



REPORT TO EXECUTIVE

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Yes

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Title: REVENUE BASE ESTIMATES AND UPDATED MTFP
PROJECTIONS: 2010/11 TO 2014/15
Report of: DIRECTOR OF CORPORATE SERVICES
Report reference: CORP49/09

Summary:

This report provides a summary of the Council's revised revenue base estimates for 2009/10, together with base estimates for 2010/11 and updated reserve projections to 2014/15. New spending pressures and savings are considered elsewhere on the agenda. It should be noted that the figures in this report are indicative and the final position is subject to decisions being taken further in the budget process.

The report also provides an update on the key budget considerations.

Recommendations:

The Executive is requested to:

- (i) note the revised base estimates for 2009/10 and base estimates for 2010/11;
- (ii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken.

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To: The Executive
23 November 2009

CORP49/09

REVENUE BASE ESTIMATES AND UPDATED MEDIUM TERM FINANCIAL PLAN
PROJECTIONS 2010/11 TO 2014/15

1. INTRODUCTION

- 1.1. This report considers the revised base estimates for 2009/10 together with the estimates for 2010/11 and updated projections to 2014/15. The report also sets out any known revisions to the Medium Term Financial Plan (MTFP) projections.
- 1.2. The base estimates have been prepared in accordance with the guiding principles for the formulation of the budget over the next five year planning period as set out in the following Policy documents that were approved by Council on 15 September 2009:
- ◆ Medium Term Financial Plan and Charging Policy (Report CORP35/09)
 - ◆ Capital Strategy (Report CORP36/09)
 - ◆ Asset Management Plan (Report DS75/09)
- 1.3. Members should be aware that there are a number of significant factors affecting the budget that are currently unresolved. In particular the following are key to the budget process and details on these are considered further in the report:
- Outcome of Job Evaluation project.
 - Transformation arrangements
 - Government Finance Settlement - RSG and NNDR
 - Specific Government Grant allocations including LABGI, and Housing & Planning Delivery Grant
 - Triennial Revaluation of the Pension Fund
 - Further impact of economic recession
 - Pension revaluation
 - Property review
 - Tullie house Governance Options
- 1.4. It should also be noted that any new spending pressures and new savings identified during the course of this budget process are detailed within reports CORP50/09 and CORP51/09 considered elsewhere on the agenda. The potential impact of these proposals are **not** reflected within this report, as there are a number of options for member consideration. However it is clear at this early stage of the budget process that all of the pressures currently identified cannot be accommodated within existing Council resources. Decisions will need to be made to limit budget increases to

unavoidable and high priority issues, together with maximising savings and efficiencies to enable a balanced budget position to be recommended to Council in February 2010.

2. SUMMARY OF BASE BUDGET ESTIMATES

- 2.1. The base estimates are calculated on the assumption that core services will continue at approved levels incorporating decisions agreed by Council as part of the previous year's budget process and including all subsequent decisions made by Council.
- 2.2. In particular the MTFP sets out the policy on price inflation and in accordance with this policy, many general expenditure budgets have been frozen at 2009/10 levels. Included in the savings proposals report CORP51/09 are projected savings expected to accrue from reducing inflation from that currently in the MTFP.
- 2.3. Work is being carried out to assess whether the broad assumptions in the MTFP are correct now that the detailed core estimates for 2010/11 have been prepared.
- 2.4. The table below sets out the base level General Fund requirement for 2009/10 and 2010/11 with projections to 2014/15. The 2009/10 variance reflects the supplementary estimates approved by Council since the MTFP was approved in September.

Table 1 – Base Budget Summary

	2009/10 Original £000	2009/10 Revised £000	2010/11 Original £000	2011/12 Proj £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000
Net Base Budget Parish Precepts (PP)	22,930 425	23,420 425	18,684 436	17,932 447	17,966 458	18,355 469	18,452 481
Total	23,355	23,845	19,120	18,379	18,424	18,824	18,933
Original MTFP Projectons		23,355	19,120	18,379	18,424	18,824	18,933
Variance	23,355	490	0	0	0	0	0
Analysis of Variance:							
Non-Recurring:							
Brampton Business Centre		150					
Planning Application		190					
Sands Development		150					
Total Variance	0	490	0	0	0	0	0

- 2.5. **Appendix A** details the movements between the original and revised budgets for the 2009/10 base budget requirement. Members will be aware from the Charges Review reports considered elsewhere on this agenda that a number of income streams are below projected levels in the current financial year. However, there are a number of identified savings that offset this position and the current forecast is that the budget will be contained within existing approved resources for 2009/10. The position for 2010/11 onwards will be considered as part of the budget process.
- 2.6. **Appendix B** details the movements between the Original Budget for 2009/10 and the Original Budget for 2010/11 incorporating all decisions made by the Council to date.

3. UPDATED MTFP PROJECTIONS

- 3.1 The budget projections as currently forecast in the MTFP are summarised below:

	Recurring Commitments (Surplus) £	Non-Recuring Commitments £	Carry Forwards £	Total £
2009/10	(589,000)	5,655,000	1,005,600	6,071,600
2010/11	(1,356,000)	2,839,000		1,483,000
2011/12	(906,000)	1,456,000		550,000
2012/13	(482,000)	801,000		319,000
2013/14	(230,000)	662,000		432,000
2014/15	243,000	0		243,000

- 3.2 Other than the minor changes detailed at Table 1 there have been no major revisions to the budgets at this stage. The 2010/11 base estimates have been confirmed and there are no significant changes arising from that exercise. The revised estimates for 2009/10 will be recommended to Council as part of the budget process.
- 3.3 There are, however, some significant pressures arising on the budget, and the above forecasts do not, at this stage, include any estimated impact of those pressures. The Savings and New Spending Pressures are considered separately on this agenda and once Member proposals are made the impact will be included in the projections. The Executive will be asked to consider the issues in those reports and any subsequent reports issued in December and make proposals on the savings, new spending pressures and use of reserves as set out in the reports in order to issue a draft budget for consultation purposes.

4. OUTSTANDING KEY ISSUES

4.1. Job Evaluation

The recurring budget shortfall identified in the MTFP projections includes an estimated amount required to implement the Job Evaluation exercise of £1m per annum. The Job Evaluation process will be implemented from March 2010.

4.2. Revenue Support Grant (RSG) and National Non Domestic Rates (NNDR)

The figures incorporated into this report are based on the 2008/09 Local Government Finance Settlement confirmed by the Secretary of State in January 2008 which provided firm projections for 2010/11 of £10.372m. Final confirmation of the settlement figure for 2010/11 will be announced in December 2009. No other cash increase has currently been assumed for the period 2011/12 to 2014/15 although pressure is being put on the Government by the local authority associations to recognise the financial impact of the current recession on authorities' financial positions.

4.3. Local Authority Business Growth Incentive Scheme (LAGBI)

The CSR07 announcement stated that the LAGBI scheme would be phased out by March 2008 and a new scheme introduced on a transitional basis over two years from 2009/10. The new scheme therefore provides funding at just 16% of existing levels. The method of grant distribution provides 50% funding to the County Council with 50% being directed to Districts. The allocation for 2009/10 is approximately £37,000 and the same level is expected in 2010/11, and these figures have been included within CORP50/09 considered elsewhere on the agenda.

4.4. Triennial Pensions Valuation

The results of the next valuation exercise are expected during December 2010 which will be effective from 1 April 2011. There is no indication as yet as to what the anticipated increase will be, however each 1% increase in employer's contributions will cost the authority in the region of £137,000. A potential increase of 1.5% has been included in CORP50/09 as a recurring pressure from 2011/12 onwards and discussions will take place with the County Council as Pension Fund Administrators to try and clarify future projections.

4.5. Transformation

The current MTFP includes budgeted recurring savings of £1million for Transformation as well as further savings for Vacancy Management and Salary Turnover. Phase 1 of the Transformation process is expected to achieve approximately £638,000 recurring annual savings. It is anticipated that further recurring savings will be found increasing total transformation savings to £2million in 2011/12. A Non-recurring budget of £2million was included in 2009/10 to cover costs associated with transformation. Additional costs and savings may arise as part

of Phase 2 of the Project which are not included in the base estimates at this stage. There are also some non-recurring items included in the MTFP for staffing posts for Housing, Carlisle Renaissance and Planning that will need to be resolved as part of the transformation process and these are discussed within CORP50/09 for a decision to be made as to whether these should be deemed recurring costs.

A capitalisation Direction application will be submitted in December 2009 for approximately £1.2million to capitalise the one-off costs of the Transformation programme incurred in 2009/10. If this application is successful, the costs can be transferred from revenue to capital and be funded from capital resources. This will provide revenue savings that can be returned to reserves in 2009/10.

4.6. Resource Assumptions

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2010/11 onwards. The resources projections assume:

- The MTFP assumes a nil increase in Government Grant increase from 2011/12 onwards. However, it is likely that there will be a cut in grant from 2011/12 and this pressure has been included in CORP50/09 at a 5% reduction.
- An illustrative 3.5% increase in Council Tax increase for 2010/11 to 2014/15.
- No Council Tax Surplus for 2010/11 onwards. The actual figure for 2010/11 will be available in January.
- An assumed taxbase of 34,411.83. The final taxbase for 2010/11 will not be available until January.
- Parish Precepts are currently being collated but the estimate for 2010/11 is for a total of £436,000 (which assumes an increase of 2.5% on the 2009/10 figure). The actual Parish requirement for each Parish will be reported to the Executive in December.

For information, broadly:

- Each 1% (£1.85) movement in Council Tax impacts on the Council by £63,000
- Each 1% movement in RSG/NNDR grant will impact by £103,000.
- Each £34,000 increase or decrease in expenditure impacts on the Council Tax requirement by £1.

5. NEW SPENDING PRESSURES

- 5.1. In addition to the projected deficit set out in the MTFP, the recent monitoring work has revealed that there are further pressures facing the Council. These, and other pressures, are set out elsewhere on this agenda (see report CORP50/09). Any

pressures approved during this budget cycle will need to be considered in the light of the resources available.

6. SAVINGS AND ADDITIONAL INCOME PROPOSALS

- 6.1 The savings and additional income proposals to be considered, as part of this report are presented elsewhere on this agenda (see report CORP51/09).
- 6.2 In considering these savings, Members need to bear in mind the original revenue deficit as set out in paragraph 3, the pressures identified in CORP50/09 and the other significant factors affecting the budget that are currently unresolved which are key to the budget process as set out in paragraph 4.

7. PROJECTED IMPACT ON REVENUE RESERVES

- 7.1. The Council's overall levels of reserves are set out in **Appendix C** and have been adjusted following the finalisation of the 2008/09 accounts and reflect all decisions made by Council to date, but do **not** include any impact of new bids and savings which are considered elsewhere on the agenda.
- 7.2. The general principles on each of the Reserves are set out in the MTFP. 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'.

- 7.3 The Projects Reserve has been used as a first call for the current projected revenue budget deficit (excluding any new pressures identified at this stage). The main potential call on this reserve over the next five-year period is in relation to the potential impact of the Job Evaluation process for which work is underway to identify offsetting savings.
- 7.4 The additional call on reserves if **all** of the new bids and savings proposed in CORP50/09 and CORP51/09 were approved is shown in the table below, where it can be clearly seen that the pressures currently identified cannot be accommodated within existing council resources. Decisions will need to be made to limit budget increases to a level that will replenish General Fund Revenue Reserves to 2007/08 levels over the next 5 years.

Year	Net Recurring (Savings) /pressures £000	Net Non-Recurring (Savings) /Pressures £000
2010/11	(428)	221
2011/12	113	0
2012/13	(64)	0
2013/14	(64)	0
2014/15	506	0

Phase 2 of the transformation process is anticipated to deliver a further £1million in efficiency savings. Provided these are achieved, the revenue reserves will be replenished towards minimum levels by 2014/15 as follows:

Year	Net Revenue Reserves Position £000
2010/11	(1,224)
2011/12	(1,561)
2012/13	(2,306)
2013/14	(2,938)
2014/15	(3,189)

8. SUMMARY FINANCIAL OUTLOOK AND BUDGET DISCIPLINE 2010/11 to 2014/15

- 8.1. 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.
- 8.2. Notification of Government general and specific grants i.e. RSG, NNDR, Housing and Planning Delivery Grant, LABGI, Concessionary Fares funding etc is received on an individual basis late in the budget process. This makes forward financial planning more difficult. At the moment the overall projections of funding from Government are not considered realistic, with a high likelihood that there will be some significant cuts in the grants awarded in future.
- 8.3. In terms of expenditure pressures, there are two significant issues affecting the budget which are not as yet known. These are the Triennial Pensions revaluation and Transformation. The results of the pension revaluation will not be known until December 2010 and an estimate has been included in CORP50/09 and once final

figures are known this will be reported back to a future meeting. The Transformation exercise is underway and savings have already been identified. Phase 2 of the project is currently underway and as this stage progresses cumulative savings of £2million will need to be identified.

- 8.4. 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 make recommendations in this respect in December.
- 8.5. Under section 25 of the Local Government Act 2003 the Council's S.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. At this stage it should be noted that the current revenue deficit requires substantial savings as detailed above to be identified to meet the ongoing projected shortfall.

9. EFFICIENCY AGENDA

9.1. Comprehensive Spending Review (CSR07) – 2009/10 Onwards

The original CSR07 announcement included ambitious efficiency targets for local government totalling £4.9billion over the three-year period 2009/10 - 2011/12.

Targets were not set for individual local authorities but it was announced earlier in the year that cashable efficiencies are to increase to at least 4% p.a from 2010/11. Both central and local government have identified scope for increased efficiencies which it is estimated will raise an additional £600 million in real savings across the sector.

The impact on the Council's net budget requirement is set out in the table below.

Performance in delivering efficiencies has been incorporated into the new set of performance indicators against which the Council's Use of Resources assessment will be judged.

		£		£
2008/09 Baseline	Total Baseline	32,672,000		
Original target			Revised Target	
2009/10 Target	3.00%	980,160	3.00%	980,160
2010/11 Target	6.10%	1,992,992	7.10%	2,319,712
2011/12 Target	9.30%	3,038,496	11.40%	3,724,608

These targets are challenging and work is underway to identify savings to meet the targets. Members will be regularly updated on progress through the budget monitoring reports.

10. CONSULTATION

- 10.1. The Resources Overview and Scrutiny Panel will consider this report on 10 December 2009, and their views fed back to the Executive on 14 December. The draft budget proposals will then be issued by the Executive on 17 December, and will be subject to wider internal and public consultation.

11. RECOMMENDATIONS

The Executive is requested to:

- (i) note the revised base estimates for 2009/10 and base estimates for 2010/11;
- (ii) note the current MTFP projections, which will continue to be updated throughout the budget process as key issues become clearer and decisions are taken

12. IMPLICATIONS

- Staffing/Resources – The base estimates assume a continuance of the existing levels of resources. Any changes to the base level of resources are contained within the reports on new spending pressures and new savings considered elsewhere on the agenda.
- Financial – Included within the report.
- Legal – Not applicable.
- Corporate – SMT and SPG have been involved in the compilation of the estimates.
- 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 – Not applicable.
- Crime and Disorder – Not applicable.

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MOVEMENTS BETWEEN ORIGINAL & REVISED BUDGETS 2009/10

	£	£
Original Estimate 2009/10		21,483,900
<u>Non-Recurring Impact:</u>		
Non-Recurring Supplementary Estimates:		
- Tullie House		150,000
- 2nd Homes Discount		64,000
- LABGI		227,000
- Brampton Business Centre		150,000
- Planning Application		190,000
- Sands Development		150,000
- Carry Forward requests from 2008/09		1,005,600
Revised Estimate 2009/10		23,420,500
Shortfall in Income:		
- Lanes Head Rent	76,800	
- Bereavement Services Income	70,000	
- Pest Control	30,000	176,800
Shortfall in savings/efficiency targets:		
- Vacancy Management	180,000	
- Salary Turnover	200,000	380,000
Increases in Expenditure:		
- Potential Liability From Rating Appeals	99,000	
- Increased Surface Water Drainage Charges	25,000	124,000
Offset by identified savings:		
- LABGI	(18,000)	
- Pay Award	(280,000)	
- Concessionary Fares	(70,000)	
- MRP	(80,000)	
- Court Costs	(35,000)	
- Elections	(55,000)	
- Land Charges Search Fees	(40,000)	
- Vehicle Leasing Costs	(160,000)	(738,000)
Current Forecast Balance in hand		57,200
Revised Estimate 2009/10		23,420,500

MOVEMENTS BETWEEN ORIGINAL BUDGET 2009/10 & ORIGINAL BUDGET**2010/11**

	£	£
Original Estimate 2009/10		21,483,900
<u>Impact of 2009/10 budget process approvals:</u>		
- Ongoing impact of additional savings approved		
- LABGI	(41,000)	
- ICT Shared Service	(72,000)	
- Carbon Trust Savings	(22,000)	
- Concessionary Fares	100,000	
- Transformation	(825,000)	(860,000)
- Impact of additional spending proposals approved		(246,000)
- Impact of recurring spending pressures:		
- Carlisle Partnership Manager	12,000	12,000
- Non-Recurring commitments/deletions:		
Expenditure Reductions:		
- Learning City Manager	38,000	
- Economic Strategy (LABGI)	(55,000)	
- Small Scale Community Projects	(80,000)	
- ICT Shared Services	(130,000)	
- Brampton Business Centre	(100,000)	
- Community Services Review	(93,000)	
- Vacancy Management Shortfall	(200,000)	
- Treasury Management	378,000	
- Housing Strategy Team (Net)	98,000	
- Planning Posts	50,000	
- Transformation	(2,000,000)	
- Housing Strategy	(120,000)	
- Planning Standards Authority	(49,000)	
- Capacity Building/ACE/Joint Working	(42,000)	
- Slippage from 2006/07	(113,000)	
- Regeneration Officer	(16,000)	(2,434,000)
<u>Recurring Impact:</u>		
- Inflation		
- All Costs (including Pay Award)		780,000
- Other Recurring Schemes		(52,000)
Original Estimate 2010/11		18,683,900

COUNCIL RESERVES

Council Reserves	Actual 31/03/2009 £000	Revised 31/03/2010 £000	Projected 31/03/2011 £000	Projected 31/03/2012 £000	Projected 31/03/2013 £000	Projected 31/03/2014 £000	Projected 31/03/2015 £000
Revenue Reserves							
General Fund Reserve	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)	(3,800)
Project Reserve	(5,261)	1,300	2,783	3,333	3,652	4,084	4,327
Collection Fund	(28)						
Job Evaluation	(399)						
Residents Parking	79						
Building Control	23						
Licensing Reserve	(14)						
Routledge Reserve	(42)						
Sheepmount Reserve	(105)						
Conservation Fund	(191)						
LSVT Warranties	(488)						
Total Revenue Reserves	(10,226)	(2,500)	(1,017)	(467)	(148)	284	527
Capital Reserves							
CLL Reserve (i)	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts (iii)	(10,544)	(3,878)	(3,396)	(1,097)	(1,026)	(1,054)	(2,759)
Asset Disposal Reserve	(2,048)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
Lanes Capital Reserve	(281)	(296)	(311)	(326)	(341)	(356)	(356)
Total Capital Reserves	(13,395)	(6,696)	(6,229)	(3,945)	(3,889)	(3,932)	(5,637)
Total Available Council Balances	(23,621)						
Other Reserves (ii)	(104,437)						
Total Reserves	(128,058)						

(i) This reserve relates to CLL assets which may need to be replaced at the end of the contract.

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

(iii) These have been amended to reflect the use of capital receipts to fund the capital programme as set out in CORP48/09