

REPORT TO EXECUTIVE

PORTFOLIO AREA: GOVERNANCE AND RESOURCES

Date of Meeting: 19 December 2011

Public

Key Decision: Yes

Recorded in Forward Plan:

Yes

Inside Policy Framework

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

Report of: ASSISTANT DIRECTOR (RESOURCES)

Report reference: RD70/11

Summary:

This report provides a draft summary of the Council's revised revenue base estimates for 2011/12, together with base estimates for 2012/13 and updated projections to 2016/17. 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 2011/12 to 2016/17 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
19 December 2011

RD70/11

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

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 2011/12 to 2016/17.
- 1.2. In particular, it advises on the Council's core revenue budgets for 2012/13 together with projections to 2016/17, 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 were released on 8th December which are currently being analysed and any implications will be considered as part of the Executive's draft budget proposals for consultation purposes.
 - Welfare Reform Act including localisation of Council Tax Benefit
 - Local Government Resource Review regarding the localisation of Business Rates
 - Impact of County Council's savings initiatives in the areas of:
 - Highways Claimed Rights
 - On Street Parking Enforcement
 - Cumbria Waste Partnership
 - Minimum level of Council Reserves
 - Transformation
- 1.4. 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; therefore there will be a saving of 1.5% in 2013/14. This saving has not been included in the figures

presented elsewhere in this report as the impact on Council funding within the RSG settlement is still being analysed.

1.5. 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**.

1.6. The Executive will issue its budget for consultation purposes on 19 December. Following this it will consider the final consultation feedback, together with the final Government Grant settlement figure (if available) on 16 January and will subsequently recommend a budget to Council on 7 February 2012.

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:

Summarised Position	2011/12 Original £000	2011/12 Revised £000	2012/13 Original £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000
Total Projected Expenditure (See 3.1 & Appendix B)	15,761	15,787	13,275	13,200	12,484	13,492	14,277
Total Projected Resources (See 3.2 & Appendix C)	(15,761)	(15,787)	(13,478)	(13,417)	(12,994)	(13,220)	(13,517)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	(203)	(217)	(510)	272	760
Less:							
New Saving Proposals							
- Recurring	0	0	(109)	(1,414)	(1,116)	(1,972)	(2,112)
- Non Recurring	0	0	(553)	(519)	0	0	0
(See Para 4 & Appendix D)							
Add:							
New Spending Pressures							
- Recurring	0	0	1,727	1,775	1,520	1,288	1,047
- Non Recurring	0	0	25	0	0	0	0
(See Para 5 & Appendix E)							
Potential Budget Shortfall (See para 2.2)	0	0	887	(375)	(106)	(412)	(305)
Potential Shortfall Analysis:							
- Recurring			(97)	(641)	(106)	(412)	(305)
- Non Recurring			984	266	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 2012.

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 8th 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% voluntary 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. 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 22 November (RD64/11) 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 RD71/11 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 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
31/03/2012	(2,283)	(97)	984
31/03/2013	(1,396)	(641)	266
31/03/2014	(1,771)	(106)	0
31/03/2015	(1,877)	(412)	0
31/03/2016	(2,289)	(305)	0
31/03/2017	(2,594)	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 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 19 December. The consultation feedback, together with the final Government Grant settlement (if available), will be considered by the Executive on 16 January, following which the Executive will make final budget recommendations to Council on 7 February 2012.

9. RECOMMENDATIONS

- 9.1 The Executive is requested to note the updated budget projections for 2012/13 to 2016/17 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?
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

Ext: 7270

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					
Core Expenditure:							
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
Total Core Expenditure	11,969	11,802	11,318	11,959	12,016	13,013	13,786
Non Recurring Exp:							
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
Total non Recurring Expenditure	3,354	3,547	1,512	785	0	0	0
Total City Council Budget Requirement	15,323	15,349	12,830	12,744	12,016	13,013	13,786
Parish Council Precepts	438	438	445	456	468	479	491
Total Requirement	15,761	15,787	13,275	13,200	12,484	13,492	14,277

RESOURCE PROJECTIONS

RESOURCES PROJECTION	2011/12 Original Estimate £000	2011/12 Revised Estimate £000	2012/13 Estimate £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000	2016/17 Proj £000
Projected External Finance:							
- Revenue Support Grant	(1,659)	(1,659)	(6,305)	(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
Total Income based on 0.0% Tax increase Projections	(14,361)	(14,194)	(13,478)	(13,417)	(12,994)	(13,220)	(13,517)
Plus Approved Contributions from Balances:							
- 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	0	(1,109)	0	0	0	0	0
Use of Earmarked Reserves	0	0	0	0	0	0	0
Total Use of Reserves	(291)	(1,593)	0	0	0	0	0
Total Projected Resources	(14,652)	(15,787)	(13,478)	(13,417)	(12,994)	(13,220)	(13,517)

SAVING PROPOSALS

Detail	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Expenditure Reductions					
Additional Transformation Savings	0	(200)	(400)	(400)	(400)
Recruitment Advertising	(50)	(50)	(50)	(50)	(50)
Non-Staffing Reductions	(100)	(100)	(100)	(100)	(100)
Carry Forwards not Required	(80)	0	0	0	0
Total Savings	(230)	(350)	(550)	(550)	(550)
Increased Income					
Additional External Grant	(250)	(250)	(250)	(250)	(250)
Council Tax Grant	(168)	0	0	0	0
Housing Benefit Admin Grant	(55)	0	0	0	0
Treasury Management	291	(814)	(316)	(1,172)	(1,312)
VAT Claims*	(250)	(519)	0	0	0
Total Additional Income	(432)	(1,583)	(566)	(1,422)	(1,562)
Total Savings	(662)	(1,933)	(1,116)	(1,972)	(2,112)
Split:					
Recurring	(109)	(1,414)	(1,116)	(1,972)	(2,112)
Non Recurring	(553)	(519)	0	0	0

*Based on Claims made to HMRC

New Spending Pressures

Detail	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Recurring					
Council tax Freeze	235	244	254	263	273
Total Changes to Funding	235	244	254	263	273
Asset Review	(10)	229	674	673	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
Total Recurring Pressures	1,727	1,775	1,520	1,288	1,047
Total Recurring Spending Pressures	1,962	2,019	1,774	1,551	1,320
Non-Recurring					
Building Control Fees	25	0	0	0	0
Total Non Recurring	25	0	0	0	0

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
TOTAL	437,780	444,825	1.61

COUNCIL RESERVES

Council Reserves	Actual 31/03/11 £000	Revised 31/03/12 £000	Proj 31/03/13 £000	Proj 31/03/14 £000	Proj 31/03/15 £000	Proj 31/03/16 £000	Proj 31/03/17 £000
Revenue Reserves							
General Fund Reserve	(3,721)	(2,218)	(1,396)	(1,771)	(1,877)	(2,289)	(2,594)
Projects Reserve i	0	0	0	0	0	0	0
Sub Total	(3,721)	(2,218)	(1,396)	(1,771)	(1,877)	(2,289)	(2,594)
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	(42)	(42)	(42)	(42)	(42)	(42)	(42)
Conservation Fund	(191)	(191)	(191)	(191)	(191)	(191)	(191)
LSVT Warranties	(488)	(488)	(488)	(488)	(488)	(488)	(488)
Total Revenue Reserves	(5,609)	(3,173)	(2,286)	(2,661)	(2,767)	(3,179)	(3,484)
Capital Reserves							
CLL Reserve	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts	(5,169)	(4,928)	(11,284)	224	(1,402)	3,056	3,346
Borrowing Requirement	0	0	0	(224)	0	(3,056)	(3,346)
Asset Investment	(2,048)	(409)	(409)	(409)	(409)	(409)	(409)
Lanes Capital Reserve	(326)	(341)	(356)	(371)	(386)	(401)	(416)
Total Capital Reserves	(8,065)	(6,200)	(12,571)	(1,302)	(2,719)	(1,332)	(1,347)
Total Available Council Balances	(13,674)	(9,373)	(14,857)	(3,963)	(5,486)	(4,511)	(4,831)
Other Reserves ii	(120,322)						
Total Reserves	(133,996)						

(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 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 £2.5m 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 Transformation programme is expected to achieve £3million recurring savings from 2012/13, however further savings of approximately £2.5m are required in order to return reserves to back to recommended levels.

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. 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 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
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	