CORPORATE RESOURCES OVERVIEW AND SCRUTINY COMMITTEE

Committee Report

Public

Date of Meeting:	**7 August 2008 (Special)**
Title:	**DRAFT MEDIUM TERM FINANCIAL PLAN (INCORPORATING THE CORPORATE CHARGING POLICY) 2009/10 TO 2013/14**
Report of:	**The Director of Corporate Services**
Report reference:	**CORP21/08**

Summary:

This report was considered by the Executive on 4 August 2008 and sets out the framework for planning and managing the Council's financial resources.

Questions for / input required from Scrutiny:

To scrutinise, and provide feedback, on the Financial Policies to be adopted by the Council which will inform the budget process over the next five years.

Recommendations:

Members are asked to consider the report and make any recommendations back to the Executive for consideration at their meeting on 26 August 2008.

Contact Officer: Angela Brown **Ext:** 7299

Note: In compliance with Section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: Council Budget Resolution February 2008.

REPORT TO THE EXECUTIVE

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PORTFOLIO AREA: FINANCE AND PERFORMANCE MANAGEMENT

Date of Meeting: **4 August 2008**

Public

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

Inside Policy Framework

Title:	**DRAFT MEDIUM TERM FINANCIAL PLAN (INCORPORATING THE CORPORATE CHARGING POLICY) 2009/10 TO 2013/14**
Report of:	**The Director of Corporate Services**
Report reference:	**CORP21/08**

Summary:

The Medium Term Financial Plan sets out the framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its current three -year (but to be extended to five-year) financial plan. The Plan links the key aims and objectives of the Council, as contained in the Corporate Plan, to the availability of resources, enabling the Council to prioritise the allocation of resources to best meet overall aims and objectives.

Following consideration by the Executive, the Corporate Resources Overview and Scrutiny Committee will consider the draft on 7 August, and the Executive will then consider their comments at their meeting on 26 August, prior to making final recommendations to Council on 9 September 2008.

Recommendations:

The Executive is asked to comment and make recommendations on the draft Medium Term Financial Plan (incorporating the Corporate Charging Policy) for consideration by the Corporate Resources Overview and Scrutiny Committee.

Contact Officer: Angela Brown **Ext:** 7299

Note: In compliance with Section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: Council Budget Resolution 5th February 2008.

CITY OF CARLISLE

To: The Executive CORP21/08
4 August 2008

DRAFT MEDIUM TERM FINANCIAL PLAN 2009/10 TO 2013/14

1. BACKGROUND INFORMATION AND OPTIONS

1.1 The Medium Term Financial Plan (MTFP) is the key policy document to guide the Council's forward financial planning process. The attached report details the proposed Plan for the period 2009/10 to 2013/14.

1.2 The MTFP is reviewed annually starting with the assumptions made in the Budget Resolution approved by Council on 5 February 2008. This position has been updated to reflect known changes that have occurred since that date.

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

2. KEY DATES

Following consideration of the key Policy documents by Executive and Corporate Resources overview and Scrutiny Committee, these will be formally approved by Council on 9 September 2008. The overall budget position for revenue and capital, and individual reports on spending pressures, saving proposals, and charging reports will be considered by the Executive at its meeting on 24 November. These reports will be scrutinised by the three Overview and Scrutiny Committees at the end of November and beginning of December.

Feedback from these Scrutiny Committees will be considered by the Executive on 15 December and the Executive will issue its Draft Budget Proposals for Consultation purposes at its meeting of 18 December. The formal consultation period will run from 19 December 2008 to 19 January 2009.

Any feedback will be considered by the Executive on 19 January 2009, and the formal budget will be approved by Council on 3 February 2009.

3. CONSULTATION

3.1 The draft MTFP has been considered by the Senior Management Team and the Strategic Planning Group.

3.2 The Corporate Resources Overview and Scrutiny Committee will consider the MTFP on 7 August, prior to final consideration by the Executive on 26 August and recommendations made to full Council on 9 September.

3.3 The Budget Process and MTFP are also informed by consultation with wider stakeholders, including residents. Each year the Council consults with the Business Community and also carries out public consultations (State of the City debate, Citizens Panels questionnaires etc) which take place periodically. The information obtained will be used to inform the development of the Council's policies including the production of the MTFP.

4. RECOMMENDATIONS

4.1 The Executive is asked to comment and make recommendations on the draft MTFP for consideration by the Corporate Resources Overview and Scrutiny Committee.

4. IMPLICATIONS

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

Included within Medium Term Financial Plan (MTFP) as attached

A BROWN
<u>Director of Corporate Services</u>

CARLISLE CITY COUNCIL

DRAFT FOR CONSULTATION

MEDIUM TERM FINANCIAL PLAN 2009/10 TO 2013/14

AUGUST 2008

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CARLISLE CITY COUNCIL

DRAFT MEDIUM TERM FINANCIAL PLAN 2009/10 to 2013/14

1. POLICY AND CONTEXT

1.1 Purpose

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

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

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

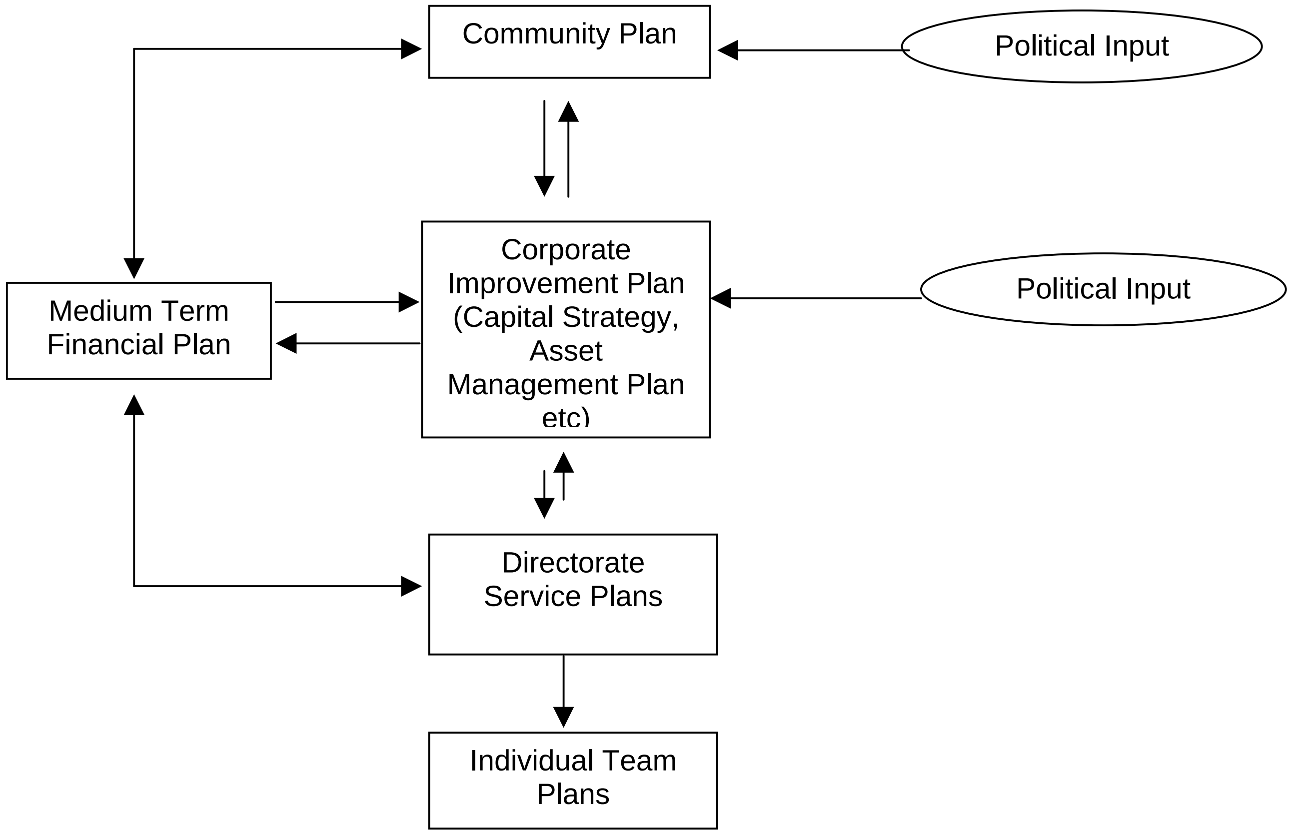
- Redirection of resources towards areas of high priority will be contained within existing budgets, unless increases can be justified and funded through the budget process.
- Council Tax increases will be limited to fair and reasonable levels, taking account of national guidance from Government (Target 3.5%).
- External grants and income will be maximised wherever possible to mitigate the effects of budget increases.
- Partnership working and funding opportunities will be explored wherever feasible.
- The projected budget deficits in later years will be addressed by the approved Savings Strategy

1.2 Government Policies

Nationally, the Government sets out policy initiatives aimed at improving the quality of life for its citizens. These national initiatives can result locally in the Council having to provide additional resources to meet nationally set targets, often without corresponding increases in grant assistance. Some initiatives do receive grant assistance, but for a limited period only, resulting in spending pressures for the Council when grant stops and the service needs to be maintained. This situation can only be resolved by the Council absorbing these new policy initiatives and meeting the cost from redirection of existing resources. Recent examples include the Government's recycling targets and the concessionary fares scheme which became a national scheme from 1st April 2008.

1.3 **The Council's Strategic Planning Framework**

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



- **Community Plan**

The community plan is 'owned' by the Carlisle Partnership (our Local Strategic Partnership). It reflects and develops the aspirations of the communities of Carlisle and provides a strategic context for the partnership activities of all members of the CSP. For the City Council it is particularly important that the **Corporate Improvement Plan** enables delivery of the Community Plan; there must be congruence between the strategic objectives of both plans.
The intention is that the communities of Carlisle are consulted and involved in the development of the Community Plan. This will in turn ensure that the CSP drives the strategic thinking of partner organisations.
The Council's Community and Corporate Planning process supports the Local Area Agreement for Cumbria.

- **Corporate Improvement Plan 2007 - 2010**

The Corporate Improvement Plan explains how the City Council will contribute towards the Carlisle Strategic Partnership's Community Plan and has been developed within an over-arching commitment to the Carlisle Renaissance agenda. Within this commitment, the Council has set out two priority areas for the basis of allocation of its revenue and capital resources:

- The Learning City
- Cleaner, Greener and Safer

The Corporate Improvement Plan is currently under review in the light of emerging national, regional and local issues. The MTFP will be aligned to this as they are both developed together.

- **Directorate Service Plans**

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

The Council's Service Plans are being developed to include:

- a forecast of the use of resources on service delivery over the 3 year planning horizon, and longer if significant service pressures have been identified,
- a forecast of the resources required together with the range of options available to meet these requirements,
- a demonstration of how value for money is delivered in the use of those resources,
- target performance measures,
- direct and indirect links to the Corporate Improvement Plan,
- risk analysis and mitigation actions

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

- **Other Council Strategies, Plans and Policies**

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

- The Capital Strategy, which provides information on the proposed level of investment in capital projects and the consequent impact on the revenue budget.
- The Treasury Management and Investment Strategy, which sets out the assumptions for financing requirements and interest rates and their effect on the revenue budget.
- The Asset Management Plan, which provides forecasts of necessary investment in the Council's land and property portfolio.
- Local Plan/Local Development Framework.
- The IT Strategy, which is being reviewed as part of the ICT Shared Services Project.
- The Workforce Development Plan, which highlights the need for a thorough review of the Council's staffing needs and skill levels to ensure that the Council improves its performance to deliver excellent services to the local community in the future.
- There are also a number of strategies, (some of which are currently under development) which set out policy direction for key Council priority areas, and these include the Carlisle Renaissance Development Framework and Movement Strategy, Economic Strategy, Learning City Strategy and Housing Strategy. Following the launch of Carlisle Renaissance the City Council has contributed significantly to progressing this ambitious vision for Carlisle. It has committed revenue to fund interim delivery activity including the establishment of an in-house team and a range of project development work in partnership with other stakeholders including the County Council, Northwest Development Agency, Government Office North West and English Partnerships. Funding allocated has included that secured by the City Council through the Local Authority Business Growth Initiative (LABGI) settlement. The City Council has committed capital to support the acquisition of property to support key regeneration schemes in the City Centre.

1.4 Budget Priorities and Budget Allocations

Work is underway to more proactively link the Council's priorities, as identified in the Corporate Improvement Plan, to financial resources and performance. The aim of this process is to see if the Council's budget is being used to best effect, and in accordance with priorities, and identify where additional resources may be required to improve performance. Conversely it may also be possible to reallocate resources from services which are not performing satisfactorily, and which may also be of a lower priority, to high priority areas which need greater support.

This process is still under development and review, especially since the government has indicated that there will be a simplification and reduction in the need to report performance. Nevertheless, it is anticipated that the 2008/09 and future revenue and capital budgets will more accurately reflect Council priorities and give members the opportunity to reflect on how their budget is currently spent in accordance with the priorities they have set.

1.5 Performance Review

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

Currently, out-turn expenditure is measured against budgeted expenditure as part of the final accounts process and outputs are measured against targets via the performance management framework. During the latter part of 2007/08, links between quarterly performance information has been linked, on an exception basis, to financial information for some services. Work is continuing to develop these links. The quarterly budget and performance monitoring reports are considered by Officers and Members to monitor progress throughout the year.

2. FORECASTING RESOURCES AND COMMITMENTS

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

2.1 Current Budget Forecast

The Council has well established mechanisms in place for forecasting resources and expenditure commitments over a three-year planning period. From this plan forwards projections will now be for a five-year period. This will improve the resource planning process though it should be acknowledged that the further in advance they are made the more likely that they will need to be changed. Projections will inevitably change over the period of the plan and will be kept under review. Factors affecting the assumptions made are set out in further detail in the MTFP.

The Council approved the current forecast for the period 2008/09 to 2010/11 on 5 February 2008, which were updated by CORP16/08 approved by the Executive in April. The forecast has also been updated to provide an initial annual projection to 2013/14, and is shown in Appendices A to C as follows:

Appendix A – Summarises the net budget for the three years (£17.010m for 2008/09) approved for Council Tax Purposes by Council on 5 February and provides a forecast to financial year 2013/14.

Appendix B – Provides an indicative forecast of how the projected gross budget (£62.773m in 2008/09) will be financed over the same period.

Appendix C – Analyses the Gross budget over main spending headings.

The table below sets out how revenue resources are currently allocated across the Council Priorities and all other Council Services.

Priority	**Net Budget 2008/09 %**	**Net Budget 2008/09 £'000**
Renaissance	12	2,170
Cleaner Greener Safer	54	9,770
Learning City	13	2,350
All other Council Services	21	3,808
Total cost of Council Services	**100**	**18,098**
Parish Precepts		405
Use of Council Reserves		(1,493)
Net budget requirement		**17,010**

2.2 Budget Deficit Forecast

The current medium term financial projections point to a potential significant shortfall in the Council's budgets from 2012/13 onwards. There are a number of forecast pressures on these budgets but the principal cause of the projected shortfall is the estimated impact of the Pay and Workforce Strategy and Job Evaluation exercise. An estimate of £1million (based on 6% of pay) has been included in the estimates from 2007/08, and a reserve of £888k has been set aside with a further £2m to be added. A savings efficiency programme has already been started to mitigate the impact. In the short term, the additional expenditure can be funded from Reserves until the exact requirement can be calculated and savings achieved to meet any additional cost. This project is being managed carefully to ensure that outcomes are consistent with available Council resources.

The amount approved by Council in February 2008 as part of the budget process, to be taken from Council Reserves to support Council spending, updated by CORP16/08 approved by the Executive in April 2008 and the outturn report approved in June, is set out in the Table below:

Year	**Recurring Commitment/ (Surplus) £000**	**Non-recurring Commitments £000**	**Total £000**
2008/09	314	1,876	2,190
2009/10	(676)	736	60
2010/11	(508)	396	(112)
2011/12	(35)	0	(35)
2012/13	416	0	416
2013/14	869	0	869

As a result of the budget changes approved in April, including the impact of Insurance tender savings, savings in Audit fees and Minimum Revenue provision, offset by the additional costs of the Concessionary Fares scheme, the recurring requirement to be met from reserves has improved. In effect, the original recurring budget shortfall, which includes the estimated impact of Job Evaluation offset by the Vacancy Management saving, has been met. For 2008/09, the savings have been retained within the overall Revenue Budget to offset potential shortfalls of income such as car parking and land charges as reported in the quarterly budget monitoring reports. There are also remaining risks to the budget as set out in the budget resolution particularly in achieving the savings proposals approved and in the finalisation of the Job Evaluation exercise. The amount required to fund recurring expenditure is the target level of 'savings' that are required to be found from the budget process. As in previous years, additional savings will need to be identified both to meet the projected shortfall and also to continue support for initiatives and redirect resources to priority areas. The savings strategy is set out in more detail below and will ensure that in the medium term the Council complies with its policy of not meeting recurring expenditure from Council Reserves.

2.3 Significant Budget Issues

A number of high impact recurring pressures and savings have been identified and these are shown below. The impact of these potential revisions will be further analysed and reported throughout the budget process:

- Outcome of Job Evaluation / PWS
- Vacancy Management / Turnover / Structure / Capacity issues
- Carlisle Renaissance
- Tullie House Governance Options
- Capital Programme - longer term priorities
- Asset Management Plan
- Efficiency and Saving Reviews - current three year strategy to be reviewed
- Economic Climate
- Opportunities (Morton Land) & review charging potential
- Concessionary Fares funding and ridership
- Overspend in some services in 2006/07 and 2007/08 (and potentially will be repeated in 2008/09)

2.4 Efficiency and Savings Strategy (including Value for Money)

A new strategy to identify recurring budget savings and service efficiencies was approved by Council on 5 February 2008 as part of the budget resolution. The strategy will deliver savings and efficiencies for the 2009/10 budget and will concentrate on the following areas:

- Service Improvement Reviews – the requirement to achieve effective service delivery whilst pursuing a target of 5% reduction in the gross revenue budget,
- Asset Review – this will focus on producing a development and investment plan for the Council's property portfolio to enable growth in income from, and the value of, the portfolio. The Executive has agreed to explore in detail two options for the delivery of the plan: -
  - either by retaining and managing its portfolio internally and undertaking specific joint ventures where appropriate, or
  - by establishing a local asset vehicle to both manage part / all of the portfolio and deliver the development programme.
- Shared Services – the requirement to achieve a 3% efficiency saving from any service under consideration via the shared service agenda by the development and delivery of the Shared Services Strategy.
- To carry out a review of those services which do not fall within the Council's core priorities.

A timetable and detailed programme of reviews, together with specific targets was produced by the start of the 2008/09 financial year. The Executive and SMT is currently monitoring how well services are achieving the objectives set out in the reviews and in the Strategy itself.

In addition to the above it is also further envisaged, using information gathered from an initial review carried out by Internal Audit in 2004, that more detailed discussions will take place to explore the possibility of new and / or increased charging opportunities for particular services.

2.5 The Capital Strategy

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

There are links between the capital programme and the revenue budget, as capital projects very often result in revenue costs e.g. to provide running costs for new facilities. The current capital programme has also been extended by two years for the years 2008/09 – 2012/13 includes a number of projects which will require revenue support e.g. sports development, through the introduction of multi-use games areas and the Indoor Tennis Centre at Bitts Park. These costs are reflected in the existing budget of the Council. Other projects, such as the Theatre and Carlisle Renaissance are at an earlier stage of development and therefore have not yet been included in current projections.

3. EXTERNAL FACTORS INFLUENCING THE MTFP

3.1 Government Policies and Initiatives

3.1.1 Government Spending Review and Local Government Finance Settlement

Spending Review

The overall amount available for distribution to Local Government is determined by the Government's Spending Review, in which the Government decides how much it can afford to spend, reviews its expenditure priorities and sets targets for improvement. Each Spending review covers a three-year period and the most recent review was announced in November 2007. The first year of the new spending review is 2008/09.

The Comprehensive Spending Review 2007 [CSR07] provides a 3-year grant settlement for the Council. In previous grant settlements variances between data used at the start of the spending review period and current data was corrected through Amending Reports, but this will not be the case with the CSR07. It is anticipated that the level of grant notified in January 2008 will not change over the three-year period of the current settlement.

The settlement requires local authorities to make efficiency savings of around 3% p.a.

Formula Grant

Once it determines how much it has available to distribute, the Government allocates a Formula Grant to each authority via the Local Government Finance Settlement. The Formula Grant is made up of the Revenue Support Grant and redistributed Business Rates and is based on a 4-block allocation of resources:

- **A relative needs amount**, to reflect an assessment of the relative needs of individual authorities in providing services and includes information on population, social structure and other characteristics of each authority.

- **A relative resources amount**, a negative amount to reflect the assessment of the level of income that can be raised locally and therefore reducing the level of support needed from Government. This is done by looking at an authority's taxbase data (a measure of the number of Band D properties). The greater the taxbase, the more income it can raise from a standard increase in band D Council Tax.

- **A central allocation** of the remaining grant pot, after allowing for relative needs and relative resources, which is distributed on a per head of population basis.

- **Floor damping.** To ensure that all authorities receive a reasonable grant increase each year, the Government sets a minimum guaranteed increase in grant compared to the previous year known as the grant floor. For 2008/09 this was set at 1.0% and for years 2009/10 and 2010/11 at just 0.5%. As the Formula Grant paid to authorities comes from a finite cash pot, any grant increases above the floor that would be paid to authorities as a result of the assessment of relative needs, resources and central allocation, is scaled back to the floor (or damped). The amount of grant scaled back is then used to pay Councils whose initial grant assessment would result in an increase below the floor. By 2010/11 it is estimated that this process will have cost the Council over £500,000 in grant.

Currently Formula Grant meets 16.5% of the Council's gross budget for 2008/09. This compares with 16.4% in 2007/08. The Council received a headline 1% increase in Grant for 2008/09 over the 2007/08 level.

For 2009/10 and 2010/11, the financial projections assume a 0.5% on the level of formula grant received from the Government. For information the details of the grant settlements for 2008/09 and 2010/11 are reproduced below

Block	2008/09 £m	2009/10 £m	2010/11 £m
Relative Needs	4,442	4,467	4,497
Relative Resources	-1,631	-1,687	-1,733
Central Allocation	7,389	7,426	7,455
Floor Damping	0.069	0.114	0.152
Total	**10,269**	**10,320**	**10,371**

The grant increase for 2008/09 also absorbs 4 grants formerly paid as specific grants. These are:

- Waste Performance Efficiency Grant £45,297
- Stray Dog Control £ 6,926
- New conduct regime for lower-tier authorities £ 2,851
- Contaminated Land £ 989

After allowing for these sums, the grant increase is just 1% for 2008/09, equivalent to the increase guaranteed by the grant floor.

The assumptions for population and Council Taxbase are as follows:

	2008/09	2009/10	2010/11
Taxbase – for Grant Settlement	34,829.30	35,345.00	35,868.40
Taxbase – Council Calculation for Tax Setting	34,264.88	34,360.48	34,456.34
Population – RSG Settlement	104,071	104,463	104,856

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

3.1.2 Council Tax

The Government has powers to limit excessive Council Tax increases and has made it clear that Council Tax increases over 5% per annum are unacceptable.

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

The City Council has been successful in limiting the Council tax increase for 2008/09 to 3.5% (the same increase as for 2007/08, 2006/07 and 2005/06). This is just below the average increase for Districts for 2008/09 (4%). This is a key part of the Council's drive to improve Value for Money services for its local residents. It has therefore been assumed that an annual increase in Council Tax of 3.5% is an acceptable target for the Council for the period under review**.** This will however be subject to review during the annual budget process, and will be particularly dependent on annual Government funding levels and future spending pressures.

3.1.3 Local Government Finance

The assumptions made in this MTFP are that there will be no substantial changes to the existing system of local government finance in the next five years. Nevertheless, proposals are being developed that may allow the Council to raise more money locally following the Lyons Review. These include:

- Council Tax
  - The review concluded that Council Tax remains a broadly sound tax.
  - Revaluation, which is an important part of maintaining a credible and up to date taxbase (Government response that this will not be considered until 2011).
  - The introduction of two new bands at the top and bottom of the band-width (Government response that this will not be considered until 2011).
  - Implementation of an automated Council Tax Rebate system and increasing the savings limit for entitlement.
  - The introduction of a local income tax was not discounted to replace all or part of Council Tax but is not recommended in the short to medium term (lead in time 6/7 years with significant set up costs).
  - The Government should commit to significant further reductions in the amount of conditional, ring-fenced and specific grants.

- Business Taxation
  - The RPI cap should be retained (agreed by Government).
  - A supplementary business rate of 2p in the £ will be possibly be introduced from 2010, which would operate on a broader basis than the current Business Improvement District system (the Government is to consult on this).
  - Reliefs and exemptions for empty properties should be reformed (Government proposals to remove most types of empty property relief currently out for consultation).

- 2010 NNDR (Business Rates Revaluation)
  - The MTFP assumes the effect of the revaluation on Council owned properties will be revenue neutral.
  - Any significant changes in the rateable values of Council owned property will be taken into account in the MTFP during 2009/10 when rateable value trends are known.

  Overall, the proportion of funding provided directly by the Government through RSG is dropping, which effectively means that increases in local authority funding are being met by the business community through increases in the redistribution of NNDR, rather than by the Government itself.

- Charging and Trading
  - Local Authorities should make greater use of their current powers to charge.
  - Local Authorities should have powers to charge for domestic waste collection (subject to consultation).

3.1.4 Specific Grants

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

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

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

Local Authority Business Growth Incentive Scheme (LABGI)
The LABGI scheme has been abolished for 2008/09. Proposals are being developed to provide an alternative to LABGI from 2009/10 onwards to provide strong incentives for local authorities to increase economic prosperity. Additionally, the level of resources to be included in the new scheme would be much reduced - down to £50m nationally in 2009/10 and £100m in 2010/11 from around £316m in 2006/07. The new scheme will therefore provide funding at just 16% of existing levels. The method of distribution of grant under the new scheme is also unclear. Therefore, until more guidance is received on how this will be done in practice, no forecasts on the likely grant to be received from this scheme have been included in the budget assumptions for financial years 2009/10 to 2013/14.

Housing Benefits
The Department of Works and Pensions' (DWP) allocation under the Government's Comprehensive Spending Review is £555 million in 2007/08, £541 million in 2008/09, £528 million in 2009/10 and £514 million in 2010/11. This represents an annual cash reduction of 2% (approximately 5% after taking inflation into account). This reduction will be passed on to local authorities to be met from local authority provided services i.e. housing benefits. The DWP has already significantly reduced Housing Benefit administration grant in 2005/06 and 2006/07. It is the view of the DWP that local authorities can make the required savings (30.6% reduction over 6 years in real terms) without affecting performance by embracing the shared service agenda. Carlisle's current notified Housing Benefit grant profile is shown in the Table below:

Year	Amount £	Cash Reduction p.a. on Previous Year £	Reduction p.a. adjusting for inflation @3% £
2005/06	943,314	35,202	64,557
2006/07	848,177	95,137	123,436
2007/08	837,711	10,466	35,911
2008/09	817,738	19,973	45,104
2009/10	797,819	19,919	44,451
Total	**4,244,759**	**180,697**	**313,459**

Housing and Planning Delivery Grant
The second Tranche was announced in February 2008 and was £166,658, giving the total Grant for 2007/08 of £196,248.

The Planning Delivery Grant has been replaced for 2008/09 by the Housing & Planning Delivery Grant and the Council has recently been awarded a provisional sum of £148,426 for 2008/09. The emphasis of the Grant has been altered with greater emphasis being given to plan making and housing delivery.

There is no longer any reward for development control performance although poor performance will result in any award for the other elements being reduced.

To compensate for the loss of reward for development control performance planning application fees have been increased by approximately 25% from the 6 April 2008, although alterations to existing dwelling houses or development within the curtilage have been increased by 11%.

Planning fee income can at present be spent as the local authority sees fit but the fee level has been set on the basis that the fees should cover as far as possible the cost of handling applications. Other planning related costs for example enforcement will for the time being continue to be funded from local authority central budgets. Even when supplemented by planning related grants (Housing & Planning Delivery Grant) for plan making this will not remove the need for additional funding.
The allocation for future years as stated is not clear. Amounts received over last few years are:

	Provisional Award £	Final Award £
• 2003/04	-	75,000
• 2004/05	-	223,085
• 2005/06	198,237	269,116
• 2006/07	89,666	166,637
• 2007/08	29,950	196,248
• 2008/09	148,426	

Homelessness
The Government has awarded the Council a grant of £40,000 p.a. over the next three-years as its basic entitlement to Homelessness grant. These sums are already incorporated into the council's base budget.

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

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

Overall the estimated cost of extending the concessionary fares scheme nationally will cost this Council £236,000 in 2008/09 (and £226,000 p.a. in subsequent years) **over and above** the amount of funding provided by the Government through additional specific grant. The excess has been found from within existing Council budgets. These costs are based upon implementing the Government's statutory scheme, however since the budget was approved in February, the Council has approved the implementation of a 24/7 free Concessionary Fares scheme increasing the cost to the Council by £115,000 in 2008/09; by £142,000 in 2009/10 and by £149,000 in 2010/11.

Cohesion
A new specific area-based grant to promote stronger local leadership, greater resident participation and an enhanced role for community groups to help local areas promote community cohesion has been awarded. The values are:

	£
• 2008/09	26,000
• 2009/10	49,000
• 2010/11	75,000

3.1.5 Other Government Initiatives

Waste and Recycling

The new waste collection service has now been operational for about 1 year. The budget projections include updated costs for the new service, and a new budget pressure has been included to compensate for the loss of a £69k cost reduction for waste and recycling, which was included in last years MTFP.

The new service contributes significantly to the Greener, Cleaner, Safer priority contained within the Corporate Improvement Plan.

The 2008/09 RSG settlement included £45,297 formerly paid as a Waste Performance and Efficiency grant. This grant was formerly paid to Cumbria County Council who distributed the grant across the county via the Cumbria Strategic Waste Partnership (CSWP). This sum is being used to fund the continued employment of a waste enforcement officer, following agreement with CSWP.

Housing

In 2006, support for housing capital spending was transferred from the Revenue Support Grant to a specified capital grant from the Regional Housing Pot. The grant received for 2007/08 was approximately £1.1 million. A similar sum has been assumed for future years. Members have approved the use of this grant for housing schemes within the capital programme as guided by the Housing Strategy.

Climate Change Bill

There is a substantial raft of legislation emerging through Europe and in current national proposals for the Climate Change Bill, which could have a significant impact on the Council. This is compatible with the Council's priorities and could re-shape many services and operations currently undertaken. These issues will become clearer as the legislation develops and could have significant financial implications.

3.1.6 Efficiencies

The Chancellor announced in his 2007 Budget that an ongoing cash-releasing efficiency target of 3% per annum will be required from 2008/09 as part of the 2007 Comprehensive Spending Review. The 2007 MTFP assumed that this will translate into a reduction in real terms in grant from the Government, leaving the Council to find the shortfall from its efficiency proposals. The actual settlement with year-on-year increases of 1% in 2008/09 and 0.5% in the following two years has confirmed this position as far as this Council is concerned. This has been reflected in the budget projections for the 2008/09 budget.

3.2 Pensions

The next actuarial valuation is due in 2010 and, for the moment, there are no forecasts of the potential costs to the council in the MTFP. The increased costs from 2008/09 to 2010/11 arising from the outcome of the 2007 valuation are incorporated into the MTFP however future years are not.

3.3 Economic Factors

3.3.1 Inflation

The general economic climate in the UK is currently showing continuing inflationary pressures fuelled by price increases in oil, raw materials and labour costs, which is feeding through to increases in both the Consumer Price (3.8%) and Retail Price (4.6%) Indices (June 2008). The current CPI is still running well in excess of 2%, the government's inflation target, which is used by the Monetary Policy Committee (MPC) to determine official interest rates.

As far as the City Council is concerned, inflation adds to the pressure on its finances if pay settlements and other costs exceed the estimates incorporated in the Council's budget. All such estimates incorporated an allowance (which may be 0%) for inflation pressures during the year.

In terms of treasury management, the Council borrowing costs are fixed until 2020 due to the long term fixed rate nature of its current external loans. Investment income is more related to movements in the base rate and other short term interest rates. Raising such rates is seen as one of the primary means of controlling inflation and the MPC's primary remit is to control inflation. The base rate, which reached 5.75% in July 2007, has now been reduced to 5% but due to the effect of the credit crunch many market rates have remained well above the level of the official rate.

3.3.2 State of the Economy

Early warning signs of a potential recession are apparent i.e. the credit crunch, state of the housing market, rising unemployment. Should the economy move into recession it could have a significant effect on the MTFP. Possible effects could include falls in income, particularly from services that are driven by economic activity such as planning and building control fees. Car Park income would probably fall further while there would be increased take up of Housing Benefit as unemployment rose. Ultimately, homelessness could be a greater problem. The impact of the loss of income/increased costs is detailed in the sensitivity analysis section of the MTFP.

3.4 Minimum Revenue Provision (MRP)

The MRP represents a provision that the Council must make to fund the repayment of external debt. Changes in government regulations have enabled the Council to substantially reduce its MRP provision both in 2008/09 and in the medium term and these revisions have been incorporated within the MTFP. The MRP will, however rise as the Council's stock of capital receipts is used in support of the capital programme. This factor is also incorporated within the MTFP forecasts.

4. INTERNALLY DETERMINED FACTORS INFLUENCING THE MTFP

4.1 Inflation

Taking into account current economic forecasts the Council has to make assumptions on the level of inflation to be included in the forward projections within the MTFP. The measure to be used for inflation in the MTFP is CPI (i.e. excluding housing costs) and this is currently running at 3.8%.

Although general inflation in the UK is still at a relatively low level, it still has a cumulative impact on the cost of services.

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

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

4.1.1 Pay Costs

In 2008/09, the Council is expecting to spend £18.8 million on employee related costs and this represents approximately 60% of the cost of running the Council, excluding the cost of housing benefits. This excludes an estimated cost of £1 million to meet the potential costs of the job evaluation programme and the introduction of the single status agreement across the Council.

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

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

- A provision for basic pay increase of 2.5% p.a. (This will be revised during the budget process once the outcome of the pay negotiations are known).
- Increments will cost on average £150,000 p.a.
- Employer's National Insurance rates will remain unchanged at 12.8% of eligible pay.
- Staff turnover will remain at around 3% of gross salaries. The budget provision for 2008/09 has been set at £592,000.
- A freeze on non-essential vacancies. The salary budget for 2008/09 has been reduced by £500,000 to reflect this position.

4.1.2 General Inflation

The Council applies a policy of applying a general inflation increase to all running costs in its budget. The inflationary increase for the 5 years of the MTFP is based on the annual Consumer Price Index, which is currently running at 3.8% per annum (June 2008), although the current MTFP still assumes an inflation rate of 2.8%.

4.1.3 Specific Application of Inflation

To assist with the identification of efficiency savings, for the past few years, general supplies and services have not been inflation linked and have been frozen at existing budget levels. The value of these services is £5 million and the annual saving from not applying inflation is £140,000 (based on 2.8% per annum)

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

4.1.4 Investment Income

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

When the budget for investment income in 2008/09 was first drawn up last autumn, it was based upon achieving an estimated yield of 5.25%. Bank base rates has now been reduced to 5% but the ongoing difficulties being faced by the banking sector has meant that the rate of interest earned on our short term investments has largely been unaffected by this reduction. The latest forecasts of interest rate movements provided by our treasury management consultants, Sector, indicate a further fall in base rates to 4.25% by mid 2009, with a move back to 4.75% by early 2010. These movements could potentially affect the interest returns earned by the Council but past experience indicates that the forecast yield of 5.25% per annum remains an achievable target. As in previous years, these projections are subject to regular review and amendment in the light of money market conditions.

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

	Current MTFP	Revised Projections
2008/09	£1.6m	£1.75m
2009/10	£1.3m	£1.38m
2010/11	£1.3m	£1.25m
2011/12	£1.3m	£1.30m

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

4.2 Spending Pressures and Savings

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

Details of all spending pressures and savings affecting services in 2008/09 are shown in detail in the budget resolution and are summarised below:

	2008/09 original £000	**2008/09 revised £000**	**2009/10 £000**	**2010/11 £000**	**2011/12 £000**	**2012/13 £000**	**2013/14 £000**
Recurring Spending Pressures	775	890	959	1,006	1,006	1,006	1,006
Recurring Spending Reductions	(1,383)	(1,498)	(3,057)	(3,252)	(3,252)	(3,252)	(3,252)
Net recurring spending/(saving)	**(608)**	**(608)**	**(2,098)**	**(2,246)**	**(2,246)**	**(2,246)**	**(2,246)**
Non – Recurring Pressures:							
- Existing	793	793	324	0	0	0	0
- New	386	386	392	392	0	0	0
Carry forward requests	0	624	20	4	0	0	0
Supplementary estimates	0	73	0	0	0	0	0
Non Recurring Reductions	0	0	0	0	0	0	0
Net non-recurring spending/(saving)	**1,179**	**1,876**	**736**	**396**	**0**	**0**	**0**

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

4.3 Asset Management

The Council is required to draw up an Asset Management Plan (AMP) to ensure that the Council's property is maintained in a good condition, is suitable for purpose and that sufficient resources are available to meet maintenance costs. The AMP recognised a maintenance backlog of some £4.7 million. The level of repairs and maintenance in the Council's budget is subject to an annual repair and maintenance programme with bids for structural maintenance and disabled adaptations included within the capital programme. The Council is also investigating the suitability of either developing its in-house capability or establishing a Local Asset Vehicle to maximise the potential of the Council Assets on service delivery and financial returns.

4.4 Income

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

4.4.1 Fees and Charges for Services

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

4.4.2 Significant Income Streams – further actions will need to be taken to account for the areas where income continues to be generated at less than the budget. In 2007/08 income targets were missed by circa £257k for some of the items listed below. The 2009/10 Charges Review will further consider this issue.

	2005/06 Actual £	**2006/07 Actual £**	**2007/08 Out-turn £**	**2008/09 Budget £**
Cemeteries and Crematorium	851,481	862,623	922,412	1,071,000
Development Control	511,387	593,108	500,612	614,000
Building Control	431,995	392,399	410,542	451,500
Land Charges	316,101	359,436	319,303	325,500
Licences	245,430	214,771	233,828	211,300
Parking	1,354,931	1,516,287	1,522,612	1,552,000
Totals	**3,711,325**	**3,938,624**	**3,909,309**	**4,225,300**

The charges for the **Cemeteries and Crematorium** have been set and approved at a level, which aimed at making the service self financing from 2008/09 onwards. The actual income generated in 2007/08 was circa £90k less than the target. The assumptions around the level of charges proposed in the future will require careful consideration of the factors set out in Appendix E to ensure a realistic income target is maintained in future years.

The income (provisional) generated for **Development Control** and **Land Charges** was circa £40k and £45k less than the 2007/08 target and the economic downturn would suggest that this position may get worse over the next two years at least.

There is a downward trend for the income from **Building Control.** The (provisional) actual income generated for 2007/08 is below the 2007/08 budget. The Executive agreed that reductions in costs should be made to equal this for 2006/07. Costs have been reduced to negate the shortfall of income projected.

The income from **Parking** is estimated to be circa £82k less than the 2007/08 budget, even though that target was considerably reduced in that year (by £180k).

The first quarter monitoring report shows that income from fees and charges in 2008/09 is below the levels estimates.

4.4.3 Property Rentals

Income received from property rentals is in the region of £5.0 million per annum. The Council has established an Asset Investment Fund for its property portfolio to ensure that the quality of its industrial estates and other commercial properties is maintained, thereby preserving the level of income generated by these assets (also amount set aside for Renaissance totalling £1m). The Capital Programme includes an annual budget of £200,000 earmarked for investment in the Industrial Estates. Increases in income from this source are subject to rent reviews arising from lease negotiations by Property Services.

The forecast yield from property rentals over the period 2008-09 to 2011-12 and included in the MTFP is shown in the following table: -

Description	**2008/09 £000**	**2009/10 £000**	**2010/11 £000**	**2011/12 £000**
The Lanes (see paragraph below)	1,491	1,491	1,491	1,491
The Market (see paragraph below)	92	92	132	132
Industrial Estates (+2% pa)	2,426	2,475	2,525	2,576
Miscellaneous Properties (+2% pa)	1,076	1,097	1,118	1,140
Total	**5,085**	**5,155**	**5,266**	**5,339**

The Council has an agreement with the agents managing of the Lanes development whereby the Council is guaranteed an annual rental income of £1.491m until such time as the actual income generated from the development exceeds this sum. At that point the Council will lose the guaranteed rent and will only receive a percentage of actual income which may be more or less than the current receipt. The situation is monitored via Management Reports received from the Managing Agent.
In 2010/11 the Council's payment for maintenance at the Market will cease, giving an overall saving of £40,000 p.a. This has been reflected in the forecast for the year in question.

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

4.4.4 Investment Income

Interest receipts from the investment of surplus revenue funds, balances and unapplied capital receipts continue to be a significant element of the City Council's budget. Based on an investment yield of 5.25% p.a., a figure of £1.6m was included as investment income in the 2008/09 Revenue Budget. This projection is regularly reviewed in the light of money market conditions and any change in balances e.g. resulting from increases in the level of capital receipts. The Council currently internally manages funds of about £30m. Further details of the Council's investment policies are contained in the annual Investment Strategy, which was approved by the Council on 5 February 2008 as part of the Treasury Management Strategy Statement.

4.4.5 Council Tax Income

Based on the Council Tax base projected for 2008/09 and an assumed annual growth of approximately 0.28% in the base over the next five years, a 3.5% increase in Council Tax per annum will provide additional resources over the period 2009/10 – 2013/14 as follows: -

Year	Council Tax [Band D]	Tax Base Projections	Yield	Annual Increase
2008/09	£183.22	34,264.88	£6,278,013	-
2009/10	£189.63	34,360.48	£6,515,778	£237,765
2010/11	£196.27	34,456.34	£6,762,746	£246,968
2011/12	£203.14	34,552.48	£7,018,990	£256,244
2012/13	£210.25	34,648.88	£7,284,927	£265,937
2013/14	£217.61	34,745.55	£7,560,979	£276,052

4.5 The Capital Programme

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

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

Prudential Borrowing

Nearly all formal controls on borrowing by local authorities have been relaxed since the introduction of the Prudential Code in April 2004. Furthermore, in both the current year and in 2007/08 the City Council received a capital grant of approx. £1.2m towards its capital expenditure programme. This was in lieu of the previous support given to estimated borrowing costs via the revenue support grant system. This system of providing support via a capital grant is expected to continue in the period covered by the MTFP.

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

4.6 Reserves

It is the responsibility of the Director of Corporate Services to advise the Council on policies and protocols in respect of the use and level of reserves that it should hold. This information is required to ensure that members are kept fully informed of the effects of their decisions on the reserves held by the Council. A revised set of policy guidelines and associated protocols is attached at **Appendix E.** It is proposed that three new reserves be set up to cover Job Evaluation, Licensing and the Sheepmount as set out in the appendix. The

The Council is currently in a sound financial position with robust balances as set out in **Appendix F**. In order to maintain the financial stability of the Council, the fundamental principle on the use of Reserves and Balances is that they should not normally be used to fund recurring expenditure. Where they are, however, the usage should be explicitly stated, and steps taken to address the situation in following years.

The Council also resolved to discontinue the use of the Renewals Reserve with effect from 1 April 2008. The Council also resolved to safeguard that balance of the Renewals Reserve set aside to meet potential liabilities for assets acquired by Carlisle Leisure Ltd and transfer the residual balance into the Projects Reserve at that date.

5. BUDGET PROCESS

5.1 Budget Process

The Revenue Budget Process is the main mechanism in place for forecasting spending requirements and resources over a 3-year planning period.

The budget is drawn together from:

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

to arrive at a level of Council Tax to be charged to residents.

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

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

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

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

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

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

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

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

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

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

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

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

5.2 Modernising the Budget Cycle

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

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

5.3 Consultation

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

In addition, formal consultation meetings are held with:

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

The Council's Corporate Resources Overview and Scrutiny Committee also has a role in scrutinising the budget proposals.

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

The Council has a Consultation Policy and carries out consultation with a variety of stakeholders throughout the year. This includes a "State of the City" consultation on an annual basis to canvass views from the local community. There is also consultation carried out annually with the Citizens panel of 1,000 people drawn from a cross section of the community. The results of these consultations inform policy development and feed into the Corporate Improvement Plan, MTFP and other individual service plans.

5.3 Value for Money

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

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

6 SENSITIVITY ANALYSIS

6.1 Financial Impact

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

Description	Base for Calculation £'000	1% Variance £'000
Pay Awards	18,255	183
Supplies and Services	10,900	109
Council Tax	(6,278)	(63)
General Inflation (above 2.8%)	16,919	170
Income from Fees and Charges	(6,700)	(67)
Investment Interest - Movement in rates	(30,000)	300

6.2 Population Impact

The resources of the Council are also affected by the demands of its customers. Over the next few years the population of the Council is expected to grow by 0.4% per annum. The Council can therefore be expected to provide additional services to meet the needs of its growing population.

In 2008/09 the cost of providing Council services equates to a cost per head of population of £163.45, based on a population forecast of 104,071. A 1% increase in the Council's population would therefore mean that a further £170,000 would need to be raised to provide Council services at existing levels, which would give rise to an increase in Council Tax of £2.70.

7 RISK ASSESSMENT

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

Individual responsibilities are set out in the Financial Procedure Rules.

8 SUMMARY

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

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

Carlisle City Council – Financial Projections for the period to 2013/14 **APPENDIX A**

2008/09 Budget £000	Summary Net Budget Requirement	2009/10 Proj'd £000	2010/11 Proj'd £000	2011/12 Proj'd £000	2012/13 Proj'd £000	2013/14 Proj'd £000
	Projected Resources					
(6,278)	- Council Tax Income	(6,516)	(6,763)	(7,019)	(7,285)	(7,561)
(10,269)	- Revenue Support Grant / NNDR	(10,320)	(10,372)	(10,372)	(10,372)	(10,372)
(26)	- Area Based Grant	(49)	(75)	0	0	0
(32)	- Estimated Council Tax Surplus	(11)	0	0	0	0
(405)	- Parish Precepts	(410)	(420)	(431)	(442)	(453)
(17,010)		**(17,306)**	**(17,630)**	**(17,822)**	**(18,099)**	**(18,386)**
	Recurring Revenue Expenditure					
17,527	Existing Expenditure	18,318	18,948	19,602	20,319	21,048
775	New Spending pressures	959	1,006	1,006	1,006	1,006
(1,383)	Budget reductions	(3,057)	(3,252)	(3,252)	(3,252)	(3,252)
16,919	**Total Recurring Expenditure**	**16,220**	**16,702**	**17,356**	**18,073**	**18,802**
	Non-Recurring Revenue Expenditure					
793	- Existing Commitments	324	0	0	0	0
386	- Spending Pressures	392	392	0	0	0
73	- Supplementary Estimates	0	0	0	0	0
624	- Carry Forward	20	4	0	0	0
18,795	**Current Revenue Expenditure**	**16,956**	**17,098**	**17,356**	**18,073**	**18,802**
405	**Parish Precepts**	**410**	**420**	**431**	**442**	**453**
19,200	**Total Revenue Expenditure**	**17,366**	**17,518**	**17,787**	**18,515**	**19,255**
(2,190)	**Contributions from Reserves**	**(60)**	**112**	**35**	**(416)**	**(869)**
17,010	**Net Budget for Council Tax Purposes**	**17,306**	**17,630**	**17,822**	**18,099**	**18,386**

Financing the Revenue Budget

APPENDIX B

Indicative forecasts of how the Council's projected gross budget will be financed for the period 2008/09 – 2013/14 are as follows: -

Source	2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	£000	**%**	**£000**	**%**	**£000**	**%**	**£000**	**%**	**£000**	**%**	**£000**	**%**
Council Tax (inc. Parishes)	6,683	10.65	6,926	11.12	7,183	11.25	7,450	11.37	7,727	11.41	8,014	11.45
Formula Grant	10,269	16.36	10,320	16.57	10,372	16.25	10,372	15.83	10,372	15.31	10,372	14.82
Collection Fund Surplus	32	0.05	11	0.02	0	0	0	0	0	0	0	0
Area Based Grant	26	0.04	49	0.08	75	0.12	0	0	0	0	0	0
Net Budget for Council Tax Purposes	**17,010**	**27.10**	**17,306**	**27.79**	**17,630**	**27.62**	**17,822**	**27.20**	**18,099**	**26.72**	**18,386**	**26.27**
Grants and Contributions (assumed a 2.8% increase per annum)	31,010	49.40	31,878	51.18	32,771	51.35	33,689	51.41	34,632	51.13	35,602	50.86
Other Income (assumed a 3.8% increase per annum)	12,563	20.01	13,040	20.94	13,535	21.21	14,049	21.44	14,583	21.53	15,137	21.63
Reserves and Balances	2,190	3.49	60	0.09	(112)	(0.18)	(35)	(0.05)	416	0.62	869	1.24
Total Gross Budget	**62,773**	**100**	**62,284**	**100**	**63,824**	**100**	**65,525**	**100**	**67,730**	**100**	**69,994**	**100**

The use of Reserves and Balances varies from the Budget Resolution approved by Council in February 2008 as a result of the 2007/08 outturn position and the carrying forward of £648,000 into 2009/10, 2010/11 and 2011/12.

Subjective Analysis of the Forecast Gross Budget

APPENDIX C

The detailed subjective figures from 2009/10 will become available as part of the budget process.

Source	**2008/09**		**2009/10**		**2010/11**		**2011/12**		**2012/13**		**2012/13**	
	£000	**%**	**£000**	**%**	**£000**	**£00**	**£000**	**%**	**£000**	**%**	**£000**	**%**
Employees												
• Current	20,019	31.89										
• Potential PWS	1,000	1.59										
Premises	3,477	5.54										
Transport	1,765	2.81										
Supplies & Services	7,270	11.58										
Third Party Payments	4,326	6.89										
Transfer Payments	26,137	41.64										
Support Services (net)	(4,165)	(6.63)										
Capital Financing	1,842	2.93										
Precepts	405	0.65										
Supplementary estimates	73	0.12	0		0	0			0		0	
Carry forwards requests	624	0.99										
Total Gross Budget	**62,773**	**100**	**62,284**	**100**	**63,824**	**100**	**65,525**	**100**	**67,730**	**100**	**69,994**	**100**

APPENDIX D

CORPORATE CHARGING POLICY 2008

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

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

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

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

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

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

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

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

4. Trading

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

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

5 Value For Money

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

APPENDIX E

Council Policy on the Level and Use of Reserves

1. General

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

1.2 Reserves will not become overcommitted.

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

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

Taken together, the value of holding the existing level of reserves can be demonstrated by the fact that the Council has been able to contribute £3.093 million to its revenue budget through investment interest (£1.6m) and the use of balances (£1.493m).

2. The General Fund Reserve

2.1 The balance on the General Fund shall equal £3.8m. This figure was originally assessed in 2003/04 and taking into account the risks and working balances required, including investment income generated, it is considered prudent to leave the reserve at this level.

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

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

3. Earmarked Reserves

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

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

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

4 Charitable and Other Bequests

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

5 The Responsibilities of the Director of Corporate Services

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

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

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

PROTOCOLS FOR THE USE OF COUNCIL RESERVES			
Reserve	Estimated Balance 31/3/08	Purpose	Conditions of Use
Capital Reserves	£000		
Usable Capital Receipts	12,538	To provide funds to support the capital programme	Capital receipts can only be used to support capital spending or the repayment of debt. Management of the use of the receipts rests with the Director of Corporate Services but approval of their use must be given by Council.
Asset Investment Reserve	2,048	To provide resources to purchase properties and fund associated revenue costs (e.g. marketing) required as part of the Carlisle Renaissance project. To provide resources for investment in the Council's industrial estates to ensure rent yields are maintained / increased	Management of the reserve rests with the Director of Development Services who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council.
CLL Reserve	522	To provide funds to purchase equipment from CLL Ltd, should the leisure management contract either not be renewed or be terminated due to breach of contract on the part of CLL Ltd.	Management of the reserve rests with the Director of Community Services but can only be used with the agreement of the Council. Use of the reserve should be accompanied by a report to Council providing details of the circumstances giving rise to the need for support to be provided by the Reserve.
Lanes Capital Reserve	281	To provide funds to meet potential exceptional capital works under the terms of the lease agreement.	Management of the reserve rests with the Head of Property Services who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council.

Reserve	Estimated Balance 31/3/08	Purpose	Conditions of Use
Revenue Reserves	£000		
General Fund Reserve	(3,800)	To be a general working capital / contingency to cushion the Council against unexpected events and emergencies	Management of the reserve rests with the Director of Corporate Services. The use of the reserve is dependent on judgements taken when setting the Council's revenue budget on: - – Cash flow requirements, – Inflation and interest rates, – Demand led budget pressures, – Efficiency and productivity savings, – The availability of funds to deal with major unexpected events or emergencies, – Risks arising from significant new funding partnerships, major outsourcing arrangements or major capital developments. Approval to release funds from the reserve can only be given by the Council as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.
Projects Reserve	(4,049)	The balance at 31st March 2008 shall be earmarked to support potential revenue budget shortfalls identified by the 2008 Medium Term Financial Plan. Additions to the balances thereafter can be used either to support revenue budget shortfalls or projects within the Council's capital programme	Management of the reserve rests with the Director of Corporate Services. Funding for the Reserve will be provided by windfall gains over and above those required to maintain the General Fund at its approved level, balances on reserves that are no longer needed and proceeds from the Local Authority Business Growth Incentive Scheme. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.
Collection Fund (Carlisle Share)	(17)	To be the collection account for sums due from local taxpayers.	Management of the fund rests with the Director of Corporate Services. The use of the Fund is determined by statute. The main use is to adjust the level of Council Tax required in any one year to reflect surpluses or deficits on collection targets in prior periods.

Reserve	Estimated Balance 31/3/08	Purpose	Conditions of Use
Revenue Reserves (contd.)	£'000		
Residents Parking Reserve	(22)	To provide funds for small projects consistent with the Local Transport Plan.	Management of the reserve rests with the Director of Community Services but can only be used with the agreement of Cumbria County Council. Use of the reserve should be accompanied by a report to Council providing details of the projects supported by the Reserve. Funding is provided from the balance generated by the Residents Parking Initiative and must be reported to Cumbria County Council annually.
Building Control Reserve	21	To provide funds for improvements to the delivery of the Building Control function.	Management of the reserve rests with the Director of Development Services. The balance is ring-fenced by statute to support improvements to the Building Control Service and is not available for general use by the Council. Funding is provided from surpluses generated by the service annually. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.
Conservation Reserve	(191)	To purchase historic buildings at risk or fund repairs and / or improvements to historic buildings	Management of the reserve rests with the Director of Development Services. Funding is provided from the sale of property. Approval to release funds from the reserve can only be given by the Executive of the Council.
LSVT Warranties	(488)	To provide funds to meet claims arising in years 13 –25 following transfer of the housing stock in 2002 under environmental warranties given at the time of the transfer, when insurance has expired	Management of the reserve rests with the Director of Corporate Services. The reserve is only able to be used to meet defined costs and is not available for general use by the Council. Approval to release funds from the reserve can only be given by the Council.
Routledge Reserve	(42)	To provide funds to purchase artefacts for Tullie House museum	The balance of this reserve relates to a bequest, which is not subject to charitable status. Management of the reserve rests with the Director of Community Services but can only be used with the agreement of the Council. Use of the reserve should be accompanied by a report to Council providing details of the projects supported by the Reserve.

Reserve	Estimated Balance 31/3/08	Purpose	Conditions of Use
Revenue Reserves (contd.)	£'000		
Job Evaluation Reserve	(888)	To provide funds to cover the estimated cost of Job Evaluation. A further £2m will be added to this amount.	The release of funds from this Reserve requires Council approval.
Licensing Reserve	(14)	This is ringfenced surpluses carried forward to fund future year's expenditure.	Management of the reserve rests with the Director of Corporate Services.
Sheepmount Reserve	(129)	This is funds held which will be needed for future drainage works at the Sheepmount.	Management of the reserve rests with the Director of Corporate Services

City Council Reserves Projections

Members should note that these financial projections will change once the 2007/08 accounts have been completed and that the final version of the MTFP will be amended accordingly.

Analysis of Council Reserves	**Out-turn 31 March 2007 £000**	**Projected 31 March 2008 £000**	**Projected 31 March 2009 £000's**	**Projected 31 March 2010 £000's**	**Projected 31 March 2011 £000's**	**Projected 31 March 2012 £000's**
Revenue Reserves						
General Fund Reserve	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)
Projects Reserve	(6,641)	(4,049)	(2,576)	(2,516)	(2,628)	(2,663)
LSVT Warranties Reserve	(488)	(488)	(488)	(488)	(488)	(488)
Conservation Reserve	(191)	(191)	(191)	(191)	(191)	(191)
Sheepmount Reserve	(150)	(129)	(129)	(129)	(129)	(129)
Collection Fund [Carlisle Share Only]	6	(17)				
Residents Parking Reserve	14	(22)				
Building Control Reserve	30	21				
JE Reserve	0	(888)				
Licensing Reserve	0	(14)				
Routledge Reserve	(75)	(42)	(42)	(42)	(42)	(42)
Total Revenue Reserves	**(11,295)**	**(9,619)**	**(7,226)**	**(7,166)**	**(7,278)**	**(7,313)**
Capital Reserves						
Usable Capital Receipts	(10,460)	(12,538)	(10,196)	(12,526)	(14,014)	(15,463)
Asset Investment Reserve	(2,060)	(2,048)	(2,000)	(2,000)	(2,000)	(2,000)
Renewals Reserve (1)	(1,681)	(669)	0	0	0	0
CLL Reserve (2)	0	(522)	(522)	(522)	(522)	(522)
Lanes Capital Reserve	(266)	(281)	(296)	(311)	(326)	(341)
Total Capital Reserves	**(14,467)**	**(16,058)**	**(13,014)**	**(15,359)**	**(16,862)**	**(18,326)**
Total Usable Reserves	**(25,762)**	**(25,677)**	**(20,240)**	**(22,525)**	**(24,140)**	**(25,639)**
Other Technical Reserves *	**(93,910)**	**(111,184)**				
Total All Reserves	**(119,672)**	**(136,861)**				

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

Notes: 1 - Balance transferred to the Projects Reserve and CLL Asset Reserve 31 March 2008.
2 - Balance transferred from the Renewals Reserve 31 March 2008.

RISK ASSESSMENT **APPENDIX G**

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