



REPORT TO EXECUTIVE

PORTFOLIO AREA: GOVERNANCE AND RESOURCES

Date of Meeting: 22 December 2010

Public

Key Decision: Yes

Recorded in Forward Plan:

Yes

Inside Policy Framework

Title: REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY POSITION 2011/12 TO 2015/16

Report of: ASSISTANT DIRECTOR (RESOURCES)

Report reference: RD61/10

Summary:

This report provides a draft summary of the Council's revised revenue base estimates for 2010/11, together with base estimates for 2011/12 and updated projections to 2015/16. 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. As the Revenue Support Grant announcement is late this year (due 13 December 2010) some figures are still to be confirmed and an addendum to this report will be circulated to the Executive when the RSG figures are advised.

Recommendations:

The Executive is requested to note the updated budget projections for 2010/11 to 2015/16 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
22 December 2010

RD61/10

REVENUE ESTIMATES: SUMMARY OF OVERALL BUDGETARY POSITION
2011/12 TO 2015/16

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 2010/11 to 2015/16.
- 1.2. In particular, it advises on the Council's core revenue budgets for 2011/12 together with projections to 2015/16, 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 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.
- 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 - RSG and NNDR (including implications of grant funding for Concessionary Fares moving to County Council)
 - Triennial Revaluation of the Pension Fund
 - Implications of above on the Council's transformation savings targets
- 1.4. The report draws on information contained in a number of reports that have been considered by the Executive and Overview and Scrutiny Panels over the course of the financial year. The principal budget reports have been listed in **Appendix A** for reference purposes.
- 1.5. The Executive will issue its budget for consultation purposes on 22 December. Following this it will consider the final consultation feedback, together with the final Government Grant settlement figure (if available) on 19 January and will subsequently recommend a budget to Council on 1 February 2011.

2. GENERAL FUND BUDGET PROJECTIONS 2010/11 REVISED TO 2015/16

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	2010/11 Original £000	2010/11 Revised £000	2011/12 Original £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000
Total Projected Expenditure (See 3.1 & Appendix B)	19,108	21,027	17,424	16,303	16,616	17,272	18,079
Total Projected Resources (See 3.2 & Appendix C)	(19,108)	(21,027)	(16,543)	(16,057)	(16,175)	(15,826)	(15,934)
Projected (Surplus) / Shortfall <u>excluding</u> savings and new spending	0	0	881	246	441	1,446	2,145
Less:							
New Saving Proposals							
- Recurring	0	0	(1,237)	(561)	(1,175)	(1,398)	(1,745)
- Non Recurring	0	0	0	0	0	0	0
(See Para 4 & Appendix D)							
Add:							
New Spending Pressures							
- Recurring	0	0	863	940	971	857	1,429
- Non Recurring	0	0	0	0	0	0	0
(See Para 5 & Appendix E)							
Potential Budget Shortfall (See para 2.2)	0	0	507	625	237	905	1,829
Potential Shortfall Analysis:							
- Recurring			(1,608)	(176)	(425)	905	1,829
- Non Recurring			2,115	801	662	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, Regional Housing Pot Capital Grant (if any), Disabled Facilities Grant, all of which will be notified, in early 2011.

3. CURRENT PROJECTIONS

3.1 Total Existing Projected Expenditure

The total existing expenditure commitments from the 2010/11 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 2011/12 is not available in total yet as some parishes have yet to agree and notify their precept level. The estimated figure is £446,000. The total currently stands at £379,000 with precepts from 3 parishes still outstanding. The actual Parish requirement for each Parish is 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 which will not be announced by the Secretary of State until 13 December 2010 and which will be confirmed in January 2011.

Contributions from balances include all approvals to date, but make no assumptions on further contributions from balances to support the budget from 2011/12 onwards.

The resources also assume for projection purposes:

- An illustrative 0.0% voluntary Council Tax freeze for 2011/12 to be partly funded by central government grant. The Council Tax increase will revert to 3.5% for 2012/13 in accordance with the MTFP
- No Council Tax Surplus 2011/12 onwards. The actual figure for 2011/12 will be available in January.
- An assumed taxbase of 34,604.97 (the actual for 2011/12 will not be available until January).

For information, broadly:

- Each 1% (£1.85) 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 (RD57/10), 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 (RD56/10) 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 RD62/10 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 £3.8million.

Balance as at:	Projected Deficit £000	Recurring Revenue Requirement £000	Non Recurring Revenue Requirement £000
31/03/2011	2,090	(1,608)	2,115
31/03/2012	2,597	(176)	801
31/03/2013	3,222	(425)	662
31/03/2014	3,459	905	0
31/03/2015	4,364	1,829	0
31/03/2016	6,193	0	0

7. MEDIUM TERM OUTLOOK AND BUDGET DISCIPLINE 2010/11 to 2015/16

- 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. At the moment the projections contain an additional 21% reduction over the following 4 year period over the 5% reduction built in the budget process for 2010/11.
- 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 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 22 December. The consultation feedback, together with the final Government Grant settlement (if

available), will be considered by the Executive on 19 January, following which the Executive will make final budget recommendations to Council on 1 February 2011.

9. RECOMMENDATIONS

9.1 The Executive is requested to note the updated budget projections for 2011/12 to 2015/16 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 2011/12 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.

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Assistant Director (Resources)

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PRINCIPAL REPORTS CONSIDERED DURING THE BUDGET PROCESS TO DATE

Report Ref	Date	Title
RD27/10	14/09/10	Medium Term Financial Plan (incorporating the Corporate Charging Policy) 2011/12 to 2015/16
RD26/10	14/09/10	Capital Strategy 2011/12 to 2015/16
RD27/10	14/09/10	Asset Management Plan 2010 -2015
RD46/10	25/10/10	2011/12 to 2015/16 Budget Update and Timetable
RD54/10	22/11/10	Revenue Base Estimates and Updated MTFP Projections 2011/12 to 2015/16
RD53/10	22/11/10	Provisional Capital Programme 2011/12 to 2015/16
RD56/10	22/11/10	Summary of New Revenue Spending Pressures
RD57/10	22/11/10	Summary of Savings Proposals
GD51/10	22/11/10	Charges Review – Licensing
GD62/10	22/11/10	Charges Review – Legal and Democratic Services
CD21/10	22/11/10	Charges Review – Community Engagement
ED37/10	22/11/10	Charges Review – Economic Development
CS28/10	22/11/10	Charges Review – Local Environment
RD55/10	22/11/10	Treasury Management 2010/11 to 2015/16
RD61/10	20/12/10	Revenue Estimates: Summary of Overall Budgetary Position 2011/12 to 2015/16
RD62/10	20/12/10	Capital Estimates: Summary of Overall Budgetary Position 2011/12 to 2015/16
RD60/10	20/12/10	Draft Treasury Management Strategy Statement and Investment Strategy and Minimum Revenue Provision Strategy 2011/12

EXISTING EXPENDITURE COMMITMENTS

EXPENDITURE PROJECTION	2010/11		2011/12 Estimate £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000
	Original Estimate £000	Revised Estimate £000					
Core Expenditure:							
Core Base Expenditure	12,308	12,308	12,256	12,228	12,027	12,027	12,027
Treasury Management	64	64	31	12	(13)	(29)	(29)
Inflation Projection	2,970	2,970	3,686	4,422	5,176	5,951	6,746
2010/11 agreed Savings	(439)	(439)	(1,786)	(2,091)	(2,113)	(2,136)	(2,136)
2010/11 agreed Spending	426	426	586	409	409	979	979
Total Core Expenditure	15,329	15,329	14,773	14,980	15,486	16,792	17,587
Non Recurring Exp:							
Pre 2009/10 approvals	1,860	1,860	560	0	0	0	0
Treasury Management	904	904	896	801	662	0	0
2010/11 agreed Spending	580	580	625	0	0	0	0
Carry Forwards from 2009/10	0	1,518	34	0	0	0	0
Use of Earmarked Reserves	0	401	90	65	0	0	0
Total non Recurring Expenditure	3,344	5,263	2,205	866	662	0	0
Total City Council Budget Requirement	18,673	20,592	16,978	15,846	16,148	16,792	17,587
Parish Council Precepts	435	435	446	457	468	480	492
Total Requirement	19,108	21,027	17,424	16,303	16,616	17,272	18,079

APPENDIX C

RESOURCE PROJECTIONS

RESOURCES PROJECTION	2010/11 Original Estimate £000	2010/11 Revised Estimate £000	2011/12 Estimate £000	2012/13 Proj £000	2013/14 Proj £000	2014/15 Proj £000	2015/16 Proj £000
Projected External Finance:							
- Revenue Support Grant	(10,372)	(10,372)	(9,147)	(8,414)	(8,316)	(7,675)	(7,675)
- NNDR Grant	0	0	0	0	0	0	0
- Surplus on Collection Fund	(3)	(3)	0	0	0	0	0
- C/Tax for Parish Precepts	(435)	(435)	(446)	(457)	(468)	(480)	(492)
- Council Tax Yield	(6,675)	(6,675)	(6,693)	(6,947)	(7,210)	(7,483)	(7,767)
-Council Tax Grant	0	0	(167)	(174)	(181)	(188)	0
Total Income based on 0.0% Tax increase Projections	(17,485)	(17,485)	(16,453)	(15,992)	(16,175)	(15,826)	(15,934)
Plus Approved Contributions from Balances:							
- Pre 2010/11 non recurring commitments	(2,764)	(2,764)	0	0	0	0	0
- 2010/11 non recurring commitments	(580)	(580)	0	0	0	0	0
- Pre 2009/10 recurring Projects Reserve c/fwd	1,721	1,721	0	0	0	0	0
Asset Investment Fund c/fwd	0	(1,518)	0	0	0	0	0
Use of Earmarked Reserves	0	0	0	0	0	0	0
	0	(401)	(90)	(65)	0	0	0
Total Use of Reserves	(1,623)	(3,542)	(90)	(65)	0	0	0
Total Projected Resources	(19,108)	(21,027)	(16,543)	(16,057)	(16,175)	(15,826)	(15,934)

SAVING PROPOSALS

Detail	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Expenditure Reductions					
Transformation Savings					
- Agreed against original Target (£3m)	(711)	141	166	166	166
- Savings currently subject to Executive Decision					
Asset Review	0	(103)	(679)	(898)	(1,240)
Tullie House	(101)	(172)	(230)	(230)	(230)
Concessionary Fares	(200)	(200)	(200)	(200)	(200)
-Additional in year savings to be found					
Pay Award	(182)	(184)	(189)	(193)	(198)
National Insurance	(43)	(43)	(43)	(43)	(43)
Inflation Realignment					
Total Savings	(1,237)	(561)	(1,175)	(1,398)	(1,745)
Increased Income					
	0	0	0	0	0
Total Additional Income	0	0	0	0	0
Total Savings	(1,237)	(561)	(1,175)	(1,398)	(1,745)
Split:					
Recurring	(1,237)	(561)	(1,175)	(1,398)	(1,745)
Non Recurring	0	0	0	0	0

N.B. The savings agreed against the original target have been updated since the November Executive report (RD57/10) to reflect slight amendments to the savings already achieved.

Increased income included in RD57/10 for rentals on Council properties has been removed due to revised forecasts being obtained from Property Services.

New Spending Pressures

Detail	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Recurring					
Council tax Freeze	235	243	253	262	272
Council Tax Grant	(167)	(174)	(181)	(188)	0
Reduction in Grant Settlement (21%)	709	1,443	1,540	2,181	2,181
Total Changes to Funding	777	1,512	1,612	2,255	2,453
Treasury Management	427	444	415	246	818
Shortfall In Income					
Land Charges Income (Net)	211	211	211	211	211
Licensing Income	10	10	10	10	10
Local Environment Income	100	100	100	100	100
Economic Development Charges	55	55	55	55	55
HB Admin Grant	60	120	180	235	235
Total Recurring Pressures	863	940	971	857	1,429
Total Recurring Spending Pressures	1,640	2,452	2,583	3,112	3,882
Non-Recurring					
	0	0	0	0	0
Total Non Recurring	0	0	0	0	0

N.B. Treasury Management Projections have been updated since the November Executive report (RD56/10) to reflect the revised Capital Programme, use of balances and reduced interest rate forecasts.

PARISH PRECEPTS 2011/12

Parish Council	Precepts Paid 2010/11 £	Precepts Requested 2011/12 £	Percentage Increase
Arthuret	46,608	0	-100.00
Beaumont	4,510	4,578	1.51
Bewcastle	3,500	3,500	0.00
Brampton	88,878	88,878	0.00
Burgh-by-Sands	12,800	12,800	0.00
Burtholme	1,735	1,735	0.00
Carlatton & Cumrew	1,600	1,600	0.00
Castle Carrock	4,192	4,192	0.00
Cummersdale	4,900	0	-100.00
Cumwhitton	3,300	3,400	3.03
Dalston	40,480	41,735	3.10
Denton Upper	1,053	1,053	0.00
Farlam	3,191	3,281	2.82
Hayton	13,720	13,720	0.00
Hethersgill	6,500	6,500	0.00
Irthington	5,356	0	-100.00
Kingmoor	7,278	7,278	0.00
Kingwater	1,000	1,000	0.00
Kirkandrews-on-Esk	7,062	7,062	0.00
Kirklington	1,800	1,850	2.78
Midgeholme	0	0	0.00
Nether Denton	3,042	3,042	0.00
Nicholforest	4,000	4,000	0.00
Orton	3,500	3,750	7.14
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	40,540	0.00
St Cuthbert Without	21,000	21,000	0.00
Walton	4,565	4,725	3.50
Waterhead	1,000	1,000	0.00
Westlinton	2,000	2,000	0.00
Wetheral	85,000	85,000	0.00
TOTAL	434,710	379,819	-12.63

Arthuret, Irthington and Cummersdale Precepts have not yet been received.

COUNCIL RESERVES

Council Reserves	Actual 31/03/10 £000	Revised 31/03/11 £000	Proj 31/03/12 £000	Proj 31/03/13 £000	Proj 31/03/14 £000	Proj 31/03/15 £000	Proj 31/03/16 £000
Revenue Reserves							
General Fund Reserve	(3,800)	(1,710)	(1,203)	(578)	(341)	564	2,393
Projects Reserve i	(1,051)	0	0	0	0	0	0
Sub Total	(4,851)	(1,710)	(1,203)	(578)	(341)	564	2,393
Collection Fund	(5)						
Job Evaluation	(493)	(418)	(368)	(343)			
Residents Parking	97						
EEAC Reserve	(277)	(187)	(147)	(107)			
Transformation Reserve	(1,479)						
Building Control	23						
Licensing Reserve	(14)						
Routledge Reserve	(42)						
Sheepmount Reserve	(92)						
Conservation Fund	(191)						
LSVT Warranties	(488)						
Total Revenue Reserves	(7,812)	(2,315)	(1,718)	(1,028)	(341)	564	2,393
Capital Reserves							
CLL Reserve	(522)	(522)	(522)	(522)	(522)	(522)	(522)
Usable Capital Receipts	(7,741)	(4,500)	(1,677)	(987)	(1,039)	(1,284)	(1,500)
Asset Investment	(2,048)	(2,048)	(1,410)	(1,410)	(1,410)	(1,410)	(1,410)
Lanes Capital Reserve	(311)	(326)	(341)	(356)	(371)	(386)	(401)
Total Capital Reserves	(10,622)	(7,396)	(3,950)	(3,275)	(3,342)	(3,602)	(3,833)
Total Available Council Balances	(18,434)	(9,711)	(5,668)	(4,303)	(3,683)	(3,038)	(1,440)
Other Reserves ii	(83,247)						
Total Reserves	(101,681)						

(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. Early indications are that the next grant settlement due to be received from 2011/12 will provide local authorities with a significant cut in grants (26% reduction over the next four years).
- The Transformation programme is expected to have achieved £3million recurring savings from 2012/13, however further savings of approximately £2.5m will be required in order to meet the cuts in grants from central government and 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 following the Icelandic banking crisis. 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 substantial 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 will be 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 2011/12 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 £3.8m continues to be a prudent level of General Fund Reserves which will be required as a general working capital / contingency to cushion the Council against unexpected events and emergencies. However, given the short term commitments highlighted in the budget proposals, it is necessary that the current General Fund reserve be used to fund the short term deficits. Stringent plans will be required in order to replenish the level of reserves in the following years and the budget proposed must identify the steps necessary to do this.

The Councils policy on reserves is that wherever possible reserves should not be used to fund recurring expenditure, but that where it is, this should be made explicit and steps taken to address the situation in the following years. The deficit projections must therefore be addressed and the Executive must set out in its Budget Discipline and Saving Strategy how it expects Officers to address the situation in setting the 2011/12 budget and preparing for the 2012/13-budget cycle. .

Based on current projections, Council Reserves will fall to below minimum recommended levels in the years 2011/12 to 2014/15. Necessary steps must be taken to resolve the ongoing projected deficit from 2010/11 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 £3.8m 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 2011/12 to 2015/16 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.