



# REPORT TO EXECUTIVE

## PORTFOLIO AREA: GOVERNANCE AND RESOURCES

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Date of Meeting: 16 January 2012

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Public

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Key Decision: Yes

Recorded in Forward Plan:

Yes

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Inside Policy Framework

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**Title:** REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY POSITION 2012/13 TO 2016/17

**Report of:** ASSISTANT DIRECTOR (RESOURCES)

**Report reference:** RD78/11

**Summary:**

This report provides an update to RD70/11, which was considered by the Executive on 19 December. The report has been amended to mirror the Executive's draft budget proposals which were issued for consultation purposes on 19 December and has been updated to take account of any further known changes since that date.

Members should note that there is still some outstanding information particularly on Government Grant allocations. Depending upon the timing of any announcements the final figures will be revised in the Executive's budget proposals presented to Council on 7 February.

**Recommendations:**

The Executive is requested to note the draft updated budget projections for 2011/12 to 2016/17, together with the potential use of balances and reserves, in order to recommend a budget to Council on 7 February 2012.

**Contact Officer:** Peter Mason

**Ext:** 7270

To: The Executive  
16 January 2012

RD78/11

REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY POSITION  
2012/13 TO 2016/17

**1. INTRODUCTION**

- 1.1. This report provides an update to RD70/11, which was considered by the Executive on 19 December and summarises the budget projections and matters to be considered in respect of the net budget requirement for the Council for the period 2011/12 to 2016/17. Members should note that this report has been amended to reflect the Executive's draft budget proposals issued on 19 December with other changes detailed in paragraph 2.4 below.
- 1.2. It should also be noted that there are still a 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 were released on 8<sup>th</sup> December with final figures expected early in the new year.
  - Welfare Reform Act including localisation of Council Tax Benefit
  - Local Government Resource Review regarding the localisation of Business Rates
- 1.3. The Chancellor announced in his Autumn Statement that there would be a 2 year pay cap in Public Sector pay at 1% for 2012/13 and 2013/14. The current MTFP assumes a pay increase of 1% in 2012/13 and 2.5% in 2013/14. This saving has not been included in the budget as the impact on Council funding within the 2013/14 RSG settlement will not be known until late 2012.
- 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**.

**2. GENERAL FUND BUDGET PROJECTIONS 2011/12 REVISED TO 2016/17**

- 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:

<b>Summarised Position</b>	<b>2011/12 Original £000</b>	<b>2011/12 Revised £000</b>	<b>2012/13 Original £000</b>	<b>2013/14 Proj £000</b>	<b>2014/15 Proj £000</b>	<b>2015/16 Proj £000</b>	<b>2016/17 Proj £000</b>
Total Projected Expenditure <b>(See 3.1 &amp; Appendix B)</b>	15,761	15,787	13,275	13,200	12,484	13,492	14,277
Total Projected Resources <b>(See 3.2 &amp; Appendix C)</b>	(15,761)	(15,787)	(13,527)	(13,417)	(12,994)	(13,220)	(13,517)
<b>Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending</b>	<b>0</b>	<b>0</b>	<b>(252)</b>	<b>(217)</b>	<b>(510)</b>	<b>272</b>	<b>760</b>
<b>Less:</b>							
New Saving Proposals							
- Recurring	0	0	(426)	(1,464)	(1,441)	(2,512)	(2,110)
- Non Recurring	0	0	(578)	(195)	0	0	0
<b>(See Para 4 &amp; Appendix D)</b>							
<b>Add:</b>							
New Spending Pressures							
- Recurring	0	0	1,762	1,712	1,517	1,287	1,047
- Non Recurring	0	0	89	0	0	0	0
<b>(See Para 5 &amp; Appendix E)</b>							
<b>Potential Budget Shortfall (See para 2.2)</b>	<b>0</b>	<b>0</b>	<b>595</b>	<b>(164)</b>	<b>(434)</b>	<b>(953)</b>	<b>(303)</b>
Potential Shortfall Analysis:							
- Recurring			(452)	(754)	(434)	(953)	(303)
- Non Recurring			1,047	590	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. Any proposed budget shortfall will need to be met by appropriation from Council Reserves.

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 2012.

2.4 The main changes from the previous report (RD70/11) are shown in the table below:

Summarised Position	2012/13 Estimate £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000
<b>Potential Budget Shortfall (Per RD70/11 Addendum)</b>	<b>887</b>	<b>(375)</b>	<b>(106)</b>	<b>(412)</b>	<b>(305)</b>
Changes per Executive's draft budget proposals:					
Additional Transformation Savings	0	200	400	400	400
Additional External grant	(401)	(401)	(401)	(401)	(158)
Changes to Treasury Management	84	151	(324)	(539)	(240)
VAT Claims Changes	0	324	0	0	0
Homelessness Grant	(24)	0	0	0	0
Homelessness Expenditure	24	0	0	0	0
Small Scale Community Projects	40	0	0	0	0
Changes to Asset Review	35	(63)	(3)	(1)	0
Additional RSG	(50)	0	0	0	0
<b>Revised Potential Budget (Surplus)/ Shortfall</b>	<b>595</b>	<b>(164)</b>	<b>(434)</b>	<b>(953)</b>	<b>(303)</b>

There is a small amount of flexibility within the budget to enable the Executive to fund some non-recurring revenue schemes. These include investigating providing financial support for the events programme including the Olympic Torch, and supporting an enhanced Environmental Enforcement team for 2-3 years. Proposed savings in the 2011/12 budget covering advice agencies will not be taken and therefore support to the Law Centre and the Citizens Advice Bureau will continue which is important during a time of recession.

### 3. CURRENT PROJECTIONS

#### 3.1 Total Existing Projected Expenditure

The total existing expenditure commitments from the 2011/12 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 2012/13 is £445,000 as 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 were announced by the Secretary of State on 8<sup>th</sup> December 2011 which will be confirmed in January 2012.

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2012/13 onwards.

The resources also assume for projection purposes:

- An illustrative 0.0% Council Tax freeze for 2012/13 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 2012/13 onwards. The actual figure for 2012/13 will be available in January.
- An assumed taxbase of 34,782.78 (the actual for 2012/13 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 22 November (RD65/11), supported by individual charges review reports.

## 5. **NEW SPENDING PRESSURES (see Appendix E)**

- 5.1 The Executive at its meeting of 22 November (RD64/11) considered the new spending pressures.

- 5.2 This report considers the revenue pressures only. Report RD79/11 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 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 that due to this the level of reserves

will fall in the short term until transformation savings are delivered in the medium term enabling reserves to be replenished. A risk based review of reserve levels has been undertaken and shows a prudent level of reserves to be £2.6million as shown in **Appendix J**.

Balance as at:	Projected Reserves £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000
31/03/2012	(2,283)	(452)	1,047
31/03/2013	(1,688)	(754)	590
31/03/2014	(1,852)	(434)	0
31/03/2015	(2,286)	(953)	0
31/03/2016	(3,239)	(303)	0
31/03/2017	(3,542)	0	0

## 7. MEDIUM TERM OUTLOOK AND BUDGET DISCIPLINE 2011/12 to 2016/17

- 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 draft 2012/13 Local Government Finance Settlement announced by the Secretary of State in December 2011.
- 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. The budget discipline as issued by the Executive on 19 December for budget consultation is attached at **Appendix H**.
- 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 was prepared and included within the Executive's draft budget proposals for consultation purposes and is attached at **Appendix I**. 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 unless these further savings are delivered.

## **8. CONSULTATION**

- 8.1 As part of the budget consultation process the draft revenue budget has been considered by the Resources Overview and Scrutiny Panel, Trade Unions, Large Employers Affinity Group and Non-Domestic Ratepayers. The Executive will consider feedback elsewhere on the agenda.
- 8.2 The financial implications arising from this report will form part of the Executive's budget proposals which will be considered by full council on 7 February 2012

## **9. RECOMMENDATIONS**

The Executive is requested to note the draft updated budget projections for 2011/12 to 2016/17, together with the potential use of balances and reserves, in order to recommend a budget to Council on 7 February 2012.

## **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?
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  
Assistant Director (Resources)

Contact Officer: Peter Mason

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**PRINCIPAL REPORTS CONSIDERED DURING THE BUDGET PROCESS TO DATE**

Report Ref	Date	Title
RD27/11	13/09/11	Medium Term Financial Plan (incorporating the Corporate Charging Policy) 2012/13 to 2016/17
RD28/11	13/09/11	Capital Strategy 2012/13 to 2016/17
RD38/11	13/09/11	Asset Management Plan 2011 -2016
RD45/11	31/10/11	2012/13 to 2016/17 Budget Update and Timetable
RD63/11	22/11/11	Revenue Base Estimates and Updated MTFP Projections 2012/13 to 2016/17
RD66/11	22/11/11	Provisional Capital Programme 2012/13 to 2016/17
RD64/11	22/11/11	Summary of New Revenue Spending Pressures
RD65/11	22/11/11	Summary of Savings Proposals
GD58/11	22/11/11	Charges Review – Licensing
GD62/11	22/11/11	Charges Review – Governance
CD25/11	22/11/11	Charges Review – Community Engagement
ED39/11	22/11/11	Charges Review – Economic Development
LE23/11	22/11/11	Charges Review – Local Environment
RD67/11	22/11/11	Treasury Management 2011/12 to 2016/17
RD70/11	19/12/11	Revenue Estimates: Summary of Overall Budgetary Position 2012/13 to 2016/17
RD71/11	19/12/11	Capital Estimates: Summary of Overall Budgetary Position 2012/13 to 2016/17
RD72/11	19/12/11	Draft Treasury Management Strategy Statement and Investment Strategy and Minimum Revenue Provision Strategy 2012/13

**EXISTING EXPENDITURE COMMITMENTS**

EXPENDITURE PROJECTION	2011/12		2012/13 Estimate £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000
	Original Estimate £000	Revised Estimate £000					
<b>Core Expenditure:</b>							
Core Base Expenditure	11,056	11,056	10,546	10,323	10,870	10,870	10,870
Treasury Management	31	31	12	(13)	(29)	(29)	(73)
Inflation Projection	3,686	3,686	4,422	5,176	5,951	6,746	7,563
2011/12 agreed Savings	(3,594)	(3,594)	(3,962)	(4,642)	(5,685)	(6,431)	(6,431)
2011/12 agreed Spending	790	790	474	1,296	1,097	1,857	1,857
2011/12 Budget Changes	0	(167)	(174)	(181)	(188)	0	0
<b>Total Core Expenditure</b>	<b>11,969</b>	<b>11,802</b>	<b>11,318</b>	<b>11,959</b>	<b>12,016</b>	<b>13,013</b>	<b>13,786</b>
<b>Non Recurring Exp:</b>							
Pre 2010/11 approvals	1,219	1,219	0	0	0	0	0
Treasury Management	896	896	801	662	0	0	0
2011/12 agreed Spending	40	40	0	0	0	0	0
Carry Forwards from 2010/11	1,109	1,109	646	123	0	0	0
Use of Earmarked Reserves	90	283	65	0	0	0	0
<b>Total non Recurring Expenditure</b>	<b>3,354</b>	<b>3,547</b>	<b>1,512</b>	<b>785</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total City Council Budget Requirement</b>	<b>15,323</b>	<b>15,349</b>	<b>12,830</b>	<b>12,744</b>	<b>12,016</b>	<b>13,013</b>	<b>13,786</b>
<b>Parish Council Precepts</b>	<b>438</b>	<b>438</b>	<b>445</b>	<b>456</b>	<b>468</b>	<b>479</b>	<b>491</b>
<b>Total Requirement</b>	<b>15,761</b>	<b>15,787</b>	<b>13,275</b>	<b>13,200</b>	<b>12,484</b>	<b>13,492</b>	<b>14,277</b>

**RESOURCE PROJECTIONS**

<b>RESOURCES PROJECTION</b>	<b>2011/12 Original Estimate £000</b>	<b>2011/12 Revised Estimate £000</b>	<b>2012/13 Estimate £000</b>	<b>2013/14 Proj £000</b>	<b>2014/15 Proj £000</b>	<b>2015/16 Proj £000</b>	<b>2016/17 Proj £000</b>
<b>Projected External Finance:</b>							
- Revenue Support Grant	(1,659)	(1,659)	(6,354)	(5,978)	(5,279)	(5,219)	(5,219)
- NNDR Grant	(5,369)	(5,369)	0	0	0	0	0
- Surplus on Collection Fund	(19)	(19)	0	0	0	0	0
- C/Tax for Parish Precepts	(438)	(438)	(445)	(456)	(468)	(479)	(491)
- Council Tax Yield	(6,709)	(6,709)	(6,728)	(6,983)	(7,247)	(7,522)	(7,807)
- Council Tax Grant	(167)	0	0	0	0	0	0
<b>Total Income based on 0.0% Tax increase Projections</b>	<b>(14,361)</b>	<b>(14,194)</b>	<b>(13,527)</b>	<b>(13,417)</b>	<b>(12,994)</b>	<b>(13,220)</b>	<b>(13,517)</b>
<b>Plus Approved Contributions from Balances:</b>							
- Pre 2011/12 non recurring commitments	(2,205)	(2,205)	0	0	0	0	0
- 2011/12 non recurring commitments	(40)	(40)	0	0	0	0	0
- Pre 2010/11 recurring Carry Forwards	1,954	1,954	0	0	0	0	0
Asset Investment Fund c/fwd	(1,109)	(1,109)	0	0	0	0	0
Use of Earmarked Reserves	0	0	0	0	0	0	0
	0	(193)	0	0	0	0	0
<b>Total Use of Reserves</b>	<b>(1,400)</b>	<b>(1,593)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Projected Resources</b>	<b>(15,761)</b>	<b>(15,787)</b>	<b>(13,527)</b>	<b>(13,417)</b>	<b>(12,994)</b>	<b>(13,220)</b>	<b>(13,517)</b>

**SAVING PROPOSALS**

<b>Detail</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>
<b>Expenditure Reductions</b>					
Recruitment Advertising	(50)	(50)	(50)	(50)	(50)
Non-Staffing Reductions	(100)	(100)	(100)	(100)	(100)
Carry Forwards not Required	(81)	0	0	0	0
<b>Total Savings</b>	<b>(231)</b>	<b>(150)</b>	<b>(150)</b>	<b>(150)</b>	<b>(150)</b>
<b>Increased Income</b>					
Additional External Grant	(651)	(651)	(651)	(651)	(408)
Council Tax Grant	(168)	0	0	0	0
Housing Benefit Admin Grant	(55)	0	0	0	0
Treasury Management	375	(663)	(640)	(1,711)	(1,552)
VAT Claims*	(250)	(195)	0	0	0
Homelessness Grant	(24)	0	0	0	0
<b>Total Additional Income</b>	<b>(773)</b>	<b>(1,509)</b>	<b>(1,291)</b>	<b>(2,362)</b>	<b>(1,960)</b>
<b>Total Savings</b>	<b>(1,004)</b>	<b>(1,659)</b>	<b>(1,441)</b>	<b>(2,512)</b>	<b>(2,110)</b>
Split:					
<b>Recurring</b>	<b>(426)</b>	<b>(1,464)</b>	<b>(1,441)</b>	<b>(2,512)</b>	<b>(2,110)</b>
<b>Non Recurring</b>	<b>(578)</b>	<b>(195)</b>	<b>0</b>	<b>0</b>	<b>0</b>

\*Based on Claims made to HMRC

**New Spending Pressures**

<b>Detail</b>	<b>2012/13 £000</b>	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>2016/17 £000</b>
<b>Recurring</b>					
Council tax Freeze	235	244	254	263	273
<b>Total Changes to Funding</b>	<b>235</b>	<b>244</b>	<b>254</b>	<b>263</b>	<b>273</b>
Asset Review	25	166	671	672	432
Lanes Head Rent	277	277	138	0	0
Salary Turnover	300	300	130	130	130
Development Control Costs	65	65	65	65	65
Transport (Fuel Costs)	100	100	100	100	100
Energy	55	55	55	55	55
NNDR & Sewerage Charges	45	45	45	45	45
Industrial Estate Ground Rent	32	32	32	32	32
Tipping Charges	50	50	50	50	50
Civic Centre Waste Collection	5	5	5	5	5
Pre Transformation Savings not achieved	133	133	133	133	133
Reprofiling of Transformation Savings	360	219	(122)	0	0
Income Below Target	315	265	215	0	0
<b>Total Recurring Pressures</b>	<b>1,762</b>	<b>1,712</b>	<b>1,517</b>	<b>1,287</b>	<b>1,047</b>
<b>Total Recurring Spending Pressures</b>	<b>1,997</b>	<b>1,956</b>	<b>1,771</b>	<b>1,550</b>	<b>1,320</b>
<b>Non-Recurring</b>					
Building Control Fees	25	0	0	0	0
Homelessness	24	0	0	0	0
Small Scale Community Projects	40	0	0	0	0
<b>Total Non Recurring</b>	<b>89</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

PARISH PRECEPTS 2012/13

Parish Council	Precepts Paid 2011/12 £	Precepts Requested 2012/13 £	Percentage Increase
Arthuret	46,605	47,732	2.42
Beaumont	4,578	4,647	1.51
Bewcastle	3,500	3,500	0.00
Brampton	88,878	88,878	0.00
Burgh-by-Sands	12,800	13,000	1.56
Burtholme	1,735	1,800	3.75
Carlatton & Cumrew	1,600	1,600	0.00
Castle Carrock	4,192	4,340	3.53
Cummersdale	6,000	6,300	5.00
Cumwhitton	3,400	3,400	0.00
Dalston	41,735	41,735	0.00
Denton Upper	1,053	1,023	-2.85
Farlam	3,281	3,281	0.00
Hayton	13,720	13,720	0.00
Hethersgill	6,500	6,500	0.00
Irthington	5,356	5,356	0.00
Kingmoor	7,278	7,278	0.00
Kingwater	1,000	1,000	0.00
Kirkandrews-on-Esk	7,062	7,062	0.00
Kirklington	1,850	1,850	0.00
Midgeholme		0	0.00
Nether Denton	3,042	3,194	5.00
Nicholforest	4,000	4,000	0.00
Orton	3,750	3,750	0.00
Rockliffe	2,800	2,800	0.00
Scaleby	5,000	5,000	0.00
Solport & Stapleton	2,800	2,800	0.00
Stanwix Rural	40,540	40,450	-0.22
St Cuthbert Without	21,000	21,700	3.33
Walton	4,725	4,879	3.26
Waterhead	1,000	1,000	0.00
Westlinton	2,000	2,000	0.00
Wetheral	85,000	89,250	5.00
<b>TOTAL</b>	<b>437,780</b>	<b>444,825</b>	<b>1.61</b>

**COUNCIL RESERVES**

<b>Council Reserves</b>	<b>Actual 31/03/11 £000</b>	<b>Revised 31/03/12 £000</b>	<b>Proj 31/03/13 £000</b>	<b>Proj 31/03/14 £000</b>	<b>Proj 31/03/15 £000</b>	<b>Proj 31/03/16 £000</b>	<b>Proj 31/03/17 £000</b>
<b>Revenue Reserves</b>							
General Fund Reserve	(3,721)	(2,218)	(1,688)	(1,852)	(2,286)	(2,600)	(2,600)
Projects Reserve i	0	0	0	0	0	(639)	(942)
<b>Sub Total</b>	<b>(3,721)</b>	<b>(2,218)</b>	<b>(1,688)</b>	<b>(1,852)</b>	<b>(2,286)</b>	<b>(3,239)</b>	<b>(3,542)</b>
Collection Fund	(43)						
Job Evaluation	(118)	(68)	(43)	(43)	(43)	(43)	(43)
Residents Parking	99						
EEAC Reserve	(192)	(152)	(112)	(112)	(112)	(112)	(112)
Transformation Reserve	(884)	0	0	0	0	0	0
Building Control	27						
Licensing Reserve	(14)	(14)	(14)	(14)	(14)	(14)	(14)
Routledge Reserve	(42)	0	0	0	0	0	0
Sheepmount Reserve	(92)	(92)	(92)	(92)	(92)	(92)	(92)
Conservation Fund	(191)	(191)	(191)	(191)	(191)	(191)	(191)
LSVT Warranties	(488)	(488)	(488)	(488)	(488)	(488)	(488)
<b>Total Revenue Reserves</b>	<b>(5,659)</b>	<b>(3,223)</b>	<b>(2,628)</b>	<b>(2,792)</b>	<b>(3,226)</b>	<b>(4,179)</b>	<b>(4,482)</b>
<b>Capital Reserves</b>							
CLL Reserve	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts	(5,169)	(4,928)	(1,530)	(453)	(2,424)	(2)	(2)
Set Aside Capital Receipts	0	0	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Asset Investment	(2,048)	(410)	(410)	(410)	(410)	(410)	(410)
Lanes Capital Reserve	(326)	(341)	(356)	(371)	(386)	(401)	(416)
<b>Total Capital Reserves</b>	<b>(8,065)</b>	<b>(6,201)</b>	<b>(17,818)</b>	<b>(16,756)</b>	<b>(18,742)</b>	<b>(16,335)</b>	<b>(16,350)</b>
<b>Total Available Council Balances</b>	<b>(13,724)</b>						
<b>Other Reserves</b> ii	(120,322)						
<b>Total Reserves</b>	<b>(134,046)</b>						

(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.

**SECTION E - PROPOSED BUDGET DISCIPLINE AND SAVING STRATEGY**

1. The Council has adopted a 5-year financial strategy as set out in its Medium Term Financial Plan to assist in the integration of financial planning with the priorities set out in the Corporate Plan. The current medium term financial projections point to a shortfall in the Council's budgets, which will require additional savings to be identified. In addition, the scope for the Council to continue support for initiatives in future years and to redirect resources to priority areas will be dependent on the extent to which the Council is successful in realising savings and redirecting resources. The requirement to identify savings or raise additional income in future years is a continuing pressure facing the Council.
1. The savings outlined in this document are necessary to ensure that the Council continues to meet the challenges of a 26% reduction in RSG (and significant reductions in other revenue and capital grants) over the five years commencing 2011/12. However due to its success to date in identifying £3m in transformational savings, the Council now has a solid financial base in order to set its 2012/13 budget. In the circumstances the Council can adopt a more measured approach in spreading the further savings required of £2.337m over the next 4 years whilst maintaining a safe and healthy financial future for the Council.
2. The savings strategy developed during 2010/11 will continue to concentrate on the following areas to deliver the savings required to produce a balanced longer term budget, however the exact work programme will be dependant on progress with the Transformation programme.
  - Asset Review – this focuses on producing 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 are being 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 continue to be undertaken to ensure that services are properly aligned to what the Council wants to achieve.
3. Members and Officers are reminded that it is essential to maintain a disciplined approach to budgetary matters and as such:
  - Supplementary estimates will only be granted in exceptional circumstances.
  - Proposals seeking virement should only be approved where the expenditure to be incurred is consistent with policies and priorities agreed by the Council.
4. In order to continue the improvements in the links between financial and strategic planning, the Joint Management Team will continue to meet regularly to progress forward planning on these issues.



**STATUTORY REPORT OF ASSISTANT DIRECTOR (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 (Assistant Director (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, in the past there has tended to be a degree of underspending. 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 Governments 2010 spending review (CSR10) indicated that Central Government funding of Local Government will be much tighter over the following four year period.
- The Transformation programme is expected to have achieved £3million recurring savings from 2012/13, however further savings of approximately £2.337m 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.
- 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.
- 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.

At this stage it should be noted that the current projected revenue deficit still requires savings to be identified to meet the ongoing projected shortfall and to build reserves back to minimum recommended levels needs more specific savings targets.

**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.**

2. Adequacy of Reserves

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

Viewed against the current projections, the Council's Reserves have dropped to below minimum levels from 2012/13 onwards. 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 suggest that the minimum level should be reduced from £3.8m to £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. 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 2012/13 budget and preparing for the 2013/14-budget cycle.

**Based on current projections, Council Reserves will fall to below minimum recommended levels in the years 2012/13 to 2016/17. Necessary steps must be taken to resolve the ongoing projected deficit from 2011/12 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 used in the short term but that this is replenished over the following 5 years through a stringent savings strategy.**

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 2012/13 to 2016/17 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.**

**There is a risk however in the long-term sustainability of funding the capital programme from a reducing availability of capital receipts over the longer-term and the use of prudential borrowing will be kept under review.**

**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
<b>TOTALS</b>			<b>4,146</b>	<b>2,604</b>	
Maximum Risk Based Reserve Balances				<b>6,114</b>	
Minimum Risk Based Reserve Balances				<b>1,036</b>	
<b>Current Level of Reserves (Projected as at 31/03/11) (General Fund )</b>				<b>3,721</b>	
<b>Projected Shortfall/(Excess) of Current Reserve Balance over Risk Based Reserves</b>				<b>1,117</b>	