

CARLISLE CITY COUNCIL

Report to:- **Carlisle City Council**

Date of Meeting:- **13 September 2011**

Agenda Item No:-

Public

Title:- **MEDIUM TERM FINANCIAL PLAN (INCORPORATING THE CORPORATE CHARGING POLICY) 2012/13 TO 2016/17**
Report of:- **Assistant Director (Resources)**
Report reference:- **RD27/11**

Summary:

The Medium Term Financial Plan sets out the current framework for planning and managing the Council's financial resources, to develop its annual budget strategy and update its current 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 its overall aims and objectives. The MTFP will inform the budget process and will be updated for changes when known.

The Medium Term Financial Plan has been considered by the Executive and the Resources Overview and Scrutiny Panel.

Recommendations:

The Council is asked to approve the Medium Term Financial Plan for the period 2012/13 to 2016/17.

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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: Council Budget Resolution 1st February 2011.



CARLISLE CITY COUNCIL

MEDIUM TERM FINANCIAL PLAN 2012/13 to 2016/17

SEPTEMBER 2011

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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 and other Council charges.
- 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
- 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

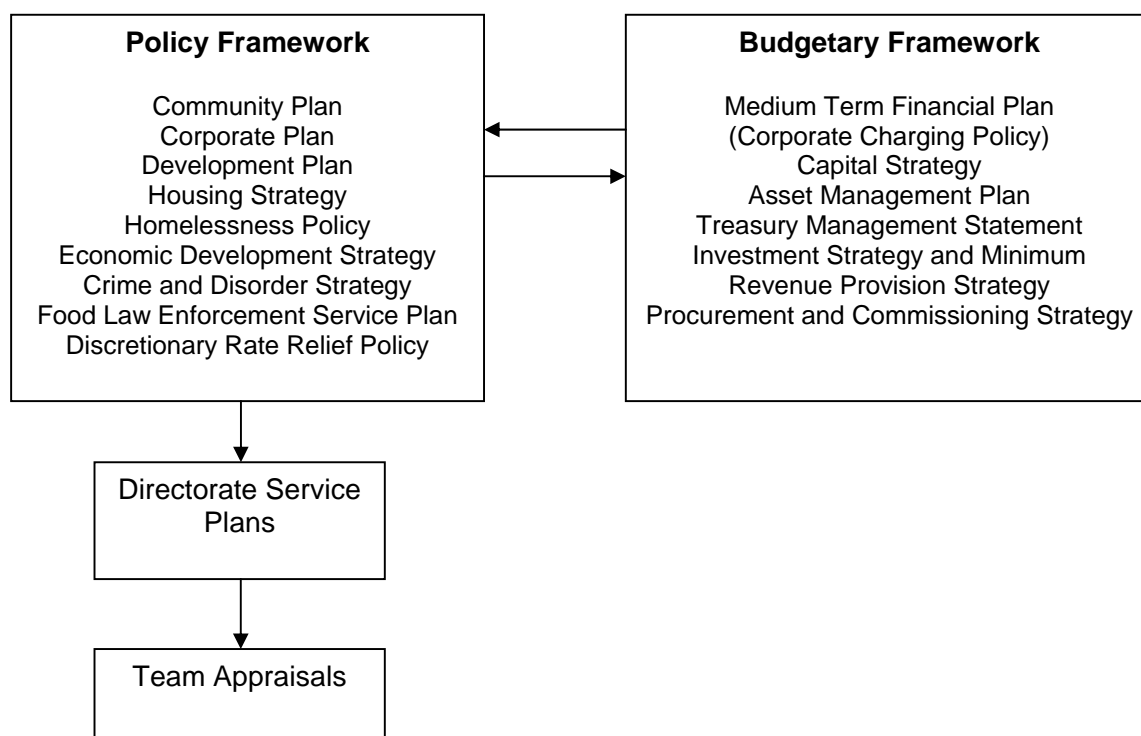
Nationally, the Government sets out policy which can result locally in the Council having to provide additional resources to meet nationally set targets, often without corresponding increases in grant assistance. Some initiatives do receive grant assistance, but for a limited period only, resulting in 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.

1.3 The Council's approach to corporate planning

The council has a corporate plan that is reviewed annually to take account of emerging issues. The plan is developed through consultation with stakeholders; it presents the key actions for the Council and likely outcomes for communities.

The Corporate Plan forms part of the Policy and Budgetary Framework for the Council. These frameworks work together to create the strategic framework.

The following diagram illustrates the relationships between the Policy and Budgetary Frameworks.



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 LSP. For the City Council it is particularly important that the Corporate Plan enables delivery of the Community Plan; there must be congruence between the strategic objectives of both plans.

The communities of Carlisle are consulted and involved in the development of the Community Plan. This Community Plan helps to inform the strategic thinking of partner organisations.

The LSP's Community and Council's Corporate Planning process informs and supports the strategy of the Cumbria Strategic Partnership.

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.

Service Plans develop the key actions of the Corporate Plan into detailed activities for Directorates and provide a framework for their financial, performance and risk 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 Strategy Statement, Investment Strategy and Minimum Revenue Provision 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.
- The Procurement and Commissioning Strategy
- Local Plan/Local Development Framework.
- The Organisational 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 Economic Strategy, and Housing Strategy.

1.4 Budget Priorities and Budget Allocations

Financial resources and performance are linked to the current Council priorities and work has commenced on providing links to the recently agreed priorities as set in paragraph 1.3 above, in terms of determining service objectives for each priority. This work is continuing and 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 and to achieve the Council's future aspirations in accordance with the transformation process. 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.

1.5 Performance Review

This process allows outturn expenditure and outcomes 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 outcomes are measured against targets via the performance management framework. Financial data continues to be recorded on the Council's performance monitoring

system, Covalent. The quarterly budget and performance monitoring reports are considered by Officers and Members to monitor progress throughout the year.

The integration of performance and financial information has been vital to the development of Value for Money profiles. These profiles are being used to challenge the current service delivery models as we interrogate the costs and outcomes associated with our services.

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 five-year planning period. 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 2011/12 to 2015/16 on 1 February 2011 and this is shown in Appendices A to C as follows:

- Appendix A** – Summarises the net budget for the five years (£14.361m for 2011/12) approved for Council Tax Purposes by Council on 1 February and provides a forecast to financial year 2015/16. Indicative figures have also been included for 2016/17.
- Appendix B** – Provides an indicative forecast of how the projected gross budget (£65.631m in 2011/12) will be financed over the same period.
- Appendix C** – Analyses the Gross budget over main spending headings (only for 2011/12 as future years are not available).

2.2 Budget Deficit Forecast

The current medium term financial projections point to a potential significant call on Council reserves from 2011/12 onwards to fund the budget deficit.

The amount approved by Council in February 2011 as part of the budget process, to be taken from Council Reserves to support Council spending, updated by the outturn report approved in June and other adjustments approved to date, is set out in the Table below:

Year	Recurring Commitments (Surplus) £000	Non-Recurring Commitments £000	Carry Forwards £000	Total £000
2011/12	(1,954)	2,245	1,109	1,400
2012/13	(1,950)	866	646	(438)
2013/14	(1,246)	662	123	(461)
2014/15	(764)	0	0	(764)
2015/16	9	0	0	9
2016/17	2,151	0	0	2,151

There are a number of forecast pressures causing this budget deficit, including shortfalls of income due to the current economic climate, particularly Treasury Management investment returns and increasing MRP requirement.

In order to address the budget deficit position the Council has embarked upon a significant programme of service reviews, incorporated in the transformation agenda, to mitigate the impact on Council reserves.

There are remaining risks to the budget as set out in the budget resolution particularly in achieving the savings proposals approved. 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 as well as increasing reserves to their minimum levels. 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 Efficiency and Savings Strategy (including Value for Money)

A strategy to identify recurring budget savings and service efficiencies was approved by Council on 1 February 2011 as part of the budget resolution. The strategy will deliver savings and efficiencies for the 2011/12 budget and will concentrate on the following areas:

Description	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Savings identified/found	2,920	3,270	3,429	4,115	4,173	4,173
Additional Savings to be found	0	960	1,419	1,678	2,337	2,337

The 2011/12 budget indicated that the additional savings to be found will concentrate on the following areas to deliver the savings required to produce a balanced longer term budget, however, the exact work programme will be dependent on progress with the Transformation Programme.

- Asset Review – this will focus on introducing a Development and Investment Plan for the City Council's property portfolio with the aim of delivering additional income or reduced costs on a recurring basis.

- Service Delivery Models – As part of the transformation programme, alternative options for service delivery will be considered in order to make significant financial savings whilst still delivering good standards of service. The options under consideration will include shared services and commissioning of services.
- As part of the transformation programme a review of those services which do not fall within the Council's core priorities or which are not statutory will be undertaken to ensure that services are properly aligned to what the Council wants to achieve.

2.4 Significant Budget Issues

A number of high impact pressures on the Council's budgets have been identified and these are shown below. The impact of these potential revisions will be further analysed and reported throughout the budget process and revisions made to current budget deficit projections as required:

- Further impact of Economic recession
- Government Grant Reductions
- Revised Transformation targets
- Capital Programme - longer term priorities and revenue implications especially Vehicle Replacements and Disabled Facilities Grants
- Shortfalls in income from Lanes and other Sources, e.g. Car Parking and Planning Fees
- New Homes Bonus grant

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. These costs are reflected in the existing budget of the Council. Other projects, such as the Carlisle City Centre Business Improvement District, are at an earlier stage of development and therefore have not yet been included in current projections.

2.6 Sensitivity Analysis

2.6.1 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 be 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	19,389	194
Supplies & Services	5,332	53
Council Tax	(6,709)	(67)
General Inflation (currently 2.8%)	10,509	105
Income from Fees and Charges	(6,175)	(62)
Investment Interest - Movement in Rates	(20,000)	(200)

2.6.2 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 area is expected to grow by 0.7% per annum. The Council can therefore be expected to provide additional services to meet the needs of its growing/ageing population.

In 2011/12 the cost of providing Council services equates to a cost per head of population of £133.83, based on a population forecast of 107,310. A 1% increase in the Council's population would broadly equate to a further £143,612 needed to be raised to provide Council services at existing levels, which would equate to an increase in Council Tax of £8.95.

EXTERNAL FACTORS INFLUENCING THE MTFP

3.1 Economic Factors

3.1.1 State of the Economy

The economy appears to be slowly moving out of recession. The measures announced by the Government to reduce the amount of Public Spending and to reduce the Country's structural deficit will play a pivotal role in determining whether the economy grows over the coming years. If the Country falls back into a recession, the Council may find that its income levels suffer once more e.g. Car Park income would probably fall while there would be increased take up of Housing Benefit as unemployment rose. Treasury Management income will also be limited whilst interest rates remain low. 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. The figures are changing rapidly with regard to the effects on the MTFP and these will need to be closely monitored in the short term in order to react effectively to changing situations.

3.1.2 Inflation

The general economic climate in the UK is currently showing signs of changeable inflationary pressures. Inflation at the end of 2009 dipped into the negative but since then there have been increases in both the Consumer Price (4.2%) and Retail Price (5.0%) Indices (June 2011). Although inflation has been rising throughout the course of 2010 and 2011, analysts predict that the rise will reach its peak later in this year before beginning to fall in 2012.

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. The Government has announced in the Budget that there will be a Public Sector pay freeze for two years. It is anticipated that local government pay will mirror national public sector positions. The current MTFP factors in no increases in pay for both 2011/12 and 2012/13.

In terms of treasury management, the Council's 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 is at 0.5% and investment rates are now not far above this level meaning that investment income is significantly below that of previous years and is likely to remain so for some time to come.

3.2 Government Policies and Initiatives

3.2.1 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.

For 2011/12 onwards reductions in Formula Grant have been included that see the grant received by the Council reduce from £10.372million in 2010/11 to £5.219million in 2015/16. Formula Grant settlements were received for 2011/12 (£7.028million) and 2012/13 (£6.305million) with expected continuation of reductions to £5.219million built into the MTFP.

Block	2011/12
Revenue Support Grant	1,659
Redistributed NNDR	5,369
Total	7,028

The current assumptions for population and Council Taxbase are set out below. (The Taxbase relates to the equivalent number of Band D properties in the area)

	2012/13	2013/14	2014/15	2015/16	2016/17
Taxbase - For Grant Settlement (From RSG Settlement)	35,167.00	35,167.00	35,167.00	35,167.00	35,167.00
Taxbase - Council Calculation for Tax Setting (0.279% growth)	34,782.78	34,879.82	34,977.14	35,074.72	35,172.58
Population - RSG Settlement*	107,310	107,310	107,310	107,310	107,310

* Population figures are shown based on those used for the RSG settlement. Population growth figures highlighted at paragraph 2.6.2 may adjust these estimates once new RSG settlements are announced.

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. The impact of the recession needs to be closely monitored to review both the surplus and collection rates.

3.2.2 Council Tax

Council Tax for 2011/12 was maintained at 2010/11 levels through assistance received from Government.

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 2011/12 to 0.0%. For planning purposes the figures included in the Medium term Financial Plan going forward assume

an annual increase in Council Tax of 3.5%. 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. A 1% change in the level of council tax will impact on the budget by £67,000. (i.e. £234,000 per annum based on 3.5% MTFP profile).

3.2.3 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.

- Council Tax
Revaluation, which is an important part of maintaining a credible and up to date taxbase
- Business Taxation
The Business Rates Supplements Act 2009 has now come into force and gives levying authorities (in our case the county council) the power to levy a supplement from 1 April 2010. The County Council are required to give notice to the billing authority if they intend to levy a supplement. Any BRS would be limited to a maximum of 2p per pound of Rateable Value and would not be applicable to properties with a Rateable Value of £50,000 or below.

The Government has also indicated that there may be a move to keep the receipt of Business Rates at a local level rather than be redistributed nationally. However, it is too early to include this initiative in the MTFP as little detail is yet known, however, it is thought that the effect on Carlisle would be broadly neutral.

Overall, the proportion of funding provided directly by the Government through RSG is dropping and will reduce significantly over the next four years. Councils are encouraged to find alternative methods of funding such as Charging and Trading where Local Authorities should make greater use of their current powers to charge.

3.2.4 Specific Grants

Income from Specific Grants 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 meets 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 specific 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 for 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:

Welfare Bill including Housing Benefits

The Government has announced that there will be significant changes to the Welfare State as part of the current Parliament and this will involve radical changes to the way benefits are managed and distributed.

It is envisaged that there will be significant changes to the way Carlisle City Council manages these benefits, with Council Tax benefit likely to be set under local parameters and housing benefit absorbed into DWP Universal Credit arrangements.

Housing Benefit Admin Grant is likely to reduce over the life of the MTFP and reductions were built into the budget process for 2011/12 to try and mitigate the effect of this, however, further reductions may be likely.

Year	Amount £	Cash Reduction p.a on Previous Year £	Reduction p.a adjusting for Inflation at 3% £
2005/06	963,249		
2006/07	943,314	19,935	48,234
2007/08	848,177	95,137	120,582
2008/09	817,738	30,439	54,971
2009/10	797,345	(92,802)	44,313
Recession Funding	67,917		
Recession Funding	45,278		
2010/11	757,478	2,707	62,591
Recession Funding	37,160		
2011/12	697,690	(10,314)	80,719
Recession Funding	70,102		
Total	6,045,448	45,102	411,411

3.2.5 Other Government Initiatives

Housing

Grants for specific Housing related services have reduced significantly and the Council no longer receives support from the Regional Housing Pot from 2011/12. Support for Disabled Facilities Grants is included at £663,000 from Central Government and for 2011/12, further support is promised by Riverside up to £300,000. However, the spend on Disabled Facilities Grants far exceeds this (2011/12 anticipated spend is £1.5million), so there is a shortfall that the Council has to fund. The estimate of a £550,000 funding shortfall will rise in 2012/13 onwards as the call on DFG's becomes greater due to an ageing population, i.e. in the region of £1m p.a.

New Homes Bonus

The Government announced as part of its Comprehensive Spending Review in 2010 that there would be additional funding provided based on the level of anticipated New Homes to be built

within a Local Authority Area. The amount would be based broadly on the amount of additional Council Tax that would be generated from the New Homes and would be available for 6 years. It has recently been announced that the Council will receive approximately £250,000 from this scheme from 2011/12. This has yet to be allocated by the Council.

3.4 Minimum Revenue Provision (MRP)

The MRP represents a provision that the Council must make to fund the repayment of external debt. As capital cash is utilised in providing the Councils capital programme the MRP is rising each year. This factor is also incorporated within the MTFP forecasts within overall Treasury Management costs. The Council will continually review its MRP Strategy and choose the option for charging MRP that is most beneficial at that particular time.

Any future capital projects will need to be evaluated for their effects on potential MRP charges either through the continued use of capital receipts or through prudential borrowing.

INTERNALLY DETERMINED FACTORS INFLUENCING THE MTFP (Subject to review July – Nov 2011)

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 4.2%.

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. It is anticipated that as part of the budget process that the level of inflation built into the Medium Term Financial Plan can be reviewed to see if inflation is required to be applied to all items of expenditure and whether different rates can be used for different items.

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

4.1.1 Pay Costs

In 2011/12, the Council is expecting to spend £19million on employee related costs and this represents approximately 60% of the cost of running the Council, excluding the cost of housing benefits.

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 0% p.a. for 2011/12 to 2012/13 then 2.5% p.a. thereafter.
- Increments will cost on average £150,000 p.a.
- Staff turnover will remain at around 3% of gross salaries. The budget provision for 2011/12 has been set at £537,100. It is anticipated that with the effect of the transformation process and general labour market conditions that the target for Salary Turnover savings is set too high and will need to be reviewed as part of the budget cycle.

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 4.2% per annum (June 2011), although the current MTFP still assumes an inflation rate of 2.8%. An exercise will be carried out as part of the budget cycle to examine the level of inflation that needs to be applied to different types of expenditure and also to examine the level of inflation currently built into the Medium Term Financial Plan as this has not been looked at for a few years and the Council's base budget has reduced significantly. Inflation forecasts are expected to be above 2% over the period of the MTFP. A 1% movement in the inflation rate would currently equate to £106,000 if applied to all general supplies and services expenditure

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 £3.5 million and the annual saving from not applying inflation is £97,000 (based on 2.8% per annum)

Other specific costs cannot be categorised as general running costs e.g. energy, 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.

As above further work is needed on inflation to examine the appropriate rates to be used.

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 2011/12 was set last autumn, it was based upon achieving an estimated average yield of 1.3% which reflected the benefit of investments placed in 2009/10 at higher rates rolling into 2011/12. Bank base rates continue to be held at 0.5% while actual money market yields from new investments are currently running at 0.8-2.05%. The latest forecasts of interest rate movements provided by our treasury management consultants, Sector, indicate base rates will remain at this level throughout most of 2011/12 and then climb to 2% by the end of 2012 although such a forecast must be viewed with caution. These movements will affect the interest returns earned by the Council quite significantly. 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:

	Average Rate Expected	Current MTFP
2011/12	1.30%	254,000
2012/13	2.25%	559,000
2013/14	3.00%	419,000
2014/15	3.50%	577,000
2015/16	4.00%	568,000
2016/17	4.00%	552,000

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

As well as interest rates, the biggest contributing factor to Treasury Management costs is MRP, and as capital balances are diminished, MRP will continue to rise, unless new capital receipts can be generated.

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 2011/12 are shown in detail in the budget resolution and are summarised below:

	2011/12 Original £000	2011/12 Revised £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Recurring Spending Pressures	790	790	474	1,296	1,097	1,857	1,857
Recurring Spending Reductions	(3,594)	(3,594)	(3,962)	(4,642)	(5,685)	(6,431)	(6,431)
Non-Recurring Spending/(Saving)	(2,804)	(2,804)	(3,488)	(3,346)	(4,588)	(4,574)	(4,574)
Non-Recurring Pressures							
- Existing	2,205	2,205	866	662	0	0	0
- New	125	125	61	0	0	0	0
Carry Forward Requests	0	1,109	646	123	0	0	0
Use of Reserves	0	0	0	0	0	0	0
Non Recurring Reductions	(85)	(85)	(61)	0	0	0	0
Net Non-Recurring Spending/(Saving)	2,245	3,354	1,512	785	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 £5.2 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.

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. The 2012/13 Charges Review will further consider this issue.

	2008/09 Actual £	2009/10 Actual £	2010/11 Actual £	2011/12 Budget £
Cemeteries & Crematorium	988,010	998,951	1,043,516	1,086,100
Development Control	621,026	566,350	491,230	638,200
Building Control	375,706	395,338	369,631	392,400
Land Charges	126,665	120,527	159,531	112,700
Licences	235,191	227,987	242,031	225,800
Parking	1,412,318	1,395,120	1,265,708	1,407,300
Total	3,758,916	3,704,273	3,571,647	3,862,500

There is a downward trend for the income from **Development Control**. The actual income generated for 2010/11 was below the 2010/11 budget.

The income from **Parking** has been declining steadily over the past few years, and steps were taken to reduce the income targets. The decline now seems to have levelled out with income in 2010/11 broadly meeting the budgeted levels. Further reductions to the budget are expected to be required for 2012/13 onwards.

4.4.3 Property Rentals

Income received from property rentals is in the region of £5 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.

The forecast yield from property rentals over the period 2011/12 to 2016/17 and included in the MTFP is shown in the following table: -

Description	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
The Lanes (See Paragraph below)	1,583	1,583	1,583	1,583	1,583
The Market	132	132	132	132	132
Industrial Estates (+2% p.a)	2,646	2,699	2,753	2,808	2,864
Miscellaneous Properties (+2% p.a.)	385	393	401	409	417
Total	4,746	4,807	4,868	4,932	4,996

The Council has an agreement with the managing agents of the Lanes development whereby the Council receives a proportion of the total rental income. The budgeted income is included in the MTFP at £1.583m. Receiving Equity rental now means that the rental income received is subject to fluctuations in the performance of the Lanes and in periods where there are a lot of voids, income may be lower than that forecast. The situation is monitored via Management Reports received from the Managing Agent. Indications for 2011/12 are that there are still problems in attracting tenants and rents are forecast to dip below the budgeted amount and further updates on this will be included in the budget process for 2012/13. Based upon 2010/11 performance, income from the Lanes is likely to fall by around £320,000 from the current budgeted levels in the short term until better terms can be negotiated with tenants.

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 1.3% p.a., a figure of £254,000 was included as investment income in the 2011/12 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 1 February 2011 as part of the Treasury Management Strategy Statement.

4.4.5 Council Tax Income

Based on the Council Tax base projected for 2011/12 and an assumed annual growth of approximately 0.279% in the base over the next five years, a 0% increase in 2011/12 and 3.5% increase thereafter in Council Tax per annum will provide additional resources over the period 2011/12 – 2016/17 as follows: -

Year	Council Tax Band D £	Tax Base Projections	Yield £	Annual Increase £
2011/12	193.43	34,686.01	6,709,315	0
2012/13	200.20	34,782.78	6,963,513	254,198
2013/14	207.20	34,879.83	7,227,100	263,587
2014/15	214.45	34,977.14	7,500,848	273,748
2015/16	221.96	35,074.73	7,785,187	284,339
2016/17	229.73	35,172.59	8,080,198	295,012

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 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.

4.5.1 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 2011/12 the City Council received a capital grant of approx. £0.66m towards its capital 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 five 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 Assistant Director (Resources) 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**. One new reserve was approved to be established as at 31 March 2011 for Transformation.

Viewed against current projections, the Council's reserves are under significant pressures from 2011/12 onwards. The Council balances are 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.

BUDGET PROCESS

5.1 Budget Process

The Revenue Budget Process is the main mechanism in place for forecasting spending requirements and resources over a 5-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 five-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 Assistant Director (Resources), in conjunction with the Policy and Performance Manager, 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 Resources Overview and Scrutiny Panel also have 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 is a member of Community Voice, a Cumbria wide collaboration of District Councils, Cumbria County Council, the police and PCT that consults local people regularly on their views with the intention of improving services. The results of the consultations inform policy development and feed into the Corporate 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 Panels,
- The adoption of shared services, where this is proven to benefit the Council both financially and in the quality of service delivery.

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 Assistant Director (Resources) in conjunction with other Assistant 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.

SUMMARY

The purpose of the MTFP is to provide members with forecasts of the likely financial position of the Council over the next five 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.

APPENDIX A

Carlisle City Council – Current Financial Projections for the period to 2016/17

2011/12 Budget £000	Summary Net Budget Requirement	2012/13 Proj'd £000	2013/14 Proj'd £000	2014/15 Proj'd £000	2015/16 Proj'd £000	2016/17 Proj'd £000
Projected Resources						
(6,876)	Council Tax Income	(7,137)	(7,408)	(7,689)	(7,785)	(8,080)
(7,028)	Revenue Support Grant / NNDR	(6,305)	(5,978)	(5,279)	(5,219)	(5,219)
0	Area Based Grant	0	0	0	0	0
(19)	Estimated Council Tax Surplus	0	0	0	0	0
(438)	Parish precepts	(449)	(460)	(472)	(483)	(496)
(14,361)		(13,891)	(13,846)	(13,440)	(13,487)	(13,795)
Recurring Revenue Expenditure						
14,773	Existing Expenditure	14,980	15,486	16,792	17,587	20,024
790	New Spending Pressures	474	1,296	1,097	1,857	1,857
(3,594)	Budget Reductions	(3,962)	(4,642)	(5,685)	(6,431)	(6,431)
11,969	Total Recurring Expenditure	11,492	12,140	12,204	13,013	15,450
Non Recurring Revenue Expenditure						
2,205	Existing Commitments	866	662	0	0	0
125	Spending Pressures	61	0	0	0	0
(85)	Budget Reductions	(61)	0	0	0	0
0	Use of Earmarked Reserves	0	0	0	0	0
1,109	Carry Forward	646	123	0	0	0
15,323	Current Revenue Expenditure	13,004	12,925	12,204	13,013	15,450
438	Parish Precepts	449	460	472	483	496
15,761	Total Revenue Expenditure	13,453	13,385	12,676	13,496	15,946
(1,400)	Contribution to/(from) Reserves	438	461	764	(9)	(2,151)
14,361	Net Budget for Council Tax Purposes	13,891	13,846	13,440	13,487	13,795

APPENDIX B

Current Financing the Revenue Budget

Indicative forecasts of how the Council's projected gross budget will be financed for the period 2011/12 to 2016/17 are as follows: -

Source	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Council Tax (incl. Parishes)	7,314	11.14	7,586	11.72	7,868	11.91	8,161	12.21	8,268	11.95	8,576	12.39
Formula Grant	7,028	10.71	6,305	9.74	5,978	9.05	5,279	7.90	5,219	7.54	5,219	7.54
Collection Fund Surplus	19	0.03	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Net Budget for Council Tax Purposes	14,361	21.88	13,891	21.46	13,846	20.95	13,440	20.10	13,487	19.49	13,795	19.94
Grants and Contributions (assumed a 2.8% increase per annum)	37,573	57.25	38,625	59.68	39,707	60.08	40,818	61.06	41,961	60.65	43,136	62.34
Other Income (assumed a 3.8% increase per annum)	12,297	18.74	12,641	19.53	12,995	19.66	13,359	19.98	13,733	19.85	14,118	20.40
Reserves and Balances	1,400	2.13	(438)	(0.68)	(461)	(0.70)	(764)	(1.14)	9	0.01	2,151	3.11
Total Gross Budget	65,631	100.00	64,719	100.00	66,087	100.00	66,853	100.00	69,190	100.00	73,200	105.79

The use of Reserves and Balances varies from the Budget Resolution approved by Council in February 2011 as a result of the 2010/11 outturn position and the carry forward of £1,109,000 into 2011/12, £646,000 to 2012/13, and £123,000

APPENDIX C

Subjective Analysis of the Forecast Gross Budget

The detailed subjective figures from 2011/12 will become available as part of the budget process.

Source	2011/12		2012/13		2013/14		2014/15		2015/16		2016/17	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Employees	19,389	29.54										
Premises	4,480	6.83										
Transport	1,501	2.29										
Supplies & Services	5,332	8.12										
Third Party Payments	4,674	7.12										
Transfer Payments	31,866	48.55										
Support Services (Net)	(4,802)	(7.32)										
Capital Financing	1,644	2.50										
Precepts	438	0.67										
Supplementary Estimates	0	0.00										
Carry Forward Requests	1,109	1.69										
Total Gross Budget	65,631	100	64,719	0	66,087	0	66,853	0	69,190	0	73,200	0

CORPORATE CHARGING POLICY 2011

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:

- Persons over the age of 65
- 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?

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 £0.545 million to its revenue budget through investment interest (£0.254m) and the use of balances (£0.291m).

2. The General Fund Reserve

- 2.1. The balance on the General Fund shall broadly equal £3.8m. This figure is assessed taking into account the risks and working balances required, including investment income generated, it is considered prudent to leave the reserve at this level. A risk based assessment of the appropriate level of this reserve was carried out for the 2011/12 budget process and this is attached overleaf.
- 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 Assistant Director (Resources)

- 5.1 The Assistant Director (Resources) 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 Assistant Director (Resources) 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.

RISK ASSESSMENT OF LEVEL OF RESERVES – 2011/12

Potential Risk	Risk Score	Weighting	Financial Exposure (£000)	Balance Required (£000)	Comment (Basis of Financial Exposure)
Base Budget Contingency for inflation or other unanticipated rise.	4	50%	144	72	Assumed at 1% of Net Revenue Budget
Underachievement of Charges Income targets and spending exceeds budgets	4	50%	219	109	Estimate of 5% Charges Income forecasts for 2011/12
Underachievement of Investment Income	4	50%	250	125	1% of exposure of average balance of £25m
Civil Emergencies	6	75%	180	135	Bellwin scheme cuts in at 0.2% of Net Budget (£37,368) and provides for up to 85% of eligible costs (assume £1m cost - not covered by insurance)
Insurance Excesses	2	25%	25	6	Based on 5% of insurance premia payments
Fall in Rental Income from Property	6	75%	250	188	5% of Rental Income (assumed at £5.0m for 2011/12)
Transformation Savings not met	1	25%	1,000	250	Transformation target 2011/12
Changes to existing government funding regimes	9	100%	360	360	5% of Total of RSG funding
Dependence on reserves and general balances	3	50%	718	359	General Fund Reserve Balance - Audit Commission Guidance states prudent level is 5% of Net Revenue Expenditure
Emergency Contingency		100%	1,000	1,000	Emergency contingency fund - Council practice to allocate £1m for any unforeseen emergencies
TOTALS			4,146	2,604	
Maximum Risk Based Reserve Balances				6,114	
Minimum Risk Based Reserve Balances				1,036	
Current Level of Reserves (Projected as at 31/03/11) (General Fund)				3,721	
Projected Shortfall/(Excess) of Current Reserve Balance over Risk Based Reserves				1,117	

PROTOCOLS FOR THE USE OF COUNCIL RESERVES

Reserve	Estimated Balance 31/3/11	Purpose	Conditions of Use
Capital Reserves	£000		
Usable Capital Receipts	5,169	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 Assistant Director (Resources) 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 Assistant Director (Economic Development) 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 Assistant Director (Community Engagement) 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	326	To provide funds to meet potential exceptional capital works under the terms of the lease agreement.	Management of the reserve rests with the Assistant Director (Resources) 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 31/3/11	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	<p>Management of the reserve rests with the Assistant Director (Resources). The use of the reserve is dependent on judgements taken when setting the Council's revenue budget on: -</p> <ul style="list-style-type: none"> – 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. <p>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.</p>
Projects Reserve	79	The balance at 31 st March 2011 shall be earmarked to support potential revenue budget shortfalls identified by the 2011 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	<p>Management of the reserve rests with the Assistant Director (Resources). 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.</p>
Collection Fund (Carlisle Share)	(43)	To be the collection account for sums due from local taxpayers.	<p>Management of the fund rests with the Assistant Director (Resources). 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.</p>

Reserve	Estimated Balance 31/3/11	Purpose	Conditions of Use
Revenue Reserves (contd.)	£'000		
Residents Parking Reserve	99	To provide funds for small projects consistent with the Local Transport Plan.	Management of the reserve rests with the Assistant Director (Local Environment) 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	27	To provide funds for improvements to the delivery of the Building Control function.	Management of the reserve rests with the Assistant Director (Economic Development). 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 Assistant Director (Economic Development). 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 Assistant Director (Resources). 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 Assistant Director (Community Engagement) 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. THIS RESERVE TRANSFERRED TO TULLIE HOUSE TRUST IN MAY

Reserve	Estimated Balance 31/3/11	Purpose	Conditions of Use
			2011
Job Evaluation Reserve	(118)	To provide funds to cover the estimated cost of Job Evaluation.	The release of funds from this Reserve requires Council approval.
Licensing Reserve	(14)	This is a ringfenced surplus carried forward to fund future year's expenditure.	Management of the reserve rests with the Assistant Director (Resources). Approval to release funds from the reserve can only be given by the Executive of the Council.
Transformation Reserve	(884)	To fund any one off costs associated with transformation project	Management of the reserve rests with the Chief Executive. Approval to release funds from the reserve can only be given by the Executive of the Council.
EEAC Reserve	(192)	To hold the residual funds of the service pending future decisions with regard to the service	Management of the reserve rests with the Assistant Director (Economic Development). Approval to release funds from the reserve can only be given by the Executive of the Council.
Sheepmount Reserve	(42)	This is a fund held which will be needed for future drainage works at the Sheepmount.	Management of the reserve rests with the Assistant Director (Resources)

APPENDIX F

City Council Reserves Projections

Members should note that these financial projections now reflect the 2010/11 outturn position.

Analysis of Council Reserves	Outturn 31 March 2011 £000	Projected 31 March 2012 £000	Projected 31 March 2013 £000	Projected 31 March 2014 £000	Projected 31 March 2015 £000	Projected 31 March 2016 £000	Projected 31 March 2017 £000
Revenue Reserves							
General Fund Reserve	(3,721)	(2,411)	(2,915)	(3,376)	(3,800)	(3,800)	(1,980)
Projects Reserve	0	0	0	0	(340)	(331)	0
LSVT Warranties Reserve	(488)						
Conservation Reserve	(191)						
Sheepmount Reserve	(42)						
Collection Fund (Carlisle Share c	(43)						
Residents Parking Reserve	99						
Transformation Reserve	(884)						
EEAC Reserve	(192)	(152)	(112)				
Building Control Reserve	27						
JE Reserve	(118)	(68)	(43)				
Licensing Reserve	(14)						
Routledge Reserve	(42)						
Total Revenue Reserves	(5,609)	(2,631)	(3,070)	(3,376)	(4,140)	(4,131)	(1,980)
Capital Reserves							
Usable Capital Receipts	(5,169)	(4,804)	(12,545)	(1,518)	(3,736)	(1,559)	618
Unapplied capital grant	0	0	0	0	0	0	0
Asset Investment Reserve	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)	(2,048)
CLL Reserve	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Lanes Capital Reserve	(326)	(341)	(356)	(371)	(386)	(401)	(416)
Total Capital Reserves	(8,065)	(7,715)	(15,471)	(4,459)	(6,692)	(4,530)	(2,368)
Total Usable Reserves	(13,674)	(10,346)	(18,541)	(7,835)	(10,832)	(8,661)	(4,348)
Other Technical Reserves*	(119,753)						
Total All Reserves	(133,427)						

* 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.

RISK ASSESSMENT

Risk	Likelihood	Impact	Mitigation
The assumptions contributing to the Financial Plan prove to be incorrect.	Remote	Marginal	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	Reasonably probable	High	Regular budgetary monitoring reports. Updates to medium term financial strategy.
Unforeseen spending	Remote	Marginal	Budget Monitoring. Adequate contingency reserve. Updates to medium term financial strategy.
New Schemes / Initiatives (including VAT)	Reasonably Probable	Marginal	Review priorities. Assess effects on budget. Updates to medium term financial strategy.
Dependence on reserves and general balances	Reasonably Probable	High	Compliance with CIPFA / Audit Commission recommendations on level of balances and reserves.
Transformation Savings not achieved	Remote	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	Probable	High	Review service priorities, assess other funding opportunities, update medium term financial strategy.