTAL | | | | |

APPENDIX D

Examples based on:

4.25% pa grant Increases and 3% and 5%:Tax Increases

| | Original | Committed | Committed | Committed |
|---|----------|-----------|-----------|-----------|
| | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
| | 31,795.1 | 31,850 | 32,000 | 32,160 |
| | £150.35 | £154.86 | £159.51 | £164.29 |
| Local Tax Base (assuming 0.5% pa growth) | £,000 | £,000 | £,000 | £,000 |
| 1. <u>Financed by 3% tax increase</u> | 3,831 | 3,994 | 4,164 | 4,510 |
| Revenue Support Grant | 4,285 | 4,467 | 4,657 | 4,855 |
| NNDR Grant | 72 | 40 | 40 | 40 |
| Council Tax Surplus | 4,780 | 4,932 | 5,104 | 5,284 |
| Council Tax at 3% uplift | 12,968 | 13,433 | 13,965 | 14,689 |
| City Council Budget Income | 247 | 250 | 260 | 270 |
| Parish precepts | 13,215 | 13,683 | 14,225 | 14,959 |
| Total City Council Budget Income | | | | |
| Committed Contributions from: | 216 | 14 | 5 | |
| • General Fund Balances – recurring | -92 | 955 | 632 | 0 |
| • General Fund Balance – non recurring | 598 | 515 | 530 | 632 |
| • Renewals Reserve | 235 | 1,484 | 1,167 | 375 |
| • Large Project Fund | 170 | 15,167 | 15,392 | 1,007 |
| • Assumed Housing Revenue Account Balance | | | | |

| | | | | |
|------------------------------------|--------|--------|--------|--------|
| Total Financing Available | 1,127 | 15,824 | 16,357 | 15,966 |
| Projected General Fund Requirement | 14,342 | 657 | 965 | 16,872 |
| Shortfall in funding | 14,342 | 657 | 309 | 906 |
| In Year Savings Target/(Surplus) | | | | -59 |

| | | | | |
|---------------------------------------|----------|----------|----------|---------|
| | £ 150.35 | £ 157.87 | £ 165.76 | £174.05 |
| 2. <u>Financed by 5% tax increase</u> | 14,342 | 15,263 | 15,592 | 16,280 |
| Total Financing Available | | 561 | 765 | 592 |
| Shortfall in funding | | 561 | 204 | -173 |
| IN Year Savings Target/(Surplus) | | | | |

APPENDIX E

Examples based on:

2.50% pa grant Increases and 3% and 5% Tax Increases

| | <u>Original</u> | <u>Committed</u> | <u>Committed</u> | <u>Committed</u> |
|---|-----------------|------------------|------------------|------------------|
| | <u>2002/03</u> | <u>2003/04</u> | <u>2004/05</u> | <u>2005/06</u> |
| - | 31,795.1 | 31,850 | 32,000 | 32,160 |
| Local Tax base (assuming 0.5% pa growth) | £150.35 | £154.86 | £159.51 | £164.29 |
| 1. <u>Financed by 3% tax increase</u> | £,000 | £,000 | £,000 | £,000 |
| Revenue Support Grant | 3,831 | 3,927 | 4,025 | 4,296 |
| NNDR Grant | 4,285 | 4,392 | 4,502 | 4,614 |
| Council Tax Surplus | 72 | 40 | 40 | 40 |
| Council Tax at 3% uplift | 4,780 | 4,932 | 5,104 | 5,284 |
| City Council Budget Income | 12,968 | 13,291 | 13,671 | 14,234 |
| Parish precepts | 247 | 250 | 260 | 270 |
| Total City Council Budget Income | 13,215 | 13,541 | 13,931 | 14,504 |
| Committed Contributions from: | | | | |
| • General Fund Balances – recurring | 216 | | | |
| • General Fund Balances – non-recurring | | | | |
| • Renewals Reserve | -92 | 14 | 5 | 0 |
| • Large Project Fund | | | | |
| • Assumed Housing Revenue Account Balance | 598 | 955 | 632 | 632 |
| | 235 | 515 | 530 | 385 |
| Total Financing Available | 170 | 1,484 | 1,167 | 1,017 |
| Projected General Fund Requirement | 1,127 | 15,025 | 15,098 | 15,521 |
| Shortfall in funding | 14,342 | 15,824 | 16,357 | 16,872 |
| In year Savings Target | 14,342 | 799 799 | 1,259 | 1,351 |

| | | | | |
|--|--|--|-----|----|
| | | | 460 | 92 |
|--|--|--|-----|----|

| | | | | |
|---------------------------------------|---------|---------|---------|---------|
| 2. <u>Financed by 5% tax increase</u> | £150.35 | £157.87 | £165.76 | £174.05 |
| Total Financing Available | 14,342 | 15,121 | 15,298 | 15,834 |
| Shortfall in funding | | 703 | 1,059 | 1,038 |
| In Year Savings Target/(Surplus) | | 703 | 356 | -21 |

APPENDIX F

ILLUSTRATIVE CAPITAL PROGRAMME 2001/02 to 2005/06

| Expenditure: | 2001/2 Revised £,000 | 2002/3 Original £,000 | 2003/4 Illustrative £,000 | 2004/5 Illustrative £,000 | 2005/6 Illustrative £'000 |
|---|----------------------------|-----------------------------|---------------------------------|---------------------------------|---------------------------------|
| General Fund | 2,638 | 755 | 1,240 | 300 | 300 |
| HRA | 6,148 | 4,853 | 0 | 0 | 0 |
| Hsg GF | 968 | 968 | 475 | 400 | 400 |
| Renewal of Vehicles Plant and Equipment | 955 | 598 | 955 | 632 | 391 |
| TOTAL | 10,709 | 7,174 | 2,670 | 1,332 | 1,091 |
| Funded by: | | | | | |
| Capital Receipts - GF | 1,067 | 100 | 338 | 200 | 200 |
| - HRA | 904 | 0 | 0 | 0 | 0 |
| - HsgGF | 520 | 520 | 0 | 0 | 0 |
| HRA Major Repairs All. | 3,992 | 3,881 | 0 | 0 | 0 |
| Disabled | 153 | 156 | 150 | 150 | 150 |

| | | | | | |
|-----------------------|--------|-------|-------|-------|-------|
| Facility Grants | | | | | |
| Loan – HRA | 671 | 818 | 0 | 0 | 0 |
| - Hsg GF | 295 | 292 | 325 | 350 | 350 |
| - GF | | 30 | 0 | 0 | 0 |
| Revenue Contributions | 758 | 0 | 0 | 0 | 0 |
| Capital Projects Fund | | 611 | | | |
| Reserve Funds | 2,766 | 598 | 955 | 632 | 391 |
| Grants (public) | 529 | 0 | 0 | 0 | 0 |
| Grants (private) | 124 | 0 | 0 | 0 | 0 |
| Resources B/F | | 1,070 | 902 | | |
| Total | 11,779 | 8,076 | 2,670 | 1,332 | 1,091 |
| Resources C/F | 1,070 | 902 | | | |