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RESOURCES OVERVIEW AND SCRUTINY PANEL

Panel Report

Public

Date of Meeting: 3 January 2013

Title: **REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY
POSITION 2013/14 TO 2017/18**

Report of: **DIRECTOR OF RESOURCES**

Report reference: RD58/12

Summary:

This report provides a draft summary of the Council's revised revenue base estimates for 2012/13, together with base estimates for 2013/14 and updated projections to 2017/18. It includes the impact of the new savings and new spending pressures currently under consideration and the potential impact on the Council's overall revenue reserves.

Questions for / input required from Scrutiny:

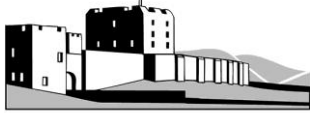
Members are asked to note the report and make comments on the proposed budgetary position.

Recommendations:

Members of the Resources Overview and Scrutiny Panel are asked to note and comment on the overall budgetary position for 2013/14 to 2017/18.

Contact Officer: Peter Mason

Ext: 7270



REPORT TO EXECUTIVE

PORTFOLIO AREA: FINANCE, GOVERNANCE AND RESOURCES

Date of Meeting: 17 December 2012

Public

Key Decision: Yes

Recorded in Forward Plan: Yes

Inside Policy Framework

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This report provides a draft summary of the Council's revised revenue base estimates for 2012/13, together with base estimates for 2013/14 and updated projections to 2017/18. It includes the impact of the new savings and new spending pressures currently under consideration and the potential impact on the Council's overall revenue reserves.

Recommendations:

The Executive is requested to note the updated budget projections for 2012/13 to 2017/18 and make recommendations, in the light of the budget pressures and savings submitted to date, together with the potential use of balances and reserves, in order to issue a draft budget for consultation purposes.

Contact Officer: Peter Mason

Ext: 7270

To: The Executive
17 December 2012

RD58/12

REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY POSITION
2013/14 TO 2017/18

1. INTRODUCTION

- 1.1. This report summarises the budget projections and matters to be considered in respect of the net budget requirement for the Council for the period 2012/13 to 2017/18.
- 1.2. In particular, it advises on the Council's core revenue budgets for 2013/14 together with projections to 2017/18, and considers the potential impact of the new savings and new spending pressures currently under consideration and the potential impact on overall revenue projections and reserves. It is clear, even at this stage of the budget process, that all of the pressures currently identified cannot be accommodated without identifying additional savings. Decisions will need to be made to limit budget increases to unavoidable and high priority issues, together with maximising savings and efficiencies.
- 1.3. It should also be noted that there are still a large number of significant issues affecting the projections that are not yet known. In particular the following are key to the budget process and details on these are considered further in the report:
- Government Finance Settlement - draft figures are due to be released on 19th December and any implications will be considered as part of the Executive's budget proposals.
 - Welfare Reform Act including localisation of Council Tax Benefit
 - Local Government Resource Review regarding the localisation of Business Rates
 - Fundamental Review of Local Environment Budgets
 - Transformation
- 1.4 The Chancellor announced in his Autumn Statement on 5 December the following implications for Local Government:
- Local government exempt from the 1% reduction in 2013/14 but will face additional cuts of 2% in 2014/15
 - Small business rate relief - extension of the temporary doubling of the small business rate relief for a further 12 months from 1st April 2013
 - **Subject to consultation**, exemption to all newly built commercial property completed between 1st October 2013 and 30 September 2016 from empty rates for the first 18 months, up to state aid limits.

- Publishing data on surplus and derelict land using the local authority Transparency Code, which the Government is currently consulting on.

1.4. The report draws on information contained in a number of reports that have been considered by the Executive and Overview and Scrutiny Panels over the course of the financial year. The principal budget reports have been listed in **Appendix A**.

1.5. The Executive will issue its budget for consultation purposes on 17 December. Following this it will consider the final consultation feedback, together with the final Government Grant settlement figure (if available) on 14 January and will subsequently recommend a budget to Council on 5 February 2013.

2. GENERAL FUND BUDGET PROJECTIONS 2012/13 REVISED TO 2017/18

2.1 The budget projections as currently forecast are summarised in the following table.

Further details are contained in the notes following the table and Appendices listed:

Summarised Position	2012/13 Original £000	2012/13 Revised £000	2013/14 Original £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000	2017/18 Proj £000
Total Projected Expenditure (See 3.1 & Appendix B)	14,791	14,715	13,329	12,410	12,067	12,978	13,826
Total Projected Resources (See 3.2 & Appendix C)	(14,791)	(14,715)	(12,900)	(12,409)	(12,590)	(12,843)	(13,141)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	429	1	(523)	135	685
Less:							
New Saving Proposals							
- Recurring	0	0	(1,401)	(751)	(861)	(825)	(825)
- Non Recurring	0	0	(247)	(133)	0	0	0
(See Para 4 & Appendix D)							
Add:							
New Spending Pressures							
- Recurring	0	0	654	610	988	1,080	1,188
- Non Recurring	0	0	241	204	0	0	0
(See Para 5 & Appendix E)							
Potential Budget Shortfall (See para 2.2)	0	0	(324)	(69)	(396)	390	1,048
Potential Shortfall Analysis:							
- Recurring			(1,084)	(140)	(396)	390	1,048
- Non Recurring			760	71	0	0	0

2.2 It should be noted that the potential shortfall projected above is the projected position that would occur only if all of the new Savings and Spending Pressures were accepted. The Executive are asked to consider the issues in this report and

make proposals on the savings, new spending pressures and use of reserves as set out in this report in order to issue a draft budget for consultation purposes.

- 2.3 It should also be noted that these projections are subject to Council Tax base and Surplus, Disabled Facilities Grant, all of which will be notified, in early 2013.

3. CURRENT PROJECTIONS

3.1 Total Existing Projected Expenditure

The total existing expenditure commitments from the 2012/13 budget and any subsequent approvals by Council are set out in **Appendix B**. The following should be noted:

- The forward year projections at this stage exclude the new spending and saving proposals being put forward for consideration as part of the current years budget deliberations.
- The current requirement for each Parish Precept for 2013/14 will not be known until January when Parishes are expected to set their precepts. This will be affected by the decisions to include Parishes in the implications for the Localisation of Support for Council Tax scheme. The allocations for 2012/13 allocations are set out in **Appendix F**.

3.2 Total Projected Resources

The figures set out in **Appendix C** include an estimated figure for the Local Government Finance Settlement. The draft figures are expected to be announced by the Secretary of State on 19th December 2012 which will be confirmed in January 2013.

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2013/14 onwards.

The resources also assume for projection purposes:

- An illustrative 0.0% voluntary Council Tax freeze for 2013/14 to be partly funded by central government grant. The Council Tax increase will revert to 3.5% for 2013/14 in accordance with the MTFP
- No Council Tax Surplus 2013/14 onwards. The actual figure for 2013/14 will be available in January.
- An assumed taxbase of 34,922.05 (the actual for 2013/14 will not be available until January).

For information, broadly:

- Each 1% (£1.95) movement in Council Tax impacts on the Council by £67,000

- Each 1% movement in RSG/NNDR grant will impact by £91,000.
- Each £35,000 increase or decrease in expenditure impacts on the Council Tax Requirement by £1.

4. SAVING PROPOSALS (see Appendix D)

4.1 The saving proposals were presented to the Executive at its meeting of 19 November (RD45/12), supported by individual charges review reports. At that meeting the Executive requested that the savings and individual charging reports be forwarded to the relevant Overview and Scrutiny Panels as part of the budget consultation process.

5. NEW SPENDING PRESSURES (see Appendix E)

5.1 The Executive at its meeting of 19 November (RD44/12) considered the new spending pressures. At that meeting the Executive requested that the spending pressures be forwarded to the relevant Overview and Scrutiny Panels as part of the budget consultation process.

5.2 This report considers the revenue pressures only. Report RD59/12 considered elsewhere on this agenda gives details of any capital bids submitted, although any recurring expenditure resulting from the acceptance of Capital bids will fall to be met from revenue budgets, and initial projections on the impact have been made.

6. PROJECTED IMPACT ON REVENUE BALANCES

6.1 The general principles on each of the Reserves are set out in the Medium Term Financial Plan. In terms of meeting ongoing revenue expenditure, the general guiding principle which Council approved is that:

‘Wherever possible, reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit, and steps taken to address the situation in the following years’.

6.2 The Council’s overall levels of balances are set out in **Appendix G** and have currently been adjusted assuming withdrawal to support all of the current budget proposals. The Projects Reserve has been used as a first call for the current projected revenue budget deficit as set out in paragraph 2.1. The revised movement of the reserve is as follows and clearly shows the projected call on reserves is unsustainable given the current pressures. A risk based review of reserve levels has been undertaken and shows a prudent level of reserves to be £2.6million.

Balance as at:	Projected Deficit £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000
31/03/2013	(1,846)	(1,084)	760
31/03/2014	(2,170)	(140)	71
31/03/2015	(2,239)	(396)	0
31/03/2016	(2,635)	390	0
31/03/2017	(2,245)	1,048	0
31/03/2018	(1,197)	0	0

7. MEDIUM TERM OUTLOOK AND BUDGET DISCIPLINE 2012/13 to 2017/18

- 7.1 The current budget projections for the next five-year period are challenging and indicate that substantial savings will be required to enable the Council to contain its ongoing commitments within available resources.
- 7.2 Notification of Government general and specific grants i.e. RSG, NNDR, etc is received on an individual basis late in the budget process. This makes forward financial planning more difficult. The figures incorporated into this report are based on the 2011/12 Local Government Finance Settlement confirmed by the Secretary of State in November 2010. The settlement was for 2011/12 and 2012/13, however, further reductions for 2013/14 onward have only been estimated in the MTFP.
- 7.3 In terms of expenditure pressures, there are significant issues affecting the budget.
- 7.4 The City Council needs to establish as part of its budgetary process the financial discipline to be followed by member and officers in the ensuing financial years, and the Executive will table recommendations in this respect at this meeting.
- 7.5 Under section 25 of the Local Government Act 2003 the Section 151 Officer is required to prepare a statutory report which considers the robustness of the estimates and the adequacy of reserves and which determines levels of borrowing. A full report will be prepared and included within the Executive's draft budget proposals for consultation purposes; however a draft is attached at **Appendix H**. At this stage it should be noted that the current projected revenue deficit requires further substantial savings to be identified to meet the ongoing projected shortfall and that the impact on reserves is not sustainable.

8. CONSULTATION

- 8.1 The Executives draft budget will be issued for consultation on 17 December. The consultation feedback, together with the final Government Grant settlement (if

available), will be considered by the Executive on 14 January, following which the Executive will make final budget recommendations to Council on 5 February 2013.

9. RECOMMENDATIONS

9.1 The Executive is requested to note the updated budget projections for 2013/14 to 2017/18 and make recommendations, in the light of the budget pressures and savings submitted to date, together with the potential use of balances and reserves, in order to issue a draft budget for consultation purposes.

10. REASONS FOR RECOMMENDATIONS

10.1 To enable the Executives draft budget proposals for consultation purposes to be prepared.

11. IMPLICATIONS

- Staffing/Resources – The core estimates assume a continuance of the existing levels of resources, however the effect of achieving the transformation savings will need to be incorporated. Any changes to the base level of resources are contained within the reports on new spending pressures and new savings previously considered by the Executive and summarised within this report.
- Financial – Included within the report.
- Legal – Not applicable.
- Corporate – Included within the report.
- Risk Management – The budget issues being raised at this meeting clearly point to increasing pressures on the Council’s budgets some arising from the economic downturn, along with ongoing funding of priority services. The pressures cannot all be met from existing resources and decisions will need to be taken to enable a balanced budget position to be reached and recommended to Council.
- Equality Issues – Not applicable.
- Environmental – Some of the bids have environmental issues.
- Crime and Disorder – Not applicable.
- Impact on the Customer – Principally Council tax and charges impacts.

IMPACT ASSESSMENTS

Does the change have an impact on the following?

Equality Impact Screening	Impact Yes/No?	Is the impact positive or negative?
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Does the policy/service impact on the following?		
Age	No	N/A
Disability	No	N/A
Race	No	N/A
Gender/ Transgender	No	N/A
Sexual Orientation	No	N/A
Religion or belief	No	N/A
Human Rights	No	N/A
Social exclusion	No	N/A
Health inequalities	No	N/A
Rurality	No	N/A

If you consider there is either no impact or no negative impact, please give reasons:

This report summarises the overall budget position for 2012/13 and future years. Equality Impact Assessments will be undertaken as part of the Budget Consultation Process.

If an equality Impact is necessary, please contact the P&P team.

Peter Mason
Director of Resources

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PRINCIPAL REPORTS CONSIDERED DURING THE BUDGET PROCESS TO DATE

Report Ref	Date	Title
RD29/12	11/09/12	Medium Term Financial Plan (incorporating the Corporate Charging Policy) 2013/14 to 2017/18
RD30/12	11/09/12	Capital Strategy 2013/14 to 2017/18
RD36/12	11/09/12	Asset Management Plan 2012 -2017
RD43/12	19/11/12	Revenue Base Estimates and Updated MTFP Projections 2013/14 to 2017/18
RD46/12	19/11/12	Provisional Capital Programme 2013/14 to 2017/18
RD44/12	19/11/12	Summary of New Revenue Spending Pressures
RD45/12	19/11/12	Summary of Savings Proposals
GD61/12	19/11/12	Charges Review – Licensing
GD64/12	19/11/12	Charges Review – Governance
CD53/12	19/11/12	Charges Review – Community Engagement
ED35/12	19/11/12	Charges Review – Economic Development
LE34/12	19/11/12	Charges Review – Local Environment
RD47/12	19/11/12	Treasury Management 2012/13 to 2017/18
RD53/12	19/11/12	Corporate Assets – 3 Year Repair and Maintenance Programme
RD58/12	17/12/12	Revenue Estimates: Summary of Overall Budgetary Position 2013/14 to 2017/18
RD59/12	17/12/12	Capital Estimates: Summary of Overall Budgetary Position 2013/14 to 2017/18
RD60/12	17/12/12	Draft Treasury Management Strategy Statement and Investment Strategy and Minimum Revenue Provision Strategy 2013/14

EXISTING EXPENDITURE COMMITMENTS

EXPENDITURE PROJECTION	2012/13		2013/14 Estimate £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000	2017/18 Proj £000
	Original Estimate £000	Revised Estimate £000					
Core Expenditure:							
Core Base Expenditure	7,090	7,090	6,247	5,236	4,490	4,490	4,490
Treasury Management	(20)	(20)	717	1,017	1,777	1,733	1,733
Inflation Projection	4,422	4,422	5,176	5,951	6,746	7,563	8,399
2012/13 agreed Savings	(66)	(66)	(1,345)	(1,713)	(2,712)	(2,346)	(2,346)
2012/13 agreed Spending	1,402	1,402	1,493	1,639	1,287	1,047	1,047
2012/13 Budget Changes	(174)	(174)	(181)	(188)	0	0	0
Total Core Expenditure	12,654	12,654	12,107	11,942	11,588	12,487	13,323
Non Recurring Exp:							
Pre 2011/12 approvals	0	0	0	0	0	0	0
Treasury Management	801	801	662	0	0	0	0
2012/13 agreed Savings	(588)	(588)	(195)				
2012/13 agreed Spending	410	410	196	0	0	0	0
Carry Forwards	1,004	1,004	123	0	0	0	0
Use of Earmarked Reserves	65	(31)	0	0	0	0	0
Reprofiling	0	20	(20)				
Total non Recurring Expenditure	1,692	1,616	766	0	0	0	0
Total City Council Budget Requirement	14,346	14,270	12,873	11,942	11,588	12,487	13,323
Parish Council Precepts	445	445	456	468	479	491	503
Total Requirement	14,791	14,715	13,329	12,410	12,067	12,978	13,826

RESOURCE PROJECTIONS

RESOURCES PROJECTION	2012/13 Original Estimate £000	2012/13 Revised Estimate £000	2013/14 Estimate £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000	2017/18 Proj £000
Projected External Finance:							
- Revenue Support Grant	(6,354)	(6,354)	(5,689)	(4,930)	(4,835)	(4,800)	(4,800)
- Surplus on Collection Fund	0	0	0	0	0	0	0
- C/Tax for Parish Precepts	(445)	(445)	(456)	(468)	(479)	(491)	(503)
- Council Tax Yield	(6,736)	(6,736)	(6,755)	(7,011)	(7,276)	(7,552)	(7,838)
Total Income based on 0.0% Tax increase Projections	(13,535)	(13,535)	(12,900)	(12,409)	(12,590)	(12,843)	(13,141)
Plus Approved Contributions from Balances:							
- Pre 2011/12 non recurring commitments	(1,512)	(1,512)	0	0	0	0	0
- 2011/12 non recurring commitments	178	178	0	0	0	0	0
- Pre 2010/11 recurring Carry Forwards	436	436	0	0	0	0	0
Reprofiling	(358)	(358)	0	0	0	0	0
Use of Earmarked Reserves	0	(20)	0	0	0	0	0
	0	96	0	0	0	0	0
Total Use of Reserves	(1,256)	(1,180)	0	0	0	0	0
Total Projected Resources	(14,791)	(14,715)	(12,900)	(12,409)	(12,590)	(12,843)	(13,141)

SAVING PROPOSALS

Detail	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Expenditure Reductions					
2012/13 Pay Award Savings	(110)	(110)	(110)	(110)	(110)
Council Tax Discounts Review	(90)	(90)	(90)	(90)	(90)
Leisure Contract Savings	0	0	(250)	(250)	(250)
Asset Review	(8)	(8)	(16)	(16)	(16)
Housing Benefit Admin Grant	(94)	0	0	0	0
Transformation Savings Reprofiling	700	650	587	36	0
Transformation Savings Reprofiling	(1,534)	(834)	(623)	(36)	0
New Transformation Savings	0	0	?	?	?
Total Savings	(1,136)	(392)	(502)	(466)	(466)
Increased Income					
New Homes Bonus	(349)	(349)	(349)	(349)	(349)
Homelessness Grant	(66)	(66)	0	0	0
Council Tax Freeze Grant	(67)	(67)	0	0	0
Land Charges Income	(10)	(10)	(10)	(10)	(10)
LSCT Relief Grant	(20)	0	0	0	0
Total Additional Income	(512)	(492)	(359)	(359)	(359)
Total Savings	(1,648)	(884)	(861)	(825)	(825)
Split:					
Recurring	(1,401)	(751)	(861)	(825)	(825)
Non Recurring	(247)	(133)	0	0	0

New Spending Pressures

Detail	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Recurring					
Localisation of Council Tax Support	120	180	215	250	250
Revenue Support Grant	169	169	169	169	169
Total Changes to Funding	289	349	384	419	419
Revenue Costs of Capital Schemes	129	104	159	159	159
Treasury Management	124	118	166	373	238
Asset Business Plan Reprofiling	140	127	115	0	0
Elections Individual Registration Costs	?	?	?	?	?
Building Control Income	50	50	50	50	50
Car Parking Income	50	50	50	50	50
Borrowing Cost - Proposed Capital Scheme	0	0	287	287	287
New Homes Bonus - 2011/12 Allocation	0	0	0	0	243
Living Wage	30	30	30	30	30
Highways Services	131	131	131	131	131
Total Recurring Pressures	654	610	988	1,080	1,188
Total Recurring Spending Pressures	943	959	1,372	1,499	1,607
Non-Recurring					
Homelessness	66	66	0	0	0
MMI Insurance Provision	175	0	0	0	0
Lanes Income	0	138	0	0	0
Total Non Recurring	241	204	0	0	0

PARISH PRECEPTS 2013/14

Parish Council	Precepts Paid 2012/13 £	Precepts Requested 2013/14 £	Percentage Increase
Arthuret	47,732		-100.00
Beaumont	4,647		-100.00
Bewcastle	3,500		-100.00
Brampton	88,878		-100.00
Burgh-by-Sands	13,000		-100.00
Burtholme	1,800		-100.00
Carlatton & Cumrew	1,600		-100.00
Castle Carrock	4,340		-100.00
Cummersdale	6,300		-100.00
Cumwhitton	3,400		-100.00
Dalston	41,735		-100.00
Denton Upper	1,023		-100.00
Farlam	3,281		-100.00
Hayton	13,720		-100.00
Hethersgill	6,500		-100.00
Irthington	5,356		-100.00
Kingmoor	7,278		-100.00
Kingwater	1,000		-100.00
Kirkandrews-on-Esk	7,062		-100.00
Kirklington	1,850		-100.00
Midgeholme	0		0.00
Nether Denton	3,194		-100.00
Nicholforest	4,000		-100.00
Orton	3,750		-100.00
Rockliffe	2,800		-100.00
Scaleby	5,000		-100.00
Solport & Stapleton	2,800		-100.00
Stanwix Rural	40,450		-100.00
St Cuthbert Without	21,700		-100.00
Walton	4,879		-100.00
Waterhead	1,000		-100.00
Westlinton	2,000		-100.00
Wetheral	89,250		-100.00
TOTAL	444,825	0	-100.00

COUNCIL RESERVES

Council Reserves	Actual 31/03/12 £000	Revised 31/03/13 £000	Proj 31/03/14 £000	Proj 31/03/15 £000	Proj 31/03/16 £000	Proj 31/03/17 £000	Proj 31/03/18 £000
Revenue Reserves							
General Fund Reserve	(2,839)	(1,846)	(2,170)	(2,239)	(2,635)	(2,245)	(1,197)
Projects Reserve i	0	0	0	0	0	0	0
Sub Total	(2,839)	(1,846)	(2,170)	(2,239)	(2,635)	(2,245)	(1,197)
Collection Fund	(58)						
Job Evaluation	(37)	(12)	(12)	(12)	(12)	(12)	(12)
Residents Parking	192						
EEAC Reserve	(94)	(54)	(54)	(54)	(54)	(54)	(54)
Transformation Reserve	(727)	0	0	0	0	0	0
Building Control	27						
Licensing Reserve	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Cremator Reserve	(69)						
Sheepmount Reserve	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Conservation Fund	(126)	(126)	(126)	(126)	(126)	(126)	(126)
LSVT Warranties	(488)	(488)	(488)	(488)	(488)	(488)	(488)
Total Revenue Reserves	(4,235)	(2,542)	(2,866)	(2,935)	(3,331)	(2,941)	(1,893)
Capital Reserves							
CLL Reserve	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts	(4,816)	(4,401)	(3,927)	(3,993)	(612)	(612)	(522)
Set Aside Capital Receipts	0	0	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Borrowing Requirement	0	0	(271)	(334)	(6,956)	(290)	0
Asset Investment	(1,383)	(365)	(365)	(365)	(365)	(365)	(365)
Lanes Capital Reserve	(341)	(356)	(371)	(386)	(401)	(416)	(431)
Total Capital Reserves	(7,062)	(5,644)	(20,456)	(20,600)	(23,856)	(17,205)	(16,840)
Total Available Council Balances	(11,297)	(8,186)	(23,322)	(23,535)	(27,187)	(20,146)	(18,733)
Other Reserves ii	(117,826)						
Total Reserves	(129,123)						

(i) refer to paragraph 6.2 for further details,

(ii) These reserves are of a technical nature and are not cash backed. They are not available either to fund expenditure or to meet future commitments.

DRAFT STATUTORY REPORT OF DIRECTOR OF RESOURCES

1. In setting its Budget Requirement, the Council is required under the Local Government Act 2003 (Section 25) to consider:
 - (i) The formal advice of the statutory responsible financial officer (Director of Resources) on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
 - (ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the new Prudential Code that now governs local authority borrowing.

2. Robustness of the Estimates

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

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates.

The Council has no history of overspending against budget, indeed, until recently there has tended to be a degree of underspending. However improved budget monitoring backed up by specific action where appropriate and base budget procedures have proven effective in addressing this issue.

There are risks however involved in projecting budgets particularly over the medium term and the year-end position will never exactly match the estimated position in any given year. Areas of specific risk in the current five-year period under consideration are:

- The Transformation programme is expected to have achieved £3million recurring savings from 2012/13, however further savings of approximately £2.573m are required in order to meet the cuts in grants from central government and the budgetary pressures identified in the budget process in order to produce a balanced budget where Council reserves are replenished over the longer term. Savings of £2.134m have been identified to date with the remaining £439,000 due to be found from 2015/16.
- The level of interest receipts and return on Treasury Management activities are subject to market rates. Members are advised of this risk every year and it should be noted that in the current economic climate with low base rates, investment income returns in the medium term are very difficult to predict. The Council is also having to deal with a reduced number of counterparties it is able to place deposits with. Coupled with this is the increasing cost of Minimum Revenue Provision through the reduction in the amount of available capital receipts the Council has. Both of these factors place a significant pressure on the Revenue budget over the next 5 year period.

The main risks to the robustness of the estimates is the impact of the Transformation programme. The use of reserves will be necessary to fund this budget in the short term however it is not acceptable in the longer term and should only be seen as a short term fix. The proposals to be put in place need to bring reserve levels back to an acceptable level in the following 5 years. This is dependant upon the necessary steps being taken to resolve the ongoing projected deficit, as part of the Transformation programme. Specifically it will require the delivery of the savings proposals identified and continuing work to deliver further savings. Regular budget monitoring, particularly in the area of the

Transformation programme is imperative during this period. The level of the Council's future Capital Programme in taking account of a significant reduction in capital receipts also needs to be clarified.

- Central contingencies – there have been no contingency budgets built in to the existing estimates. This means that any unforeseen expenditure that cannot be contained within existing budgets will require a supplementary estimate to cover any costs. The budget proposals will significantly limit the capability to deal with any of these events and these may have to be found from within other budgets and reserves should the need arise.

2. Adequacy of Reserves

The level and usage of the Council's Reserves is undertaken annually as part of the Medium Term Financial Plan.

The appropriateness of the level of reserves can only be judged in the context of the Council's longer term plans and an exercise has been undertaken to review the level of reserves through the use of a risk assessment matrix. The findings of this exercise suggested that the minimum level should be set at £2.6m as a prudent level of General Fund Reserves which will be required as a general working capital/ contingency to cushion the Council against unexpected events and emergencies. Details of the Risk Assessment are shown in **Appendix I**. However, given the short term commitments highlighted in the budget proposals, it is necessary that the current General Fund reserve be used to fund the short term deficits. Stringent plans will be required in order to replenish the level of reserves in the following years and the budget proposed must identify the steps necessary to do this.

The Councils policy on reserves is that wherever possible reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit and steps taken to address the situation in the following years. The deficit projections must therefore be addressed and the Executive must set out in its Budget Discipline and Saving Strategy how it expects Officers to address the situation in setting the 2013/14 budget and preparing for the 2014/15-budget cycle.

Based on current projections, Council Reserves will fall to below minimum recommended levels in the years 2012/13 to 2014/15. Necessary steps are being taken to resolve the ongoing projected deficit from 2012/13 by delivery of savings proposals currently identified and identification of further savings via the Transformation Programme. It is accepted that the level of reserves will need to reduce until the impact of the transformation is effective and that the £2.6m General Fund Reserve is breached in the short term but that this is replenished over the following 5 years through a stringent savings strategy. It is anticipated that from 2016/17 further savings of £500,000 will have to be identified in order to maintain reserves at £2.6m.

3. Determination of Borrowing

The new Prudential Accounting regime enables the Council to borrow subject to meeting criteria of affordability. The draft Prudential Indicators have been established and these will be finalised for Council approval once decisions on the overall Capital Programme have been made.

For the period under review the need for borrowing will be kept under consideration and will be dependent on the level of capital receipts being generated and the potential of future capital projects. Due to projects currently under consideration, the capital programme for 2013/14 to 2017/18 may require the use of Prudential Borrowing (including internal borrowing) to sustain levels depending on the levels of capital receipts that can be generated in the future. If borrowing is required, full option appraisals will be carried out.

RISK ASSESSMENT OF LEVEL OF RESERVES – 2013/14

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%	136	68	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 2012/13
Underachievement of Investment Income	2	25%	200	50	1% of exposure of average balance of £20m
Civil Emergencies	6	75%	150	112	Bellwin scheme cuts in at 0.2% of Net Budget (£32.926m) 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%	240	180	5% of Rental Income (assumed at £4.8m for 2012/13)
Transformation Savings not met	1	25%	600	150	Transformation target 2012/13
Changes to existing government funding regimes	9	100%	318	318	5% of Total of RSG funding
Dependence on reserves and general balances	3	50%	675	338	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			3,563	2,331	Prudent reserve to remain at £2.6m
Maximum Risk Based Reserve Balances				3,563	
Minimum Risk Based Reserve Balances				891	
Current Level of Reserves (Projected as at 31/03/12) (General Fund)				2,839	
Projected Shortfall/(Excess) of Current Reserve Balance over Risk Based Reserves				(508)	