

REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE AND RESOURCES

Date of Meeting:	17 December 2001
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Public	
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Key Decision:	Yes	Recorded in Forward Plan:	Yes
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Inside Policy Framework

Title: 2002/03 GENERAL FUND REVENUE ESTIMATES
AND BUDGET CONSIDERATIONS

Report of: The City Treasurer

Report reference: Financial Memo 2001/02 No 120

Summary:

The Report advises on the 2001/02 Revised Estimates and summarises the Core Base Service Estimates for 2002/03 together with other Non-Recurring and Capital Commitments. The Report also reviews the impact in 2002/03 of the Local Government Financial Settlement; the implied spending constraints; the scope for increased spending; the impact on the Council Tax; and reviews a range of issues which have a material bearing on the Budget process or which require the City Council to determine.

Recommendations:

The Report seeks Members' recommendations on 17 December for consultation and subsequently on 28 January, to Council in respect of all those matters requiring a Council Resolution as part of the Budget Determination for 2002/03 as set out in Section 22.

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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: Financial Memos 2001/02 No's 91,113, 114 (amended), 121.

CITY OF CARLISLE

To: The Executive Financial Memo

17 December 2001 2001/02 No 120

2002/03 GENERAL FUND REVENUE ESTIMATES

AND BUDGET CONSIDERATIONS 2002/03 to 2004/05

1. BACKGROUND INFORMATION AND OPTIONS

1. This report marks the culmination of the budget process for the financial year 2002/03.
2. The report draws together the many reports during the budget process which have previously been considered by Members and:

- Revises the 2001/2002 current year's Budget;
- Summarises next year's 2002/2003 core Estimates;
- Advises on commitments arising from previous decisions;
- Summarises and reviews the impact on the City Council of the Local Government Finance Settlement for next year and comments on the outlook for the succeeding 2 years;
- Provides guidance on a number of major issues which require resolution as part of the budget process or which will be important to members in finalising the budget;
- Reviews the Council's Balances and Reserves and the extent to which they might be used to support next year's Budget, having regard to outstanding commitments, uncertainties and new commitments.

1. The report draws on information contained in Financial Memo No 113, which was considered at the meeting of the Executive on 26th November, and Financial Memo No. 121 detailing the Local Government Finance Settlement, which is considered elsewhere on this agenda.
2. This report contains the following Appendices:

Appendix 1 - Key Strategic issues for 2002/03 Budget process

Appendix 2 - Forecast General Fund Budget 2001/02 to 2004/05

Appendix 3 - Summary Fees and Charges Increases 2002/03

Appendix 4 – New Policy Objective Bids 2002/03

Appendix 5 – New Bid (CIIA)

Appendix 6 – Council Tax Options 2002/03 to 2004/05.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT 2002/03 AND BEYOND

1. The Provisional Local Government Finance Settlement is detailed in Financial Memo. 2001/02 No. 121, which is considered elsewhere on the agenda. It should be noted that the Final Settlement figures will be reported to Members when they are issued at the end of January 2002.
 2. The provisional financial settlement for 2002/03 has resulted in a disappointing settlement for District Council's as a class, and for Carlisle City Council in particular.
 3. In the first forecast report which was considered by the Executive on 18th September, I forecast:
 - i. A likely increase of 4% to £11.26m in the Council's Standard spending Assessment (SSA) coupled with a grant increase of £302,000 to £8.226m.
 - ii. An increase in the implied spending limit for the Council to a minimum of £12.866m, (excluding Parish Precepts) for a council tax increase of £5.22 (3.7%) (Before addressing the impact of the Housing Stock Transfer).
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1. The actual settlement figures have produced an increase of:
 - o £398,000 (3.7%) from £10.824m to £11.222m in the Council's SSA, a reduction of £38,000 over original projections.
 - o £398,000 in the implied spending limit of the Council at SSA to £12,818m.
 - o £146,000 in external support grant, a reduction over original forecast of £156,000.
 1. For the City Council, the critical information is the proposed increase in the Council's Standard Spending Assessment (SSA) from £10.824m to £11.222m – an increase of £398,000. This increase in SSA is supported by extra grant of £146,000, but the balance of £252,000 being funded from Council Tax increase, is equivalent to an additional £7.95 (5.7%), an increase of £2.73 over my original forecast of £5.22 (3.7%).
 2. The actual impact on the City Council's Council Tax requirement taking into account current budget projections is analysed in Paragraph 10.

3. KEY STRATEGIC ISSUES

1. There are a number of key strategic issues which will exert a significant effect in setting the budget for next year and which it is important for members to understand. These were previously considered by Members on 26th November as set out in Financial Memo 2001/02 No 113, but have been reproduced at **Appendix 1** for ease of reference. Members should note that there have been some changes to the wording regarding the LSVT Transfer costs to reflect the changes detailed in paragraph 3.2 (i) above.
2. **Members are asked to note that the City Treasurer will continue to review the scope for the re-scheduling of the Council's long-term borrowings including the application of frozen capital receipts.**

4. GENERAL FUND BUDGET PROJECTIONS 2001/02 REVISED TO 2004/05

1. The budget projections as currently forecast (at this stage excluding the impact of any new bid or saving proposals) are set out in **Appendix 2** and are summarised for 2001/02 and 2002/03 in the table below:

EXPENDITURE PROJECTION	2001/02		2002/03
	Original	Revised	First
	Estimate	Estimate	Estimate
	£	£	£
Core Spending:			7,937
Core Base Level Expenditure	12,313,250	12,110,530	13,225,750
Recurring LSVT Impact – Corporate			210,000
Recurring LSVT Impact - Benefits			170,000
Total Core Spending	12,313,250	12,110,530	13,605,750
Non-Recurring Expenditure:			
Previously Approved Policy Initiatives	468,100	433,100	60,100
LSVT Transfer Costs	1,206,000	350,000	850,000

Adverse Impact of Interest Rates	0	0	170,000
Supplementary Estimates	0	86,600	0
Slippage from 2000/01	0	1,398,570	0
Airport	340,750	90,980	0
Total Non-Recurring Expenditure	2,014,850	2,359,250	1,080,100
Capital Expenditure:			
Gross Capital Expenditure	3,602,510	2,740,300	0
Capital Income	(1,016,073)	(653,485)	0
Renewal of Vehicles, Plant and Equip.	834,185	817,365	597,610
Total Capital Expenditure	3,420,622	2,904,180	597,610
Parish Council Precepts	232,695	232,695	240,839*
Total General Fund Requirement	17,981,417	17,606,655	15,524,299

* Parish Council precepts for 2002/03 are currently estimated at £240,839 (3.5% increase over 2001/02). The actual Parish requirement will be known sometime after 10th December.

2. The main changes to the above projections from the previous projections made in Financial Memo No 113 which was considered by the Executive on 26th November are:

- i. Housing Transfer Costs

The City Council's own direct expenditure in securing the proposed transfer of the Housing stock to the Riverside group has been re-stated from £4.5m to £1.2m. Revised expenditure is estimated at £350,000 in 2001/2002 and £850,000 in 2002/03 – all of which will be recovered from the proceeds of sale if the transfer proceeds. £600,000 of the expenditure is likely to be incurred before the ballot result and so must be viewed as being 'at risk'. Riverside's costs, subject to negotiation, will be met by a loan/grant

arrangement recovered from the proceeds of sale and which has therefore been discounted from the Council's revenue budget.

ii. Treasury Management Forecast

£170,000 of the worsened Treasury Management forecast as reported in Financial Memo 113, has been treated as a non-recurring item as it is currently forecast that interest rates will recover by 2003/04.

iii. Car Parking Charges

Additional income of £29,000 has been incorporated into the 2002/03 base budgets reflecting the Executive decision taken on 26th November.

1. The above expenditure projections include increases in fees and charges as agreed by the Executive totalling £188,830 in 2002/03, an increase of 4.87% over 2001/02 levels. Details are contained in **Appendix 3**.

3. RESOURCES AVAILABLE TO MEET EXPENDITURE COMMITMENTS

1. The resources available to meet the committed budget requirement for 2002/03 to 2004/05 are detailed in **Appendix 2** and summarised for 2002/03 in the Table below. The figures presented are based on the Provisional Local Government Finance Settlement announced by the Secretary of State on 4th December 2002.

RESOURCES PROJECTION	<u>2001/02</u> <u>Original</u> <u>Estimate</u> £	<u>2001/02</u> <u>Revised</u> <u>Estimate</u> £	<u>2002/03</u> <u>First</u> <u>Estimate</u> £
Projected External Finance:			
- Revenue Support Grant	4,082,330	4,082,330	3,785,000
- NNDR Grant	3,841,357	3,841,357	4,285,000
- Surplus on Collection Fund	69,425	69,425	40,000
- Council Tax for Parish	232,695	232,695	240,839

Precepts			
- Council Tax for SSA Increase	4,426,870	4,426,870	4,678,557
Total Income at limit based on SSA increase and increase in Parish Precepts	12,652,677	12,652,677	13,029,396
Plus Contributions from:			
- General Fund Balance *	702,118	1,556,218	230,100
- G Fund Balances in respect of LSVT	1,206,000	350,000	850,000
- G Fund (Ex HRA assumption) **	0	0	170,000
- Capital Projects Fund	2,436,437	1,942,055	0
- Renewals Reserve	834,185	954,765	597,610
- Capital Receipts	150,000	150,940	0
Total Use of Reserves	5,328,740	4,953,978	1,847,710
Total Projected Resources Available	17,981,417	17,606,655	14,877,106
Total Projected Expenditure	17,981,417	17,606,655	15,524,299
Potential Savings Required			647,193

*NB. Up to £1.2m will be recovered back to balances from the successful completion of the LSVT process.

** It is assumed that £1.6m will transfer from HRA to GF on transfer of Housing Stock and be used to meet the local cost of benefits in the first three years before the RSG reflects this expenditure.

- The potential savings required for 2002/03 have decreased by £127,679 from original projections contained in Financial Memo No. 113 (from

£774,872 to £647,193), due to reduced expenditure of £29,000 (car parking income); funding an additional £170,000 of Treasury Management costs as a non-recurring item from balances; and offset by reduced overall funding at SSA levels of £71,321 (loss of grant £154,788 offset by increase in Council Tax requirement of £83,467).

3. The above projections show that if the Council continues its policy of meeting non-recurring expenditure from balances (2002/03 £1,080,100) then an increase in Council Tax of £28.10 (20.1%) would be required to meet the current expenditure commitment including the corporate impact of LSVT (NB. But excluding the impact of new bids and savings, which are considered in the following paragraphs).

6. REVENUE BALANCES

1. A summary of the Councils main balances at 31st March 2001, and anticipated balances at 31st March 2002 and 2003, is given in the Table below:

	Actual Balance as at 31 st March 2001 £	Projected Balance as at 31 st March 2002 £	Projected Balance as at 31 st March 2003 £
General Fund Free Balance	5,624,101	3,721,457	3,194,164
HRA (post LSVT)	0	0	1,430,000
Airport Reserve	3,574	0	0
Capital Projects Fund	2,841,794	646,441	646,441
Repairs & Renewals Funds	2,365,926	1,942,042	1,848,727
DSO Funds	538,106	550,000	550,000
TOTAL	£10,835,395	£6,859,940	£7,669,332

2. General Fund Free Balance

- o The balance at 31st March 2001 of £5.62m reflects the improvements in out-

turn for 2000/2001 of £472k, which was reported as part of the final accounts closure for 2000/2001.

- The balance at 31st March 2002 of £3.72m reflects the withdrawal of £1.9m applied in funding this years revised budget.
- The projected balance at 31st March 2003 of £3.19m. This reflects the estimated withdrawal of £1,080,000 to fund non-recurring expenditure, and £647,193 to fund the ongoing saving requirements before any decision on the level of Council Tax beyond the SSA uplift, offset by the re-imbursement of £1.2m from the LSVT transfer costs. Members are reminded that approximately £600,000 is "at risk" pending the outcome of the tenant ballot.

The target for General Fund free balances is that free balances should equal 20% of Net Revenue Expenditure, plus £1million. For 2002/2003 this equates to approximately £3.7m.

This is consistent with the advice, which I have given over a number of years, on the prudent level of "working balance" which the Council should maintain (20% of net revenue expenditure in 2002/03 is approximately £2.7m), together with the need to be able to respond to unexpected events (£1m).

1. The Capital Projects Fund

- This fund stands at £2,841,794 at 31st March 2001.
- The balance of £646,441 at 31st March 2002 reflects a withdrawal of £1.9m in 2001/2002 to fund the Millennium Gateway City Scheme. Also, £252k is required to fund commitments from 2000/2001 for the scheme.
- The balance of £646,441 will be available to fund, the archaeology conservation programme arising from the Millennium Gateway City Project over the next 4 years and this will be considered as part of the Capital Report elsewhere on the agenda. However, Members should note that £96,420 remains earmarked for Sports Development Schemes (150,000 less £53,580 released to date).

1. Members are requested to:

- i. Approve the revised estimates for 2001/02 totalling £17,606,655, and the consequential reduction by £4,803,038 in balances and reserves.**
- ii. Approve the 2002/03 estimates of £15,524,299.**
- iii. Approve the increases in fees and charges as summarised in Appendix 3.**
- iv. Approve the amounts to be appropriated from Balances and Reserves by way of a contribution to General Fund revenue expenditure requirements in 2002/03.**
- v. Approve expenditure of £597,610 in 2002/03 in respect of:**
 - **Renewal of vehicles and plant (£456,990);**

- Office and other equipment (£7,530);
- Concessionary Fares Smart Cards (£50,000);
- Cash Receipting Hardware and Software (£40,000);
- 3 DSO New Vehicles (£43,100);

to be met from appropriation from the Renewals Fund maintained for those purposes, or financed by way of operational lease or finance lease if the City Treasurer considers it advantageous to do so.

- i. Approve the level of any General Fund contribution to the Capital Projects Fund in 2002/03.

6. POLICY OBJECTIVES 2002/03 – NEW BIDS

1. **Appendix 4** details the new bids that were originally considered by the Executive on 15th October as part of Financial Memo 2001/02 No. 91 (NB. Members will need to refer to that report to obtain details of each bid). The details shown in the Appendix have now been re-ordered to split the Revenue bids from those bids where the expenditure could be capitalised. The capital bids are also included in Financial Memo 2001/02 No 114 (Amended), which is considered elsewhere on the agenda, although it should be noted that any recurring expenditure resulting from these bids will fall to be met from revenue budgets. The bids total (maximum):
 - Revenue: £173,330 recurring and £191,750 non-recurring, and
 - Capital: £11,973 recurring (revenue cost), and £ 835,425 non-recurring.
2. None of the above bids have been included in any of the budget projections contained within this report at this stage. In addition to the above bids, further bids are requested for consideration as follows:
 - i. A contingency bid of £50,000 is recommended to reflect the likelihood of increased insurance premium costs in 2002/03 following the events of 11th September.
 - ii. A bid for £20,000 (recurring) to enable continued support to the Cumbria Inward Investment Agency. Details of the bid are contained in **Appendix 5**.
 - iii. A request for a £5,000 support budget to assist the Overview and Scrutiny Committee in it's work, as considered by the Executive at its meeting of 26th November Minute Reference IOS 9/01 (2).
1. In addition, Members should note that the results of the Triennial Pension Fund revaluation are due on 14th December. If the revaluation

exposes any shortfall against liabilities, the cost to the General Fund will be of the order of £110,000 for each 1% increase in the contribution rate.

2. Members are requested to:

- i. **Approve any new commitments to be adopted from within the proposals summarised above and in Appendices 4 And 5 and the level of finance to be made available against each policy objective in 2002/03.**
- ii. **Approve the contingency to be provided against the potential for increase in insurance premiums in 2002/03**
- iii. **Note that no contingency budget provision has been made against the potential for any unforeseen impact of pay awards or other expenditure in 2002/03.**

8. POTENTIAL SAVINGS

1. Proposals for potential savings totalling £508,000 were contained in Financial Memo No. 113. Savings of £10,000 in respect of car parking have been excluded because the Executive made a recommendation on 26 November to adopt option 3, producing an additional £29,000 of parking income, which has now been incorporated into the estimates.
2. In addition to this, an additional £30,000 has been identified from updated information on increased Rent Review income, making the total potential savings available £528,000, as follows: -

- i. Increased Salary Turnover Savings (see Para 5.1 (b)) 50,000
- ii. Delete Salary Contingency (savings not achieved) 50,000
- iii. Savings on Concessionary Fares (BV Review pending) 80,000
- iv. Increased DSO Profit (See Para 5.1 (f)) 50,000
- v. DSO Procurement savings target 50,000
- vi. Tullie House Volume Change 28,000
- vii. Additional property rent income (see 7.2) 30,000

(viii) Capitalise DDA expenditure (subject to capital resources)
190,000 TOTAL £528,000

1. Members are asked to approve any savings as summarised above.

8. CAPITAL PROGRAMME 2002/03

1. The position regarding available Capital Resources and proposed programme for 2002/03 is reported in Financial Memo No. 114 (amended).

2. It is of course open to the Council to make a revenue contribution to support the capital programme. However, against the background of the projected excess of spending over the increase in SSA, such a contribution could not be considered practical, when the effect would be to increase the savings required to be found.

10 IMPACT ON COUNCIL TAX

1. **Appendix 6** details for illustrative purposes, five different options for funding the current committed expenditure (excluding any impact from new bids or savings) These are summarised below (excluding the impact of Parish Precepts):

Option – to meet expenditure at:	Budget Requirement £	2002/03 Council Tax £	Increase		Saving still Required £
			£	%	
- SSA increase	12,788,557	147.59	7.69	5.50	647,193
- 5% Tax Increase	12,766,587	146.90	7.00	5.00	669,163
- full committed expenditure (excl. LSVT Corporate impact)	13,225,750	161.38	21.48	15.35	210,000
- full committed expenditure plus half LSVT Corporate Impact	13,330,750	164.69	24.79	17.72	105,000
- full committed expenditure plus full LSVT Corporate Impact	13,435,750	168.00	28.10	20.1	0

2. In effect, each £100,000 increase in expenditure adds £3.15 (2.25%) to

the Council Tax Requirement (each £31,700 adds £1).

3. The precepts from the Parish Councils will be in addition to the above. The precepts from individual parishes have not yet all been received, and will not be available until sometime after 10th December, but are currently estimated at £240,839.

10. MEDIUM TERM FINANCIAL OUTLOOK 2003/04 to 2004/05

1. Members will recall that under the Comprehensive Spending Review, the Government has committed itself to a 3 year financial planning horizon; a freezing of the mechanisms for determining Standard Spending Assessments and distributing Revenue Support Grant; indicative increases in the level of external financial support; and a framework within which Council's can assess whether their tax increases will be regarded as reasonable. The government extended these arrangements for a further year to 2002/03 pending the publication of its White Paper and legislation to give effect to the Government's proposals on the modernisation of Local Government, and in particular the possibility of introducing the Prudential Framework for Capital Expenditure whereby authority's may be allowed to 'borrow' against their income streams, subject to fulfilling certain controls on which details are still being developed. A further 3 year spending review will be initiated during 2002/03,
2. Increases in SSA are projected at 3.9% for 2003/04 and 3.9% for 2004/05. However, extreme caution must be exercised in viewing these figures. In spite of the 'freeze' in methodology in calculating an authority's SSA, other factors can and do impact significantly on the SSA in future years. In particular; the prevailing level of interest rates; changes in OPCS population figures, (including particularly the outcome of the 2001 census); and changes in economic factors such as the number and level of benefit claims. Any new grant and funding arrangements introduced by the new legislation will impact on the City Council, albeit floors and ceilings may give limited protection for a period,
3. The underlying assumption is that inflation will remain consistent at 2.5% over the period. This will add £455,000 to the General Fund requirements in 2003/04 and £925,000 in 2004/05, assuming that in both years income from fees and charges also yields a minimum 3.5% increase, with a modest increase from rents.
4. **Appendices 1 and 6**, details the current expenditure and council tax projections for 2003/04 to 2004/05 based on existing commitments. This is summarised as follows:

	2002/03	2003/04	2004/05

Medium Term Financial Outlook	£	£	£
Projected Total General Fund Spending Requirement	15,524,299	16,134,750	16,747,750
Projected Spending supported by increase in SSA over 2001/02	13,029,396	13,534,989	14,061,997
Contributions from Funds and Reserves	1,847,710	1,484,000	1,167,000
Implied Funding Gap *	647,193	1,115,761	1,518,753
Council Tax Increase required to meet FULL Funding Shortfall (excluding precepts)	£28.10 20.09%	£18.74 11.15%	£16.70 8.94%

* Implied Funding Gap will increase in line with any increase in recurring expenditure and reduce by the level of any savings approved as part of the 2002/03-budget process.

5. The above information is important to Members in establishing the criteria under which the Council's budget discipline should be operated over the 3-year period covered by the projections.
6. The Prudential Table covering the period to 2004/05 will be produced and appended to the Executive Resolution.

11. BUDGET DISCIPLINE

1. It has been the custom of the City Council to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years. All Members and Officers must comply with the guidance contained within the Council Constitution (Financial Procedure Rule; Scheme of Delegation; procedure Rules etc)
2. It is suggested that the Council's basic policy on firm financial control should be re-stated, and that supplementary estimates should not be granted other than in the most inescapable of circumstances, and for which equivalent savings should be subsequently identified.
3. The Executive is requested to consider the budget discipline to be exercised in 2003/03 in the light of their budget recommendations.
4. **Members are asked to approve the directions to be given to the Executive, Portfolio Holders and Budget Holders on budgetary discipline to be followed in 2002/03 and on the criteria to be applied in identifying savings to meet the future budget requirements identified in the medium term financial outlook.**

13. BUDGET GUIDANCE

1. The poor Financial Settlement for the City announced by the Secretary of State for

2002-03, coupled with the corporate impact of the proposed transfer of the

Council's housing stock makes for a very difficult budget decision by the Executive and ultimately by the City Council.

These factors are compounded by the economic impact of the events of 11 September, which has had an unforeseen effect of £170,000 on the Council's treasury earnings in 2002/03.

2. In its initial consideration of the budget outlook, the Executive adopted two main principles: -
 - i. Council Tax Increase should not exceed 5% **(if the Settlement supported this)**
 - ii. 2002/03 was to be a year of consolidation and "new bids" should be limited and matched by equivalent savings.

1. In the light of the Provisional Financial Settlement announced by the Secretary of State, the Council Tax limitation principle appears to be unsustainable.

The Settlement has delivered: -

- A shortfall in SSA of £38,000
- A shortfall in grant of £156,000
- A requirement for a tax increase of £7.95 (5.7%) at the reduced SSA spending level, or £9.15 (6.5%) at the original estimated SSA.

1. The Council's budget has exposed an excess of baseline expenditure compared to income at SSA of £647,000. This would lift the total Council Tax increase to £28.10 (20.1%). This includes a first tranche of £210,000 representing the estimated corporate impact of LSVT, with potential further costs of £450,000 in 2003/04 and £330,000 in 2004/05, offset by potential savings to be identified by a corporate restructuring on which research and advice is being prepared by HACAS Chapman

Year	1997/98	2001/02	2002/03
	£000	£000	£000
SSA	£9,364	£10,824	£11,222
Increase in SSA from 1997/98		£1,460	£1,858
Council tax for SSA	£77.68	£90.31	£97.14
Increase in Ctax at SSA from 1997/98		£12.32	£19.46
% Increase in Ctax at SSA from 1997/98		15.85%	25.05%
City Budget Requirement	£11,494	£12,420	£13,436
Increase in City Budget requirement since 1997/98		£924	£1,942
City element of Council Tax	£136.60	£139.90	£168.01
Increase in City Council Tax since 1997/98		£3.30	£31.41
% Increase in Ctax since 1997/98		2.41%	23.00%

14. STAFFING/RESOURCES COMMENTS

Not applicable

15. CITY TREASURER'S COMMENTS

Included within the Report.

16. LEGAL COMMENTS

Not applicable

17. CORPORATE COMMENTS

Included within report.

18. RISK MANAGEMENT ASSESSMENT

1. The major risk to the budget projections is the heavy reliance on income from fees and charges, which reflect past experience of economic and customer activities. Any significant slowdown or economic recession would likely impact on projected income. In addition the proposed Housing Stock Transfer and Leisuretime externalisation represent major organisational and financial challenges coupled with the consequential need to re-engineer the delivery of the Council's remaining services, including particularly the support services.
2. The provisional local government settlement figures that Carlisle City Council has received are worse than originally anticipated. The figures could change marginally in either direction at the final settlement stage, or as a result of the capital borrowing allocation being different to the 'assumptions' used in the provisional settlement.
3. Another significant risk to the City Council in setting the budget is in funding ongoing expenditure from balances, which will rapidly deplete the balances and result in a requirement for significant savings in 2002/03.

19. EQUALITY ISSUES

Not applicable

20. ENVIRONMENTAL IMPLICATIONS

Not applicable

21. CRIME AND DISORDER IMPLICATIONS

Not applicable

22. RECOMMENDATIONS

1. The Executive is requested on 17 December to recommend for consultation purposes and subsequently on 28 January 2002, following consideration of any representations arising from the consultation process, to recommend to Council: -
 - i. **Approve the revised estimates for 2001/02 totalling £17,606,655, and the consequential reduction by £4,803,038 in balances and reserves.**
 - ii. **Approve the 2002/03 estimates of £15,524,299.**
 - iii. **Approve the increases in fees and charges as summarised in Appendix 3.**
 - iv. **Approve the amounts to be appropriated from Balances and**

Reserves by way of a contribution to General Fund revenue expenditure requirements in 2002/03.

i. Approve expenditure of £597,610 in 2002/03 in respect of:

- **Renewal of vehicles and plant (£456,990);**
- **Office and other equipment (£7,530);**
- **Concessionary Fares Smart Cards (£50,000);**
- **Cash Receipting Hardware and Software (£40,000);**
- **3 DSO New Vehicles (£43,100);**

to be met from appropriation from the Renewals Fund maintained for those purposes, or financed by way of operational lease or finance lease if the City Treasurer considers it advantageous to do so.

- i. Approve the level of any General Fund contribution to the Capital Projects Fund in 2002/03.**
- ii. Approve any new commitments to be adopted from within the proposals summarised above and in Appendices 4 And 5 and the level of finance to be made available against each policy objective in 2002/03.**
- iii. Approve the contingency to be provided against the potential for increase in insurance premiums in 2002/03**
- iv. Note that no contingency budget provision has been made against the potential for any unforeseen impact of pay awards or other expenditure in 2002/03.**
- v. Members are asked to approve any savings as summarised in Par. 8.**
- vi. Members are asked to approve the directions to be given to the Executive, Portfolio Holders and Budget Holders on budgetary discipline to be followed in 2002/03 and on the criteria to be applied in identifying savings to meet the future budget requirements identified in the medium term financial outlook.**

DOUGLAS THOMAS

City Treasurer

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City Treasury, Carlisle

10 December 2001, AB/CH/f1200102

KEY ISSUES TO BE NOTED IN RESPECT OF 2002/03 BUDGET

There are a number of issues that Members should note in respect of the 2002/03 estimates:

a. Pay Settlement 2002/03

The estimates assume a 3% pay settlement for the whole of the Council's workforce with effect from the settlement date of 1st April 2002. In the event that the pay settlement is awarded at a higher level than provided for, Members will need to determine as in previous years, that Departments are required to find equivalent savings. No additional provision has been made to reflect any impact arising from the introduction of "single status".

b. Salary Savings

General Fund salary savings on staff turnover of £120,300 were adopted as part of the 2001/02 Budget on the basis that this policy has been successful and has been carried through to 2002/03 updated by the 3% pay provision to £123,910. Experience over recent years suggests that net turnover savings in the region of £200,000 p.a. have actually been achieved.

c. Frozen Capital Receipts

I have regularly reported on the position in relation to the Council's frozen capital receipts. In 1992/93 the City Council agreed to redeem £10m of debt and this was achieved on a more favourable basis than originally projected.

The initial retention of £3.3m and the continued requirement to set aside 75% of housing capital receipts means that the amount set aside has continued to grow and is now projected to be £20.8m at 31st March 2002 and £22.7m at 31st March 2003. The General Fund must pay the interest cost on the undischarged debt represented by the Council's holding of capital receipts at a rate equivalent to the average cost of its external borrowings - projected at 7.96%, whereas investment returns are projected at 4.6% during 2002/03.

Based upon an equated reserved capital receipt figure of £21.75m, the net cost of holding these receipts for investment in 2002/03 is estimated at approximately £731,000. However, I see little likelihood of being able to prematurely repay (or reschedule) any debt in 2002/03 within the present and forecast interest rate parameters, although the position will be monitored.

d. Millennium Gateway City Scheme

The approved gross budget of £9.188m in respect of this Project reflects the changes approved by the City Council at its meeting of 17th July 2001. The net cost to the City Council is £5.948m, and which is forecast to have been spent by 31st March 2002. More details are awaited on the likely requirement for final accounts and for the future archaeology programme, which may be at an additional cost of £300,000 spread over a number of years.

e. Provision for General Fund Debt Repayment

For a number of years to 1999/00 the City Council took advantage of a government concession, which allowed the then current requirement of £361,000 pa for debt repayment on General Fund borrowings to be fully abated. This was in order to offset a similar level of disadvantage caused by changes in government grants towards local authority expenditure on housing and improvement grants, in the period to 1992.

When setting the 2000/01 budget the City Council resolved to adopt an incremental approach by making an initial provision for debt repayment of £30,000 and increasing this provision by £30,000 per annum, year on year, until the full charge is being met in 2009/10. This commitment has been reflected in the estimates in addition to meeting the full cost of new borrowings each year as they arise.

f. Works DSO

The revised estimates for the Works DSO for 2001/02 incorporating their latest trading performance and profits forecast were reported to the Executive on 5th November 2001. After making provision for the General Fund budgeted contribution of £150,000 and restoration of DSO Reserves, then an additional £65,000 will be

contributed to the General Fund and £235,000 to the Housing Revenue Account at the year end and these sums have been reflected in the revised estimates. For 2002/03, the budgeted contribution to the General Fund currently remains at £150,000.

g. Kingmoor Park Properties Ltd – 14 MU

The transfer of control of KPP Ltd from the City and County Council to the private sector took place in August, when the City Council recovered all of the initial funding provided to KPP Ltd.

The option of withdrawing the share holding "investment" of £400,000 will arise in 2004.

h. Large Scale Voluntary Transfer of Housing Stock

The City Council has received approval from the DTLR to ballot tenants on the proposed transfer of the Council's housing stock to the Carlisle Housing Association as a Registered Social Landlord member of the Riverside Group.

There are three aspects of the proposed transfer, which carry significant costs and risks to the City Council.

i) The Transfer Process

The cost of the potential transfer, initially based upon a stand alone RSL, was estimated to be of the order of £4.5m. These costs are recoverable from the proceeds of the sale providing there is sufficient balance after meeting the cost of the premium (estimated at £7m to £8m) in repaying the council's housing borrowings earlier than provided for. Currently we are assuming a balance of

approximately £6.8m. However expenditure incurred in advance of the ballot is at the Council's own risk. If a transfer were not supported, then there would be no recovery of costs incurred to that stage, and no further expenditure subsequently. Based upon a summer 2002 ballot, HACAS Chapman Hendy (HCH) has identified City Council direct expenditure of up to £600,000 prior to the ballot with a further £600,000 subsequent to a successful ballot. Members need to be aware that up to £600,000 of the total required expenditure, will be incurred prior to the ballot and must therefore be considered to be "at risk".

In addition the potential reimbursement of Carlisle Housing Association and Riverside's costs of the order of £3.3m, are still subject to negotiation and agreement. All of the Council's direct transfer expenditure will have to be financed initially from the Council's General Fund and is provided for in the revised and forward year's estimates. However, in practice any contribution towards CHA and Riverside's costs would be paid at the same time as receiving the transfer proceeds, and so £3.3m has been discounted, on the basis that the transfer proceeds will be sufficient to cover both the premium on debt repayment and the reimbursement of costs, on which details are still to be finalised and formally negotiated.

ii) The Housing Benefit Implications

Tenants will continue to receive housing benefit as at present (except that they are called rent allowances instead of rent rebates). But the City Council is reimbursed in an entirely different way than is the case where 100% is presently charged to the HRA in the year of account and recovered through the Housing Subsidy arrangements. Following transfer, only the government contribution of 95% will be received in the year of account, with the City Council having to bear the balance of 5% as a local contribution. This local contribution will reflect in the Revenue Support Grant but this is lagged by three years in respect of rent allowances, and so the Council will not receive full grant support until 2006/07. In the intervening period, based upon the present rent and benefit profile, the local cost to the City Council is estimated to be of the order of £1.6m. For budget purposes, it is assumed that the HRA Balance at the date

of transfer will be at least equal to this sum, and this will transfer to the General Fund and so be available to offset the local cost of benefits over the following three to four years. This cost has been factored into the budget over the 4-year period to 2005/06, after which the costs will be offset by rate support grant.

iii) Corporate Implications

HCH have been appointed to lead and advise on the transfer process, and to review the structure and cost of delivering the Council's ongoing services. There will be a corporate impact arising from:

- Residual pension costs of former Housing/DSO employees
- Residual debt portfolio after redemption of housing debt.
- Accommodation and other fixed costs not transferred
- Non TUPE related staff who don't transfer to Riverside
- Transfer of DSO Building Maintenance to Riverside

Until HCH are able to validate the Council's initial cost assumptions and report on the options for the future organisation of service delivery, the budget provision reflects my initial estimated impact of £210,000 in 2002/03; £660,000 in 2003/04 and £990,000 in 2004/05.

		Original Estimate 2001/02 £	Revised Estimate 2001/02 £	Original Estimate 2002/03 £	C
	Expenditure Requirement:				
1	Core Base Level Expenditure	9,855,250	9,697,530	10,557,750	
	Financing of General Fund debt	2,458,000	2,413,000	2,668,000	
	New Savings Adopted in budget				
	New Spending Adopted in budget				
	Inflation				
	Interest - impact of rate changes and use of balances				
	Debt Repayment on new borrowings of £300k pa				
	Existing Core Base Level Expenditure	12,313,250	12,110,530	13,225,750	
	LSVT/DSO impact			210,000	
	LSVT Benefits Impact			170,000	
	Total Core Base Level Expenditure	12,313,250	12,110,530	13,605,750	
2	Non-Recurring expenditure				
	Previously Approved New Policy Initiatives	433,100	433,100	60,100	
	LSVT Transfer Costs	1,241,000	350,000	850,000	
	New Savings Adopted in budget				
	New Spending Adopted in budget				
	Adverse Impact of Interest Rates			170,000	
	Supplementary estimates	0	86,600	0	
	Slippage from 2000/01	0	1,398,570	0	
	Airport	340,750	90,980	0	
	Total Non-Recurring Expenditure	2,014,850	2,359,250	1,080,100	
3	Capital Expenditure				
	Gross Capital Expenditure	3,602,510	2,740,300		
	Capital Income	-1,016,073	-653,485		
	Renewals Reserve	834,185	817,365	597,610	
	Net Capital Expenditure	3,420,622	2,904,180	597,610	
4	Parish Council Expenditure	232,625	232,625	240,839	
	Adjustment	70	70		
	Total Parish Expenditure	232,695	232,695	240,839	
5	Total General Fund Requirement	17,981,417	17,606,655	15,524,299	
	Split:				
	General Fund (Revenue) - Recurring	12,313,250	12,110,530	13,225,750	

General Fund (Revenue) - Recurring LSVT Impact				210,000
Recurring LSVT Benefits Impact				170,000
General Fund (Revenue) - Non-Recurring	2,014,850	2,359,250		1,080,100
Total General Fund (Capital)	3,420,622	2,904,180		597,610
Parish Precepts	232,695	232,695		240,839
TOTAL	17,981,417	17,606,655		15,524,299
Financed by:				
Revenue Support Grant	4,082,330	4,082,330		3,785,000
NNDR Grant	3,841,357	3,841,357		4,285,000
Council Tax Surplus	64,583	64,583		40,000
Community Charge Surplus	4,842	4,842		0
Council Tax at uplift for SSA	4,426,870	4,426,870		4,678,557
City Council Budget Requirement	12,419,982	12,419,982		12,788,557
Parish precepts	232,695	232,695		240,839
6 Total City Council Budget Requirement	12,652,677	12,652,677		13,029,396
Committed Contributions from:				
- General Fund Balances	667,118	1,556,218		230,100
- GRF in respect of LSVT	1,241,000	350,000		850,000
- Renewals Reserve	834,185	954,765		597,610
- Large Project Fund	2,436,437	1,942,055		
- Capital Receipts	150,000	150,940		
- Borrowing Allocation				
- Assumed Housing Revenue Account Balance	0	0		170,000
	5,328,740	4,953,978		1,847,710
7 Total Financing Available	17,981,417	17,606,655		14,877,106
8 Shortfall in funding compared to 2001/02 increased by uplift in SSA				
Of which	Existing Base expenditure (Cumulative)			437,193
	LSVT Corporate Impact (net of assumed HRA Residual Balance)			
	Non Recurring Impact of Interest Reduction			0

REVIEW OF CHARGES CONTROLLED BY THE CITY COUNCIL - SUMMARY						
Service Area	2001/02	2002/03	Additional Income on			
	Original	Base	Original Estimate			
	Estimate	Estimate				
	£	£	£	%		
Portfolio Area: Corporate Resources						
Civic Centre Building		2,110		2180		70
Land Charges/Search Fees	(Option 2)		250,000		285,110	
Electoral Register		2,330	1,030		-1,300	

	Licensing	110,230	114,980	4,750	
Sub Total	364,670	403,300	38,630	10.59	
Portfolio Area: Infrastructure, Environment & Transport					
	Car Parks (City only)	(Option 3)	985,750	}	1,051,750
	Excess Charges	68,000	}	68,000	0
	Pest Control	64,410	66,410	2,000	
Sub Total	1,118,160	1,186,160	68,000	6.08	
Portfolio Area: Community Activities					
	Tullie House	73,300	73,300	0	0.00
Portfolio Area: Economic Prosperity					
	Assembly Hall Hire	11,000	9,390	-1,610	
	Irthing Centre	19,940	20,640	700	
	Enterprise Centre	16,770	19,480	2,710	
	Airport	0	0	0	
Sub Total	47,710	49,510	1,800	3.77	
Portfolio Area: Health & Well-Being					
	Hostels	291,690	302,190	10,500	
	Cemeteries & Crematorium		640,930	664,010	
	City Pools	503,730	521,360	17,630	
	Outdoor Areas	296,850	307,240	10,390	
	Sands Centre	537,200	556,000	18,800	
	2,270,400	2,350,800	80,400	3.54	
TOTAL - CITY COUNCIL CONTROLLED CHARGES				3,874,240	4,063,070
CHARGES NOT DIRECTLY CONTROLLED BY THE CITY COUNCIL					
Portfolio Area: Infrastructure, Environment & Transport					
	Building Control	270,800	277,570	6,770	
	Development Control		300,620	308,140	7,520
	Environmental Protection Act		22,510	23,070	

Sub Total	593,930	608,780	14,850	2.50
Total increase in estimated income				

APPENDIX 4**SUMMARY OF NEW SPENDING BIDS 2002/2003**

	<u>Detail</u>	<u>Recurring</u> £	<u>Non- Recurring</u> £	<u>Savings/ Funding Identified</u>	<u>Portfolio</u>
	Revenue Bids:				
R1	Public Inquiry – Morton Development	-	25,000	No	Infrastructure, Environment and Transport
R2	Recycling Initiatives	-	20,000	No	Infrastructure, Environment and Transport
R3	Web Site Development	18,430		Possible use of IEG monies?	Strategy & Performance
	• Web Design	-	-		
	• Web Redesign	-	30,000*		
	• Financial Trans.	1,400	20,000		
	• Info. & Forms	-	8,750		
	• Content Mgmt	-	18,000		
	• Consultation	-	-		
	• Engaging citizens	-	15,000		
	• Intranet		15,000*		
	• On Line shopping		5,000		

			* Nil cost if Web post is funded		
R4	Best Value	100,000	-	No	Strategy and Performance
R5	Community Safety	50,000	-	No	Community Activities
R6	Committee Servicing Software	3,500	25,000	No	Corporate Resources
R7	Queens Golden Jubilee	-	10,000	Existing Grants Budget?	Community Activities
	TOTAL	173,330	191,750		
<u>Detail</u>		<u>Recurring</u> £	<u>Non-Recurring</u> £	<u>Savings/ Funding Identified</u>	<u>Portfolio</u>
Capital Bids:					
C1	Disability Discrimination Act	-	180,000	No	Corporate Resources
C2	Asset Management Plan	-	400,000	No	Finance and Resources
C3	Concessionary Fares Swipe Cards		50,000	Renewal Fund / Concess. Fares savings	Finance & Resources
C4	Bandstand	5,000	20,000	No	Infrastructure, Environment and Transport

C5	Assembly Rooms	-	40,000	No (Some sponsor monies?)	Economic Prosperity
C6	Additional DSO Vehicles	6,973	43,100	Renewal Fund/ funded from DSO base budgets.	Infrastructure. Env and Transport
C7	Cash Receipting Software		40,000	Renewal Fund	Finance & Resources
C8	Richardson Street – Back Lane		62,325 (over 4 years)	No	Infr, Env and Transport
	TOTAL	11,973	835,425		

NB. The Capital bids are also considered in Financial Memo 2001/02 No 114 (amended), which is considered elsewhere on the agenda. The recurring expenditure element of these bids will fall to be met from Revenue budgets.

Key: # - Mandatory A – Highly Advised B – Discretionary

APPENDIX 5

Additional New Policy Bid – Support to Cumbria Inward Investment Agency

Background

The City Council was involved in the process to set up the Cumbria Inward Investment Agency (CIIA) in 1996 and has supported the organisation financially since 1997. Initially, there was a three-year agreement, which ended in 2000. In August 2000 the City Council agreed to continue to allocate £20,000 to the organisation for a period of 12 months based on a Service Level Agreement (SLA). The City Council is one of a number of funders, the largest being the Cumbria County Council and BNFL. The five other District Councils in the region also allocate a £20,000 sum. Other funders include NWDA, the Learning and Skills Council, United Utilities, BAe and Capita.

Current position

The SLA runs to 31 March 2002 and is reviewed quarterly. The most recent review meeting between City Council officers and CIIA staff took place at the end of November. The Council's informal Development Advisory Group was then briefed on progress and the present position is considered to be satisfactory.

The SLA will be updated by agreeing a new set of targets for the year 2002/03 between the Council and the CIIA. This will be agreed with the Portfolio Holder for Economic Prosperity (Councillor E. Firth) who is also the Council's representative on the CIIA Board. The process of setting the targets and monitoring performance will be the means by which the Council can consider whether or not to continue funding in future years. In the meantime, on the basis that the partnership is likely to continue, it would be preferable for the £20,000 funding contribution to be included within the base budget.

C. Elliott

Head of Economic Development

COUNCIL TAX REQUIREMENT - OPTIONS				
	Actual	Original Estimate	Revised Estimate	Original Estimate
	2000-01	2001/02	2001/02	2002/03
Local Tax base (assuming 0.5% pa growth)		31,643	31,643	31,700
	£	£	£	£
Actual Council Tax - City	131.08	139.90	139.90	
Actual Council Tax - Parishes	7.27	7.35	7.35	
Actual Council Tax - Total	138.35	147.25	147.25	
1 Option - To meet expenditure at 2001/02 uplifted by increase in SSA				
City Council Budget Requirement		12,419,982	12,419,982	12,788,557
Parish requirement		232,695	232,695	240,839
Total City Council Budget Requirement		12,652,677	12,652,677	13,029,396
Council Tax projection:				
City				147.59
Parishes				7.60
Total				155.19
Total Increase £				7.93
Total Increase %				5.39%
Additional Non Recurring Amount to be taken from balances				0
Recurring savings Required (Cumulative)				647,193
2 Option - To meet expenditure at 5.0% Tax Increase				
City Council Budget Requirement		12,419,982	12,419,982	12,766,587

Parish requirement		232,695	232,695	240,839	
Total City Council Budget Requirement		12,652,677	12,652,677	13,007,426	
Council Tax projection:					
City				146.90	
Parishes				7.60	
Total				154.49	
Total Increase £				7.24	
Total Increase %				4.92%	
Additional Non Recurring Amount to be taken from balances				0	
Recurring savings Required (Cumulative)				669,163	
COUNCIL TAX REQUIREMENT - OPTIONS					
		Original	Revised	Original	C
		Actual	Estimate	Estimate	Estimate
		2000-01	2001/02	2001/02	2002/03
3	Option - To meet expenditure shortfall projection on base expenditure				
and require LSVT impact to be "saved"					
City Council Budget Requirement		12,419,982	12,419,982	13,225,750	
Parish requirement		232,695	232,695	240,839	
Total City Council Budget Requirement		12,652,677	12,652,677	13,466,589	
Council Tax projection:					
City				161.38	
Parishes				7.60	
Total				168.98	
Total Increase £				21.72	
Total Increase %				14.75%	
Additional Non Recurring Amount to be taken from balances				0	
Recurring savings Required (Cumulative)				210,000	
4	Option - To meet expenditure shortfall projection on base expenditure and half LSVT impact AP				
City Council Budget Requirement		12,419,982	12,419,982	13,330,750	
Parish requirement		232,695	232,695	240,839	
Total City Council Budget Requirement		12,652,677	12,652,677	13,571,589	

Council Tax projection:					
City				164.69	
Parishes				7.60	
Total				172.29	
Total Increase £				25.04	
Total Increase %				17.00%	
Additional Non Recurring Amount to be taken from balances				0	
Recurring savings Required (Cumulative)				105,000	
5 Option - To meet expenditure shortfall projection on base expenditure and full LSVT impact					
City Council Budget Requirement	12,419,982	12,419,982	13,435,750		
Parish requirement	232,695	232,695	240,839		
Total City Council Budget Requirement	12,652,677	12,652,677	13,676,589		
Council Tax projection:					
City				168.00	
Parishes				7.60	
Total				175.60	
Total Increase £				28.35	
Total Increase %				19.25%	
Additional Non Recurring Amount to be taken from balances				0	
Recurring savings Required (Cumulative)				0	