



Leader of the Council

Councillor Mike Mitchelson

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TO THE MAYOR AND MEMBERS OF
THE CITY COUNCIL

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1st February 2006

EXECUTIVE BUDGET PROPOSALS 2005/06 to 2008/09

Dear Councillor,

At the Executive meeting on 23rd January 2006 the Executive issued their budget proposals for consideration by Council on 6th February 2006. At the meeting it was noted and agreed that if final Revenue Support Grant Settlement were available, revised Executive Budget Proposals would be presented to the Council on 6th February 2006.

The following final government allocations have now been received and result in the following changes to the proposals issued by the Executive on 23rd January:

Revenue Budget

The final Revenue Support Grant announcement was issued by the ODPM on 31st January 2006, allocating additional grant of £5,000 and £16,000 over the provisional figures for 2006/07 and 2007/08 respectively. The impact of this is a recurring improvement in the Councils revenue resources.

Capital Budget

The Disabled Facilities Grant allocation for 2006/07 was announced on 30th January 2006, allocating additional grant funding of £28,000. The impact of this is that the Council will need to match this additional grant resulting in an increased call on the Councils capital reserves of £18,000 per annum. The total capital scheme will therefore increase by £46,000.

The impact of these final allocations has now been incorporated into the revised Executive Budget Proposals as attached.

Yours sincerely

Mike Mitchelson
Leader, Carlisle City Council



CARLISLE CITY COUNCIL

EXECUTIVE BUDGET PROPOSALS 2005/06 to 2008/09 (Revised)

FEBRUARY 2006

This document contains the Executive's budget proposals to the City Council, which is set out as follows.

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The budget proposals are based on a large number of reports considered over the course of the year, but in particular the following reports of the Director of Corporate Services considered at the Executive meeting of 23rd January 2006.

1. FS41/05 - General Fund Revenue Budget Summary 2005/06 to 2008/09
2. FS42/05 - Provisional Capital Programme 2005/06 to 2008/09
3. FS43/05 - Treasury Management Strategy Statement and Investment Strategy 2006/07

SECTION A – BACKGROUND AND EXECUTIVE SUMMARY

Background to the Budget Process:

The preparation of the budget proposals is an ongoing process, which starts in the summer with the agreement by Council to the Council's Medium Term Financial Plan, Corporate Charging Policy, Capital Strategy and Asset Management Plan. These strategy documents set out the Council's policies in guiding the budget process and in particular set out the three year financial projections that the Council is faced with prior to starting the new budget process.

The Council's existing approved budgets are then scrutinised together with any proposals for new spending pressures and savings proposals.

Throughout the process, consultation is carried out with the Councils Overview and Scrutiny Committees who feed back their views on any proposals under consideration to the Executive.

The final part of this stage of the budget process is the issuing by the Government of the Provisional Revenue Support Grant Settlement for 2006/07 and 2007/08, which was received on 5th December 2005.

Following the receipt of all of this information, the Executive issues their draft budget proposals for formal consultation, which was done on 19th December 2005.

Following the issue of the Executives draft budget proposals, formal consultation ran from 20th December 2005 to 19th January 2006. During this period any interested persons were invited to submit their views on the proposal to the Town Clerk & Chief Executive, Civic Centre, Carlisle CA3 8QG.

In addition to the above, formal consultation meetings were held with:

- The Large Employers Affinity Group (to include any Non Domestic Ratepayers) on 11th January 2006.
- Trades Unions on 11th January 2006.
- The Council's Corporate Resources Overview and Scrutiny Committee on 19th January 2006.

In addition a press release was issued on 30th December giving members of the public the opportunity to submit their views on the proposals.

The Executive at their meeting on 23rd January 2006 considered feed back from the consultation process, and final budget recommendations are made to the Council on 6th February 2006.

Summary Budget Proposals - Key Issues:

The key issues, which are expanded on further in the proposals, are as follows:

- (i) The budget proposes a Council Tax increase of 3.5% for the City Council (Parishes Precepts will be in addition in the rural areas).
- (ii) Based on current projections, this will result in the following requirement to be taken from Council reserves to support Council expenditure over the period as follows:

Additional contribution from Reserves	2006/07 £000	2007/08 £000	2008/09 £000
Recurring Expenditure			
- Pay & Workforce Strategy	0	1,000	1,000
- Balance	74	(145)	76
Non-recurring Expenditure	202	55	0
Total	276	910	1,076

- (iii) The projected requirement to take out of balances for 2007/08 to 2008/09 is principally in respect of the potential impact of the Pay and Workforce Strategy. This is an estimated impact only and work will continue during 2006/07 to find ways to contain the impact within available resources.
- (iv) The scope to continue support for new spending pressures and initiatives in future years will be dependent upon the extent to which the Council is successful in realising and redirecting additional resources to identified priorities, and the level of Reserves and income receipts.

SECTION B - REVENUE BUDGET 2005/06 TO 2008/09

1. REVISED REVENUE BUDGET 2005/06

- 1.1 The Executive recommends that the Council's revised net budget for 2005/06 is approved totaling £16.932m compared to the original budget of £15.350m. The increase of £1.582m can be summarised as follows:

Detail:	£000
Recurring expenditure	
Increased Pension Costs	37
Non-Recurring expenditure	
Grant to Cumbria Air Ambulance	10
Expenditure carried forward from financial year 2004/05 (see 1.2)	1,535
Total	1,582

- 1.2 The increased budget for 2005/06 is principally as a result of the carry forward of budgets from previous years for work not completed at the financial year end. Although the 2005/06 budget is increased, there is a corresponding decrease for the previous financial year and so there is no overall impact on the Council's financial position.

- 1.3 During 2004/05 the Council approved a supplementary estimate of £1m to fund the estimated cost of recovery work following the major flood and storm damage experienced by the City in January 2005. Any unspent budget from the Council's allocated £1m as at 31st March 2005 was carried forward into 2005/06. The total cost of the work to the Council is estimated at in the region of £8m, with £7m anticipated to be reimbursed from Insurance cover or the Bellwin Scheme. Costs are still being verified with the Insurers at regular meetings and the Bellwin Claim has been submitted which is now subject to the formal audit process. The financial position is monitored regularly and the final position will be included with the Revenue Out-turn report to be considered by the Executive in June 2006. Although subject to the final settlement of the insurance claim, it is not anticipated that the Council's current allocation of £1m will be exceeded.

2. REVENUE BUDGET 2006/07 to 2008/09

- 2.1 The Executive recommends that the net budgets for 2006/07 to 2008/09 submitted in respect of existing services and including existing non-recurring commitment and estimated Parish Precepts, are as shown in **Schedule 1** below:

Schedule 1 – Existing Net Budgets

Existing Budget	2006/07 £000	2007/08 £000	2008/09 £000
City Council			
- Recurring	15,327	15,909	16,593
- Non – Recurring	671	550	580
Parish Precepts *	336	340	350
Total	16,334	16,799	17,523

- * One Parish Council has not yet finalised its precept requirements.

- 2.2 It is further recommended that the existing budgets set out in **Schedule 1** be reduced by proposals for budget reductions as detailed in **Schedule 2**.

Schedule 2 – Proposed Budget Reductions

Proposed Budget Reductions	Note	2006/07 £000	2007/08 £000	2008/09 £000
Increased Income:				
Licensing income in excess of target		(3)	(3)	(3)
Commercial rent reviews		(200)	(230)	(230)
Local Authority Business Growth Incentive Scheme Projections	1	(30)	(100)	(100)
Potential Synthetic Football Pitch income		0	(43)	(43)
Total Additional Income		(233)	(376)	(376)
Expenditure Reductions:				
Print Room equipment		(10)	(10)	(10)
Revised Risk Management Arrangements		(42)	(42)	(42)
Waste Minimisation Efficiencies		0	(69)	(69)
CTS Management Arrangements		(5)	(5)	(5)
Highways Claimed Rights Insurance		(40)	(40)	(40)
Vehicle Procurement		(20)	(16)	0
Benefits Advice Centre – Rent		(4)	(4)	(4)
Citizens Panel Research post		(20)	(20)	(20)
Raffles Office rent		(9)	(9)	(9)
Capitalisation of Software Licenses		(240)	(240)	(240)
Housing Benefit Overpayments		(100)	(100)	(100)
Gershon Efficiency savings:				
Computer Printing		(13)	(13)	(13)
Telephony/Mobile Phone contract		(20)	(20)	(20)
Flexible Working		(40)	(40)	(40)
Reduced Sick leave		(20)	(20)	(20)
Rationalisation of depots		(25)	(25)	(25)
Home Working		(7)	(7)	(7)
Reduced Benefits Admin costs		(19)	(19)	(19)
Rates appeals		(25)	(25)	(25)
Energy Efficiency		(20)	(20)	(20)
New Payroll system		(3)	(3)	(3)
UNIX server rationalisation		(5)	(5)	(5)
Implementation of VOIP		(15)	(15)	(15)
Central Mail & Doc. Image Processing		(20)	(20)	(20)
Rationalisation Grounds Contract		(20)	(20)	(20)
Total Expenditure Reductions		(742)	(842)	(826)
TOTAL RECURRING BUDGET REDUCTION PROPOSALS		(975)	(1,218)	(1,202)

Note 1: The exact amount of the LABGI income to be received will not be notified by the Government until February 2006.

- 2.3 It is further recommended that the existing budgets set out in **Schedule 1** be increased by new spending pressures detailed in **Schedules 3 and 4**. Full details of all of the proposals are contained within various reports considered by the Executive at various stages during the budget process to date.

Schedule 3 – Recurring Spending Pressures

Recurring Spending Pressures	Note	2006/07 £000	2007/08 £000	2008/09 £000
Insurance Premium Increase		137	137	137
Concessionary Fares (gross)	1	858	858	858
Members Broadband		10	10	10
2004/05 RSG Amending Report		8	8	8
2005/06 RSG Amending Report		9	9	9
Pay & Workforce Strategy	2	0	1,000	1,000
Shortfall in income projections from fees and charges:	3			
Land Charges		36	36	36
Car Parking Charges		14	14	14
Planning Fees		103	103	103
Bereavement Charges		100	100	100
Legal fee income		13	13	13
Total Recurring Spending Pressures		1,288	2,288	2,288

Note 1: This is the additional cost of introducing a free on and off peak concessionary fare scheme within the District and a 60% concession on other journeys within Cumbria starting or finishing in Carlisle as approved by Council on 17th January 2006. The total cost of the scheme to the Council in 2006/07 will be in the region of £1.5m. However it should be noted that there remains a risk to the Council's budget that increased take up of the scheme could push costs higher than projected and the Executive will review the scheme after 5 months when actual ridership figures are available.

Note 2: At this stage the implications of the introduction of the Pay and Workforce Strategy has been retained within the forward year projections at £1m per annum. This is an initial estimate only of the potential impact and a significant amount of work remains to finalise this issue and to investigate ways to contain the impact within available resources.

Note 3: The Executive has considered various reports into projected shortfalls in income that have occurred for a variety of reasons. Decisions have been made to attempt to mitigate the shortfalls, and the net impact contained above is the best estimate of the projections for 2006/07 at the present time. There is a remaining risk that the overall position could improve or worsen further, and the position will be monitored carefully throughout the year.

Schedule 4 – Non-Recurring Spending Pressures

Non-Recurring Spending Pressures	Note	2006/07 £000	2007/08 £000	2008/09 £000
Pay & Workforce Strategy	1	189	55	0
Member & Officer Corporate Training	2	35	0	0
Events Budget	3	10	0	0
Cleaner Neighbourhood Act/ Environmental Enhancements	4	50	0	0
Discretionary Council Tax relief (net)	5	8	0	0
Total Non-Recurring Proposals		292	55	0

Note 1: This is the additional cost of the implementation process.

Note 2: The Executive proposes a non-recurring budget of £35,000. This will be reconsidered in future years on the receipt of a report from officers on the overall benefits arising from the additional budget.

Note 3: The Executive proposes a non-recurring additional budget to support the existing Events Budget and in particular to enable Pop 2 The Park to take place during 2006/07.

Note 4: The Executive proposes a non-recurring budget of £50,000 to enable some work to commence on the implementation of the Cleaner Neighbourhoods Act and Environmental Improvements pending a report from officers outlining the full implications of the new Act.

Note 5: The additional cost to the Council of awarding discretionary council tax relief to those properties affected by the flood has been calculated at £30,000, with a £22,500 contribution receivable from the County Council.

- 2.4 As a consequence of the above, the Executive recommends that the Net Budget Requirement for Council Tax Purposes for 2006/07, with projections to 2008/09, be approved as set out in **Schedule 5** below:

Schedule 5 – Summary Net Budget Requirement for Council Tax Purposes

2005/06 Original £000	2005/06 Revised £000	Summary Net Budget Requirement	2006/07 Budget £000	2007/08 Proj'd £000	2008/09 Proj'd £000
		Recurring Revenue Expenditure:			
		Existing Expenditure(Schedule 1)	15,327	15,909	16,593
		Budget reductions (Schedule 2)	(975)	(1,218)	(1,202)
		New Spending pressures (Schedule 3)	1,288	2,288	2,288
14,461	14,498	Total Recurring Expenditure	15,640	16,979	17,679
		Non-Recurring Revenue Expenditure			
572	582	- Existing Commitments (Schedule 1):	671	550	580
		- Spending pressures (Schedule 4)	292	55	0
0	1,535	- Carry Forward	0	0	0
15,033	16,615	Total Revenue Expenditure	16,603	17,584	18,259
		Less Contributions from Reserves:			
		Recurring Commitments (Note 1)			
0	0	- Pay & Workforce Strategy	0	(1,000)	(1,000)
69	32	- Balance	(74)	145	(76)
(437)	(437)	Pensions Reserve	0	0	0
		Non Recurring Commitments			
(572)	(2,117)	- Existing Commitments (Note 2)	(671)	(550)	(580)
0	0	- New Commitments	(202)	(55)	0
14,093	14,093	Total City Council Budget requirement	15,656	16,124	16,603
317	317	Parish Precepts Est. - (Schedule 1)	336	340	350
14,410	14,410	Projected Net Budget Requirement for Council Tax Purposes	15,992	16,464	16,953

Note 1: This is the projected recurring budget shortfall for which additional savings will be required. It should be noted that the bulk of the projected shortfall is in relation to the potential impact of the Pay and Workforce Strategy and work will continue to identify ways to keep the potential impact within available resources.

Note 2: Non - recurring Revenue commitments arising from existing approved commitments from earlier years are as follows:

Existing Non Recurring Commitment Approvals	2006/07 £000	2007/08 £000	2008/09 £000
Single Status/Job Evaluation	35	35	0
Rural Support	15	15	0
LSP Officer	28	0	0
North Pennines AONB	8	0	0
Community Sports Development	85	0	0
Housing Strategy	120	120	240
CHA Regeneration	40	40	0
Carlisle Renaissance Team	340	340	340
Total	671	550	580

- 2.5 As a consequence of the above and having made the appropriate calculations required under Section 32 of the Local Government Finance Act 1992, the Executive is putting forward a proposal for an increase in Council Tax for 2006/07 of **3.5%**. This is set out in **Schedule 6** below.

Schedule 6 – Total Funding and Provisional Council Tax Projections

2005/06	Total Funding and Council Tax Impact	2006/07	2007/08	2008/09
32,622.9	Estimated Taxbase	33,563	33,658	33,754
£000		£000	£000	£000
	Projected Net Budget Requirement for Council Tax Purposes (Schedule 5):			
14,093	- City	15,656	16,124	16,603
<u>317</u>	- Parishes	<u>336</u>	<u>340</u>	<u>350</u>
14,410	- Total	15,992	16,464	16,953
	Funded By:			
(5,391)	- Council Tax Income	(5,740)	(5,958)	(6,184)
(5,694)	- Revenue Support Grant	(1,581)	(10,111)	(10,364)
(2,942)	- National Domestic Rates Grant	(8,190)	0	0
(66)	- Estimated Council Tax Surplus	(145)	(55)	(55)
<u>(317)</u>	- Parish Precepts	<u>(336)</u>	<u>(340)</u>	<u>(350)</u>
(14,410)	TOTAL	(15,992)	(16,464)	(16,953)
£165.25	City Council Tax: Band D Council Tax	£171.03	£177.02	£183.21
£5.59 3.5%	Increase over previous year: £ %	£5.78 3.5%	£5.99 3.5%	£6.19 3.5%
	NB: - The projections are <u>indicative only</u> for 2007/08 and 2008/09. - This <u>excludes</u> the impact of the Parish Council Tax proposals in the rural areas.			

- 2.6 It should be noted that the funding projections in **Schedule 6** are based upon a final Government Grant entitlement of £9.771m for 2006/07 and £10.111m for 2007/08, as advised by the Government on 31st January 2006, an increase of £5,000 and £16,000 over the provisional figures for 2006/07 and 2007/08 respectively. The projections for 2008/09 have been included at an estimated 2.5% increase.

SECTION C - CAPITAL PROGRAMME 2005/06 TO 2008/09

1. REVISED CAPITAL BUDGET 2005/06

1.1 The Executive recommends that the revised 2005/06 Capital Programme be approved at £10.531m compared to the original budget of £12.516m as set out in the report of the Director of Corporate Services FS33/05. The reduction of £1.985m can be summarised as follows:

- Budgets carried forward to 2006/07 (£2,464m)
- Additional 2005/06 schemes £0.479m

2. CAPITAL BUDGET 2006/07 TO 2008/09

2.1 The Executive recommends that the estimated Capital Resources available and proposed Capital Programme for 2006/07 to 2008/09 be approved to be financed and allocated as detailed in **Schedule 7 and 8** below:

Schedule 7 – Estimated Capital Resources

Estimated Resources	Note	2006/07 £000	2007/08 £000	2008/09 £000
Prudential Borrowing	1	0	0	0
Capital Grants:				
• Regional Housing Pot (RHG)	2	(1,503)	(1,503)	(1,503)
• DFG	3	(205)	(205)	(205)
• ODPM (slippage from 2005/06)		(330)	0	0
Capital Receipts:	4			
• Opening balance		(5,418)	(1,166)	(1,706)
• Generated in year – General		(1,480)	(500)	(500)
• Generated in year – PRTB		(2,000)	(1,400)	(1,200)
Reserves & Balances:				
• Projects Fund	5	(3,320)	(1,860)	(204)
• Renewals Reserve		(292)	(437)	(437)
TOTAL		(14,548)	(7,071)	(5,755)

Note 1: At this point in time the Council has no need to take on any unsupported (prudential) borrowing due to the level of capital receipts it is currently generating. However, the projections of capital receipts start to reduce considerably after 2009/10 and at this stage, the use of supported borrowing may need to be considered.

Note 2: The funding of supported borrowing has now been removed from the RSG allocation and has been replaced by a separate capital grant funded from the Regional Housing Pot.

Note 3: The Disabled Facilities Grant allocation has been received resulting in an increase in funding of £28,000 over the provisional figure. The gross capital scheme will therefore increase by £46,000, with matched Council funding of £18,000 (the Councils 40% contribution).

Note 4: The capital receipt projections arise from the sale of land and preserved Right to Buy Receipts. The receipts will be used to support the Council's priorities and in particular sustainable communities and the Housing Strategy. As always the extent to which the Council is meeting its expected capital receipt target will be closely monitored.

Note 5: The potential surplus resources have been adjusted to take account of the Revenue Budget shortfall, which will be a first call on the Projects Reserve.

Schedule 8 – Proposed Capital Programme

Capital programme	Note	2006/07 £000	2007/08 £000	2008/09 £000
<u>Current Commitments:</u>				
Slippage from 2005/06 (see 1.1)		2,464	0	0
Shaddonmill		12	0	0
GIS System		91	0	0
Private Sector Housing Investment	1	814	814	814
Major Repairs to Council Property	1	250	250	250
Vehicles Plant & Equipment	1	293	437	437
Industrial Estate Maintenance	1	200	200	200
Cremator Replacements	1	450	0	330
Desk Top Replacement	1	120	120	120
Housing Strategy (5 Year)	1	1,250	1,250	1,550
Talkin Tarn		710	0	0
Heysham Park		100	154	0
Sheepmount		50	0	0
Total Existing Commitments		6,804	3,225	3,701
<u>New Spending Proposals:</u>				
Play Areas	1	50	0	0
Synthetic Football Pitch	1	250	0	0
Renaissance Improvements	1	100	0	0
Environmental Improvements	1	100	40	40
Waste Minimisation	1	905	0	0
Electronic Document Records System	2	353	0	0
CTS/EPS IT System	1	130	0	0
Greystone Community Centre		90	0	0
Chances Park	1	40	0	0
Capitalise Software Licences		240	240	240
Strategic Property Purchase	1,3	1,000	0	0
Total New Proposals		3,258	280	280
TOTAL POTENTIAL PROGRAMME		10,062	3,505	3,981
Transfer to Asset Investment Reserve		(1,000)	0	0
TOTAL POTENTIAL PROGRAMME		9,062	3,505	3,981

Note 1: The budgets identified have been earmarked for the schemes shown, but progression with the schemes will be subject to further reports and approval of the Executive before the release of any monies will be approved.

Note 2: 10% of the budget will be released to progress the detailed business case but any further expenditure will be subject to the approval of the Executive to the business case.

Note 3: It is recommended that an additional £1m be transferred from Capital Receipts to the earmarked Asset Investment Fund in 2006/07 to provide for the purchase of strategic property for the Carlisle renaissance project. The Executive recommends that usage of the Asset Investment Reserve be widened to include this use. A further report will be required to the Executive setting out the proposals for any allocation from the reserve.

A summary of the estimated resources compared to the proposed programme is set out in **Schedule 9** below:

Schedule 9 – Summary Capital Resource Statement

Summary Programme	2006/07 £000	2007/08 £000	2008/09 £000
Estimated Resources available (Schedule 7)	(14,548)	(7,071)	(5,755)
Proposed Programme (Schedule 8)	9,062	3,505	3,981
Projected (Surplus)/Deficit in Resources	(5,486)	(3,566)	(1,774)
Transfer to earmarked reserve *	<u>1,000</u>	<u>0</u>	<u>0</u>
	(4,486)	(3,566)	(1,774)
Cumulative year end position			
• Projects Reserve	(3,320)	(1,860)	(204)
• Capital Receipts	<u>(1,166)</u>	<u>(1,706)</u>	<u>(1,570)</u>
	(4,486)	(3,566)	(1,774)

* Refer to note 3 of schedule 8

SECTION D – USABLE RESERVES PROJECTIONS

1. The Executive recommends, as a consequence of Sections A, B and C detailing the Council's Revenue and Capital budgets, the overall use of the Councils usable Reserves as set out in **Schedule 10** below.

Schedule 10 – Usable Reserve Projections

Council Reserves	Note	Actual 31/03/05 £000	Revised 31/03/06 £000	Projected 31/03/07 £000	Projected 31/03/08 £000	Projected 31/03/09 £000
General Fund Reserve	1	(2,835)	(3,005)	(3,800)	(3,800)	(3,800)
HRA /Benefit Reserve	2	(3,537)	(30)	0	0	0
CTS Reserve		(100)	(50)	0		0
Projects Reserve	3	(3,248)	(4,499)	(3,320)	(1,860)	(204)
Renewals Reserve	4	(2,408)	(1,533)	(1,816)	(1,871)	(1,925)
Pensions Reserve	1/5	(1,000)	(563)	0	0	0
Asset Investment Reserve	6	(100)	(1,100)	(2,100)	(2,100)	(2,100)
Lanes Capital Reserve		(236)	(251)	(266)	(281)	(296)
Total Usable Balances		(13,463)	(11,031)	(11,302)	(9,912)	(8,325)

Note 1: The target for this reserve is based on an estimated 20% of Net Revenue Expenditure plus £1m retained for emergencies. This reserve was reduced during 2004/05 when £1m was allocated to support the recovery from the January 2005 floods, but has now been restored to previous levels. This has partly been achieved by transferring the remaining balances on the Pensions reserve and the HRA/Benefit Reserve, which are no longer specifically required.

Note 2: Following submission of the 2004/05 subsidy claim the estimated cost required to meet the local cost of benefits is now projected at £27,000, however the claim is still subject to audit. It is recommended that £30,000 be retained in an earmarked reserve pending the formal audit process, the balance being transferred to the General Fund Reserve.

Note 3: The movement on the Projects Reserve is as follows:

Balance as at:	Projected Balance £000	In Year Revenue Requirement £000	In Year Capital Requirement £000
31/03/06	(4,499)	*1,179	0
31/03/07	(3,320)	1,460	0
31/03/08	(1,860)	1,656	0
31/03/09	(204)		

* includes the impact of the transfer to the General Fund Reserve.

Note 4: This reserve is used for the replacement of items of vehicles, plant and general and IT equipment.

Note 5: This reserve was initially set up to as a contingency against the anticipated costs of funding the Pension scheme following the triennial revaluation which could not be met immediately from ongoing revenue budgets. Corresponding savings have been achieved within the revenue budget and therefore the balance on the reserve as at 31st March 2006 has been transferred into the General Fund Reserve.

Note 6: Refer to note 3 of schedule 8.

SECTION E - PROPOSED BUDGET DISCIPLINE

1. The Council has adopted a 3-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 priorities will be dependent on the extent to which the Council is successful in realising and redirecting additional resources. The requirement to identify savings or raise additional income in future years is a continuing pressure facing the Council. In the light of this, the Executive recommends the following Budget Discipline to the Council.
2. In preparation for the 2007/08 Budget Cycle the Executive requests the Town Clerk and Chief Executive to investigate a number of key areas of the Council's work and produce a series of reports throughout 2006/07 for the Executive.
 - The full Council approved stage one of the re-organisation process on 8th November 2005 and work is progressing on stage two. This will involve the Senior Management Team seeking cashable efficiencies to reduce the recurring revenue budget requirement.
 - The Council's improvement plan will be progressed and will have as one of its major actions, the establishment of a value for money (VFM) methodology which will enable the Council to assess how it is achieving best value across all of its services.
 - A major potential financial implication for the Council for 2007/08 onwards is the financial implications of the Pay and Workforce Strategy agreed as part of the negotiated three-year pay deal. Currently the projections include a recurring cost of £1m per annum from 2007/08, although this is considered to be a worst case position. Senior Managers will continue to investigate ways as the project progresses to contain the impact within available resources.
 - The Use of Resources Profiling Report which was produced as part of the Council's Value for Money self-assessment submission, identifies areas that require further investigation. The Senior Management Team will provide further analysis of these and assess the potential to reduce the revenue burden.
 - Using the information gathered from an initial review carried out by Internal Audit in 2004, it is envisaged that further, more detailed, discussions could be undertaken to explore the possibility of new and/or increased trading and charging opportunities for particular services.
 - The Shared Service agenda is currently being investigated and opportunities for sharing services and reducing costs will be explored in ways which ensure that improvement in the services is maintained and increased.

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 Strategic Financial Planning Group will continue to meet regularly to progress forward planning on these issues.

SECTION F – STATUTORY REPORT OF THE DIRECTOR OF CORPORATE SERVICES

1. As in previous years the Council is required to set its Budget Requirement. However there are a number of matters arising from the introduction of the Local Government Act 2003 (Section 25) that the Council must also consider:
 - (i) The formal advice of the statutory responsible financial officer (which for the City Council is the Director of Corporate Services) 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 and Corporate Management Team and the Strategic Financial Planning Group prior to submission to members.

The Council's revenue and capital budgets are 'joined up' in terms of the cost of the proposed capital programme is reflected in the revenue estimates.

The Council has no history of overspending against budget, indeed, there has tended to be a degree of underspending. Improved budget monitoring and base budget procedures are proving effective in addressing this issue.

However budgeting is an inherently risky business and the year-end position can never exactly match the estimated position in any year. Areas of specific risk do remain, the main ones in the current three year period under consideration being:

- A major potential financial implication for the Council for 2007/08 onwards is the financial implications of the Pay and Workforce Strategy agreed as part of the negotiated three-year pay deal. Currently the projections include a recurring cost of £1m per annum from 2007/08, although this is considered to be a worst case position. Senior Managers will continue to investigate ways as the project progresses to contain the impact within available resources.
- To improve the accuracy of base budgets and to avoid year end underspending, income budgets have been set at more realistic levels based on usage to date, price increases etc. This does however increase the risk that income budgets may not be achieved as indeed has been experienced during 2005/06. There is also an increasing significant reliance on Grant Income.
- The budgets as presented include an increase in the concessionary fares scheme, which has been enhanced above the statutory minimum scheme proposed by the Government. There is however a significant risk that the projections on ridership and other issues have been understated and that

the cost to the Council may increase. This position will be monitored closely during 2006/07.

- The level of interest receipts and return on Treasury Management activities are subject to market rates. Members are advised of this risk every year but clearly actual interest returns are determined by a variety of factors largely outside the Council's control. At over £1.3m, interest receipts are an important element of the Council's budget.
- 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. There is however sufficient reserve balances to cover such events.
- Benefits estimates – whilst the budgeted net cost of benefits is relatively small it is the product of gross expenditure and income of approximately £24m. Calculation of the budget is also very complex and depends on estimates of a variety of factors in the benefit subsidy calculation. There does remain a risk therefore that the outturn may vary from the budget.
- With regards to the capital budget, the Council is committed to Carlisle Renaissance and a team has been appointed to assist with the delivery. As part of this budget process specific budgets have been earmarked to assist with the delivery of the project but currently there are no earmarked budgets for the actual delivery of the transformational projects. There are also potentially significant capital budget requirements arising from the Tullie House Development plan, Sports feasibility study, Play area strategy and three rivers strategy which currently have no funding allocations.

Taking the above matters into account it is my opinion that the budget presented for Council approval for 2006/07 is sufficiently robust. However this is subject to regular budget monitoring and the necessary steps being taken to resolve the projected deficit for 2007/08 to 2008/09.

3. Adequacy of Reserves

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

Whilst viewed in isolation the Council's Reserves appear very healthy, the appropriateness of the level of reserves can only be judged in the context of the Council's longer term plans. The Council's medium term financial projections show that the Council may have a significant revenue deficit from 2007/08. This position must be addressed and the Executive has set out in its Budget Discipline how it expects to address this position in preparing for the 2007/08-budget cycle. Whilst clearly there is a risk that other savings cannot be identified, the Council has a history of identifying savings in the face of difficult decisions, and therefore that risk is considered to be fairly low.

It is my opinion that Council Reserves are currently at an appropriate level and form a crucial element in the council's longer-term financial strategy.

4. 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 it has been recommended that borrowing will take place only up to the level of that supported for Revenue Grant purposes and the forward projections include no unsupported (prudential) borrowing. The capital programme for 2006/07 to 2008/09 is largely funded from capital receipts, particularly from the Post Right to Buy Sharing agreement.

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.

SECTION G – GLOSSARY OF TERMS

BUDGET

- **GROSS** – the total cost of providing the council's services before taking into account income from service related government grants and fees and charges for services.
- **NET** – the Council's gross budget less specific government grants and fees and charges, but before deduction of RSG and other funding from reserves.
- **ORIGINAL BUDGET** – the budget for a financial year approved by the council before the start of the financial year.
- **REVISED BUDGET** – an updated revision of the budget for a financial year.
- **NET BUDGET REQUIREMENT FOR COUNCIL TAX PURPOSES** – the estimated revenue expenditure on general fund services that needs to be financed from the Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves. It is referred to by the Office of the Deputy Prime Minister (ODPM) when deciding the criteria for capping local authority revenue expenditure.

CAPITAL EXPENDITURE - Expenditure on the acquisition of a fixed asset or expenditure, which adds to and not merely maintains the value of an existing fixed asset.

CAPITAL RECEIPTS – the proceeds from the disposal of land or other assets. Capital receipts can be used to finance new capital expenditure within rules set down by the government, but they cannot be used to finance revenue expenditure.

CONTINGENCY – money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income, and to provide for inflation where this is not included in individual budgets.

COUNCIL TAX – the main source of local taxation to local authorities. Council tax is levied on households within its area by the billing authority and the proceeds are paid into its Collection Fund for distribution to precepting authorities and for use by its own General Fund.

DISABLED FACILITIES GRANT (DFG) (often referred to as SPECIFIED CAPITAL GRANT (SCG)) – individual government grants towards capital spending on providing disabled adaptations to housing. The DFG grant covers 60% of the DFG expenditure with and Local authorities must meet 40% from its own resources.

FEES AND CHARGES – income raised by charging users of services for the facilities.

GERSHON – each Local Authority must produce an efficiency plan in order to achieve efficiency savings set at 2.5% per annum over a three-year period as determined by the Government.

INTEREST RECEIPTS – the money earned from the investment of surplus cash.

NON-RECURRING EXPENDITURE – items which are in a budget for a set period of time.

PRECEPT – the levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf.

- **PRECEPTING AUTHORITIES** – those authorities which are not billing authorities, ie do not collect the council tax and non-domestic rate. County councils, police authorities and joint authorities are ‘major precepting authorities’ and parish, community and town councils are ‘local precepting authorities’.

RESERVES – amounts set aside in one year to cover expenditure in the future, which all Authorities must maintain as a matter of prudence. Reserves can either earmarked for specific purposes or general.

REVENUE EXPENDITURE – day to day running costs of the Authority, including employee costs, premises costs and supplies and services.

REVENUE SUPPORT GRANT (RSG) – a grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

- **NATIONAL NON-DOMESTIC RATE (NNDR)** – paid as part of the RSG, this is a levy on businesses, based on a national rate in the pound set by the government multiplied by the ‘rateable value’ of the premises they occupy. NNDR is collected by billing authorities on behalf of central government and then redistributed among all local authorities and policy authorities on the basis of population. Also known as ‘business rates’, the ‘uniform business rate’ and the ‘non-domestic rate’.

SUPPLEMENTARY ESTIMATE – an amount, which has been approved by the authority, to allow spending to be increased above the level of provision in the original or revised budget.

TAXBASE – the number of Band D equivalent properties within each Local Authority area used to determine the RSG by the ODPM and to calculate the Council Tax yield by each authority.

VALUE FOR MONEY – a much-used term that describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. A VFM audit takes into account the economy, efficiency and effectiveness of a local authority service, function or activity.

VIREMENT – the permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head i.e. a switch of resources between budget heads. Virement must be properly authorised by the appropriate committee or by officers under delegated powers.

VOIP – Voice Over Internet Protocol