Medium Term Financial Plan

Carlisle City Council

2017/18 to 2021/22

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# Introduction

1.1 The overarching policy guidelines of the MTFP are that resources will be redirected to Council priorities via the budget process within the overall caveats that: -

* Redirection of resources towards areas of high priority will be contained within existing budgets, unless increases can be justified and funded through the budget process.
* Council Tax increases will be limited to fair and reasonable levels, taking account of national guidance from Government.
* External grants and income will be maximised wherever possible to mitigate the effects of budget increases.
* Partnership working and funding opportunities will be explored wherever feasible.

1.2 The Medium Term Financial Plan sets out how Carlisle City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces.

1.3 The measures announced by the Government to reduce the amount of Public Spending and to reduce the Country’s structural deficit will continue to play a pivotal role in determining how much the economy grows over the coming years. Economic growth in Carlisle will impact on the income the Council receives and also the support it is able to give to vulnerable residents. Treasury Management income will also be limited whilst interest rates remain low, and the available institutions with which the Council can invest with diminishes due to restrictions in bank credit ratings. The effects on the MTFP of any changes to the state of the economy, including the impact of leaving the European Union, will need to be closely monitored in the short, medium and long term in order to react effectively to changing situations.

1.4 The Medium Term Financial Plan provides the corporate financial planning framework to provide strategic direction to the Council for the next five years and to ensure that the financial resources of the Council are directed to achieving the Council’s key corporate priorities.

# Financial Principles supporting the MTFP

2.1 The key principles to be applied to the Medium Term Financial Plan (MTFP) are set out by theme below:

Financial Principle 1 – Revenue Budget Strategy

* Guide the integration of financial planning with the priorities set out in the Carlisle Plan to ensure that spending decisions contribute to the achievement of the Council’s priorities;
* Guide and be informed by Directorate and other relevant strategies and plans of the Council, which set out how resources will deliver the outcomes and priorities specified in the Carlisle Plan;
* Forecast a minimum five -year corporate and financial planning horizon, with longer periods developed where necessary;
* Manage performance management and decision making procedures to help achieve the best use of available resources;
* Review the Council’s Reserves and Balances Policy in line with CIPFA and other best practice guidance to ensure that all the reserves held by the Council are still applicable and relevant;
* Achieve a minimum level of General Fund Reserves of £2m over the life of the MTFP subject to an annual risk assessment;
* Consider the use of earmarked reserves to support non-recurring expenditure;
* Monitor and evaluate proposed and actual spending to ensure that value for money is obtained;
* Commitment to minimise staff compulsory redundancies;
* Consider impact of 4-year New Homes Bonus allocations rather than 6-year allocations;
* Consider the impact of any other Government Budget initiatives e.g. 100% retention of Business Rates;
* Consider the impact of the decision to leave the European Union may have on the Council’s budgets, e.g. changing forecasts for interest rates, inflation forecasts, pension fund revaluation and changes in legislation;
* Consider the implications of the use of financial resources on the levels of Council Tax and other Council charges;
* Services that have a statutory requirement to be self-financing need consideration in the budget process. E.g. Licensing, Building Control;
* Consider the achievement and any re-profiling of transformation savings will affect overall level of savings to be made, including VR/ER service reviews and their impact on the overall savings achieved;
* Consider and prepare for the likely impact of future pension fund revaluation on the MTFP.

Revenue Budget Assumptions:

* *Phased removal of Revenue Support Grant included in MTFP by 2019/20;*
* *The MTFP assumes adoption of the 4-year settlement announced by Government in 2015/16; an Efficiency Plan has to be produced by October 2016 if the proposal is to be accepted;*
* *Inflation is assumed in the MTFP at 2% for expenditure and 3% for income;*
* *Pay Award is assumed in the MTFP at 1% until 2019/20, then 2% thereafter.*

 Financial Principle 2 – Commercial and Income Generation

* Annual review of the Corporate Charging Policy (Appendix C) to identify areas of potential charging and opportunities for increasing income;
* Consider the levels of income achievable as part of Corporate Charging Policy;
* Consider other sources of potential income generation such as advertising and sponsorship;
* Consider the development of a commercialised culture where the charging powers of the organisation are maximised and encouraged.

Charging/Income Assumptions:

* *Additional income from assets is assumed to offset the £1m saving requirement from asset management in 2018/19;*
* *Income from fees and charges currently achieve £5m per annum.*

 Financial Principle 3 – Council Tax & Business Rates Policy

* Provide value for money to residents through efficient management of council tax collection;
* Determine Council Tax levels that are prudent and retain stability in the Council’s financial strength;
* Annual review of the Business Rate Pooling arrangements and whether this should continue for 2017/18;
* Assessment of the impact of 100% business rates retention including impact on Section 31 grants and funding for Small Business Rate Relief;
* Consider any implications of the Enterprise Zone on the City and potential resources allocated for future projects;
* Annual approval of the Council Tax Reduction Scheme (CTRS);
* Consider any likely reductions to Housing Benefit Admin Grant and the impact on the Council with the onset of Universal Credit.

Council Tax and Business Rate Assumptions:

* *Council tax levels currently assumed at a 1.95% increase per annum over the lifetime of the MTFP*
* *Business Rate Retention growth assumed at £500,000 above the baseline level set by Government rising to £900,000 by 2019/20;*

 Financial Principle 4 – Capital Investment

* Capital resources are held corporately and are allocated according to the priorities set out in the Carlisle Plan (i.e. there is no automatic ring-fencing of resources for specific purposes with the exception of the repayment of Renovation grants);
* Capital receipts, including Preserved Right to Buy (PRTB) receipts (which will end in 2017/18), will be allocated in accordance with Council priorities;
* Specific repayments of Renovation Grants will be reinvested in the programme and be used to support Private Sector Renewal Grants;
* Income generated from the sale of vehicles, plant and equipment will be reinvested in the programme and be used initially to fund future replacements;
* The Council will seek to maximise the use of grants and external funding;
* The Council is committed to deliver capital investment with partners to maximise benefits where this fits with Council priorities;
* Redirection of capital resources from one project to another will be contained within existing budgets, unless increases can be justified through the budget process;
* Capital budgets are generally cash-limited i.e. no provision is made for inflation which effectively means that over time there is a real reduction in the value of resources allocated to specific capital projects;
* Council Tax increases will be limited to fair and reasonable levels. This requires a full assessment of the revenue consequences of capital projects and their respective methods of finance;
	+ Any shortfall against the capital receipts forecast to be received will have significant implications on the ability to deliver the forecast levels of investment without incurring borrowing;
	+ Review of capital financing decisions which will likely have a revenue budget impact due to lack of capital resources (E.g. through re-profiling of capital receipts and borrowing);
	+ Consider the requirements for vehicle replacement and IT capital budgets as no provision is currently included in the MTFP beyond 2018/19;
	+ Revisit the Asset Review Business Plan to see if any asset sales can be re-profiled and whether expected proceeds require revisions;
	+ The reinstatement works for flood affected assets are likely to increase the capital programme but will be funded mainly from insurance settlements;
	+ In order to reduce the exposure of the council to a borrowing requirement the following steps should continue to be examined:
* Fundamental review of current capital programme;
* No new major one-off schemes unless fully funded from grants or external funding;
* Providing a recurring revenue contribution to the capital programme;
* Invest to save schemes that can repay the capital investment over a period of time.

Capital Investment Assumptions:

* *The MTFP assumes a revenue contribution to capital for Refuse Vehicle replacement of £400,000 per annum;*
* *The MTFP assumes an additional revenue contribution to capital of £400,000 per annum for general capital expenditure;*
* *The current capital programme is forecast to utilise all forecast capital receipts and includes a borrowing requirement to fund the planned programme.*

 Financial Principle 5 – Treasury Management

* Annual review of the Treasury Management budget for revised interest rates, changes to average balances and the effects of capital spending decisions;
* Consideration of the repayment and/or re-financing options for the Stock Issue debt due to be repaid in 2020;
* Consider the impact of the Minimum Revenue Provision (MRP) Review;
* Consider appropriate levels of prudential borrowing if required that is affordable, sustainable and within acceptable council tax levels, and delivers objectives aligned to the Council priorities;
* Treasury Management Strategy to achieve the optimum return on investments, with the security of the principal sum always being the primary consideration.

# 3.0 Links to other Strategies

3.1 **The Carlisle Plan**

3.1.1 The Carlisle Plan forms part of the Policy and Budgetary Framework for the Council. These frameworks work together to create the strategic framework.

The key priorities are:

* Support business growth and skills development to improve opportunities and economic prospects for the people of Carlisle;
* Further develop sports, arts and cultural facilities to support the health and wellbeing of our residents;
* Continue to improve the quality of our local environment and green spaces so that everyone can enjoy living, working in and visiting Carlisle;
* Address current and future housing needs to protect and improve residents’ quality of life;
* Promote Carlisle regionally, nationally and internationally as a place with much to offer – full of opportunities and potential.

3.1.2 The Medium Term Financial Plan must both support and inform the Council’s vision for the Carlisle area and the strategic direction set out in the Carlisle Plan. This is to enable resources to be matched against the agreed priorities and any other supporting needs.

3.1.3 The Medium Term Financial Plan takes account of other Council Plans and Strategies of the Council, which have a potential impact on the use of resources by the Council. Particularly consideration is given to the following key strategies: -

* The Capital Strategy, which provides information on the proposed level of investment in capital projects and the consequent impact on the revenue budget.
* The Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision Strategy, which sets out the assumptions for financing requirements and interest rates and their effect on the revenue budget.
* The Asset Management Plan, which provides forecasts of necessary investment in the Council’s land and property portfolio.
* The Procurement and Commissioning Strategy
* Local Plan/Local Development Framework.
* The ICT Strategy
* The Organisational Development Plan, which highlights the need for a thorough review of the Council’s staffing needs and skill levels to ensure that the Council improves its performance to deliver excellent services to the local community in the future.
* There are also a number of strategies, which set out policy direction for key Council priority areas, and these include the Economic Strategy, and Housing Strategy and Green Infrastructure Strategy
* Directorate Service Plans

# 4.0 Revenue Budget Forecasts

4.1 **Current Budget Forecast**

4.1.1 The Council has well established mechanisms in place for forecasting resources and expenditure over a five year planning period. Projections will inevitably change over the period of the plan and these forecasts are updated as part of the detailed budget process.

4.1.2 The Council approved the current forecast for the period 2016/17 to 2020/21 in February 2016 and details are shown below together with the base estimate figures for 2021/22.

Table 1: Summary Budget Position (excluding Parish Precepts)

4.1.3 The assumptions built into the MTFP that form part of the figures above are detailed at section 7.

4.2 **Funding Prospects**

4.2.1 The Council receives core funding from Government each year as part of the Settlement Funding Assessment and this is made up of Revenue Support Grant and the Business Rates baseline. Although the Government set the Business Rates Baseline, the actual funding is received via the Non Domestic Rates income the Council collects.

4.2.2 As well as the core funding as agreed in the Settlement Funding Assessment, the Council is also the recipient of other support from central government in the form of specific grants. These are included in the budget as income rather than funding and are linked to specific schemes or services. Further details of grants included in the MTFP are given at section 6.3.

4.2.3 Revenue Support Grant

It was announced as part of the 2016/17 Local Government Finance Settlement that RSG would be phased out by 2020. The settlement also proposed a four-year settlement from 2016/17 to authorities who signed up to an efficiency program. The Medium Term Financial Plan includes this four-year settlement for the loss of RSG, however, the Council has not formally adopted the four-year settlement. A decision on whether to accept the four-year settlement needs to be made and notified to DCLG by October 2016 by the production of an Efficiency Plan.

4.2.4 The main points to consider around the 4 year settlement proposals are as follows:

* Local Authorities have to respond with their decision by 14 October 2016
* Have to include a link to a published efficiency plan, MTFP etc.
* Guaranteed funding levels for four years
* The MTFP has been based on the four-year settlement proposals
* 4-year settlement welcomed by LGA
* Efficiency Plans need to show how the certainty of a four-year settlement can bring about opportunities for further savings
* The Government have qualified the offering by stating that final grant determinations (of the funding figures produced) in future years will still be subject to change as the business rates multiplier changes. This is based on the RPI figure and would alter the Business Rate baseline and tariff figures.
* The Government also states that future years could change owing to unforeseen events however it does not indicate if this includes unforeseen economic events such as failing to meet its fiscal targets for a budget surplus.
* Still uncertainty about New Homes Bonus and 100% retention of Business Rates

Therefore the Council need to decide by September 2016 whether it wishes to accept the 4-year settlement.

4.2.5 Business Rates Baseline

The Council budgets for income from Business Rates at the baseline level as set in the Settlement Funding Assessment. However, the income collected and paid over to the main preceptors (Central Government, Cumbria County Council and Carlisle City Council) is based on the projections in the NNDR1 return to Government. Any difference in these amounts is included in the MTFP as part of the Growth/Pooling amount anticipated of £500,000. In the past two-years the Council has achieved growth over and above this £500,000 level, and as such the MTFP assumes this will grow to £900,000 by 2019/20.

The Council continues to participate in the Cumbria Business Rates Pool that also enables the County and the Council to retain more of the growth it generates. However, the announcement that local authorities will get to keep 100% of business rates by 2020 will impact the viability of pools. Further details on how the 100% retention will actually work and its specific impact on Carlisle are yet to be understood, but the proposal comes with an understanding that local authorities will have to take on additional responsibilities, which may mean additional cost pressures.

4.2.6 The summary of funding included in the Medium Term Financial Plan is as follows:

 Table 2: Funding

4.2.7 Council Tax

The MTFP includes Council Tax increases from 2017/18 onwards at 1.95%.

The MTFP assumes a modest increase in the taxbase of 0.279% per year and the City Council’s share of the Collection Fund Surplus is assumed to be a recurring £50,000.

Any increase in the tax base as a result of new housing developments will also mean a requirement to provide services to those households. Although there will be an increase in the amount of funding received through Council Tax, the overall cost of providing council services is greater than the amount received through this, so there will be additional cost pressures that need to be recognised in order to provide services to a growing population.

The MTFP also assumes continuation of the statutory Council Tax Reduction Scheme (CTRS). With the removal of Revenue Support Grant the Council will be funding this entirely along with the other main preceptor the County Council and the Police. Consideration will need to be given as to whether this scheme is to be continued in the same form or changed to a localised scheme.

Table 3: Council Tax

4.3 **Efficiency Strategy**

4.3.1 In order to ensure the Council maintains a minimum level of reserves to the end of the MTFP period, efficiencies are required throughout the period of the plan. The efficiency strategy will concentrate on the following areas:

* Asset Strategy – to focus on ensuring the council’s asset portfolio maximises the benefit to the Council through income generation or by realising receipts of assets that do not generate a return that can then be utilised to ease pressures in capital and revenue budgets through the most appropriate means, e.g. re-investment in new assets and supporting the capital programme to reduce the CFR
* Service Reviews – A review of services to include their purpose and relevance in achieving the Carlisle Plan priorities, including a review of those services which do not fall within the Council’s core priorities or which are not statutory will be undertaken to ensure that services and resources are properly aligned to what the Council wants to achieve.
* Core Budgets – a review of base budgets, including income generation, to ensure compliance with best practice on priority and outcome based budgeting and other appropriate budget disciplines.

4.3.2 The profile of efficiencies to be made as included in the Medium Term Financial Plan is as follows:

Table 4: Savings Requirement

4.3.2 The savings currently included in the MTFP are as follows:



 Table 5: Savings

 Note 1: Savings from Voluntary Redundancy will be subject to restructure and staffing reviews and as such could change

4.3.3 Future savings will be dependent upon future funding settlements, Council Tax increases and changes to income and expenditure levels (pressures and savings) that are outwith the current Medium Term Financial Plan. Savings will be profiled in the most effective way to ensure that they are achievable, timely and ensure reserves are not adversely affected.

4.4 **Capital Investment Priorities**

4.4.1 The Medium Term Financial Plan needs to ensure that any capital investment decisions are both affordable and achieve the priorities as set out in the Carlisle Plan. The Council is at a point where capital resources have become scarce and as such any investment in assets is likely to have implications on the revenue budget.

4.4.2 The Medium Term Financial Plan must therefore recognise the implications of capital investment decisions and ensure that they are in line with Council priorities and financing requirements are robustly evaluated and understood.

4.4.3 The MTFP assumes that there will be a recurring revenue contribution to fund the capital programme of £400,000 per annum, as well as an additional £400,000 per annum to fund refuse vehicles which is to be funded from recurring waste services base budgets.

4.4.4 The Capital Financing Requirement (CFR) represents the Council’s underlying need to borrow. This is different to any actual borrowing. If the Council generates the same amount of resources in a year to meet its capital expenditure requirements, then there is no increase to the CFR. However, if the Council spends more than the resources it generates in year, the CFR will increase as in effect the Council has created a borrowing requirement to bridge the gap in the resources it needs and the resources it has.

4.4.5 Although the CFR does not necessarily reflect actual borrowing taken from an external source, it can reflect the use of internal cash resources, i.e. internal borrowing.

4.4.6 Where the Council has a positive CFR, i.e. an underlying need to borrow, it must make provision to repay that ‘debt’, or repay the cash used through internal borrowing. This is known as Minimum Revenue Provision (MRP). The Council’s current policy, as set out in the MRP Strategy is to charge MRP at 4% of the CFR. As MRP is a non-cash transaction it has the effect of increasing the cash balance of the Council.

4.4.7 A review of the Council’s MRP has been undertaken by Capita Asset Services and the implications of the review will need to be considered as part of the budget process and the setting of the Treasury Management budget.

4.4.8 The current forecast for the CFR and MRP based on the current capital programme (as detailed in the Capital Strategy) is as follows:

Table 6: Capital Financing Requirement

**4.5 Investment and Reserve Balances**

4.5.1 An important consideration to understand when making capital investment decisions, especially when a borrowing requirement exists is the relationship between the Council’s available cash investment balances and its reserves.

4.5.2 At 31 March 2016, the Council had investments of £16.531million. If all revenue and capital budgets are spent in line with the budget and all receipts are received in line with expectations then at 31 March 2017, investment balances would fall to around £14m. The following table shows the breakdown of the investment balance and what the cash relates to:

***4.5.3 The figures shown in the following table are based on forecast levels of expenditure linked to current budgets and anticipated receipts, actual figures will vary in each year depending upon actual expenditure and income levels.***

Table 7: Investments & Reserves

The figures above are based on assumptions regarding budgets being fully spent with no over/under spends and reserves utilised as per current budget projections.

4.5.4 The surplus/deficit cash position represents how much of any borrowing requirement identified can be met from internal resources (internal borrowing) when there is a surplus or how much will need to be met from actual external borrowing when there is a deficit.

4.5.5 This can be proven when comparing the CFR figures to the actual borrowing level, i.e. comparing the underlying need to borrow with the actual borrowing we carry.

Table 8: Borrowing position

4.5.6 Therefore, to meet its capital financing obligations, the Council was over borrowed by £2.117million in 2015/16 and assuming all else remains equal, this changes to an over borrowed position of £6.904million by 2021/22 due to the setting aside of MRP, and additional unsupported capital expenditure and assumed reduced borrowing costs on the stock issue.

# 5.0 Provisions, Reserves & Balances

5.1 The Council holds balances in order to meet future commitments. The Council policy on the use of reserves is as follows:

* Reserves generally will not be used to fund recurring items of expenditure, but where it does steps will be taken to address the situation.
* Reserves will not become overcommitted.
* The Council benefits from its level of reserves as it is able to: -
* Meet its capital programme obligations, without recourse to borrow,
* Fund exceptional increases in its net budget requirement without affecting the Council Tax charged to its taxpayers,
* Ensure that surplus resources are retained for the general benefit of the Council to protect against large increases in Council Tax.
* Generate significant income received from the investment of its reserves to contribute to the budget requirement of the Council, which is a key part of the Council’s Treasury Management Strategy.
	1. **General Fund**

5.2.1 The balance on the General Fund shall broadly equal £2million. This figure is assessed taking into account the risks and working balances required, including investment income generated, it is considered prudent to leave the reserve at this level. A risk based assessment of the appropriate level of this reserve is carried out as part of the MTFP process and this is shown at **Appendix A**. The prudent level of reserves may need to be revised in the medium term to reflect the changes circumstances around funding changes with full localisation of business rates.

5.2.2 If the balance in the short-term falls below £2million, the Council will top-up the balance to this level from the General Fund Income and Expenditure Account.

5.2.3 If the balance in the short-term exceeds £2million then the surplus will be transferred to the Council’s Project Reserve.

* 1. **Earmarked Reserves**

5.3.1 Earmarked reserves will not be used for recurring items of expenditure, nor become over-committed.

5.3.2 For each earmarked reserve there will be a clear protocol in place setting out:

* The purpose of the reserve.
* How and when the reserve can be used.
* Procedures for the management and control of the reserve.
* Processes for the review of the use of the reserve to ensure that it continues to have an adequate level of funds and remains relevant to the business of the Council.

 (Further details of this are shown at **Appendix B)**

5.3.3 The revenue reserves the Council currently holds are as follows:

Table 9: Revenue Reserves

N.B. Balances on Earmarked Reserves are not shown in future years unless movements against those balances are known

5.3.4 The MTFP does not assume any use of earmarked reserves.

5.3.5 As well as revenue earmarked reserves, the Council also holds a small number of earmarked reserves for capital purposes. These are as follows:

Table 10: Capital Earmarked Reserves

Note 1: Capital Receipts have been set aside in the Capital Adjustment Account, however, the cash is available for spending

5.4 **Provisions**

5.4.1 The Council holds a number of provision balances for items where future commitments are likely and use of these are delegated to the relevant Director in consultation with the Director of Resources.

* 1. **Charitable and Other Bequests**

The Council holds a number of bequests for use by the Council. These funds can only be released with the full approval of the Council under the terms set out when the bequest was given. In the first instance it will be the responsibility of the Executive to consider a report outlining proposals for the use of the bequest prior to submission of the request to Council.

5.6 **The Responsibilities of the Director of Resources**

5.6.1 The Director of Resources will review each reserve and its protocol annually and produce a report for the Executive as part of the annual budget process detailing: -

* Compliance with the use of reserves and associated protocols,
* Movements in the level of reserves, including the purposes for which reserves were used during the previous financial year,
* The adequacy of the level of reserves and the effects on the Council’s budget requirement,
* Any reserves which are no longer required,
* Proposals to set up new reserves, including purposes, protocols, funding sources and potential impact on the Council’s Medium-Term Financial Plan.

5.6.2 The Director of Resources will review this policy at least annually and will obtain the approval of the Council for any change required to either the policy or protocols associated with specific reserves.

* 1. **Planned Use of Reserves**
		1. When the budget was set in February 2016, it assumed that there would be contributions to and from General Fund Reserve over the life of the MTFP. With the outturn position for 2015/16 now confirmed, the under spend from 2015/16 has left General Fund Reserve and Projects Reserve in a healthier position (as shown in Table 9) over the medium term.
		2. The reserves position is also subject to the savings required (as in Tables 4 and 5) being met as scheduled. Any slippage on savings or any savings made in advance will impact on the contributions to and from reserves.

# 6.0 Income

6.1 **Fees & Charges**

6.1.1 Fees and Charges for individual services generate in the region of £5m p.a. for the City Council. **Appendix C** sets out the Council’s approach to the reviewing and setting of fees and charges on an annual basis. The overall aim is to increase the proportion of income raised from users of discretionary services to ensure that they meet the full cost of these services, rather than the costs falling on Council Taxpayers in general.

6.1.2 In the past the income target has been set at 1% above the inflation rate. Each directorate must prepare a Charges Review Report as part of the budget process that must clearly set out the overall policy objective. In the past few years, increases in income from charges have not always resulted in the MTFP target being achieved.

6.1.3 There are certain functions the Council provides where it has little or no control over the charges to be set and where the service is statutorily bound to be self-financing, for example Building Control. This requirement is likely to extend to Licensing in the future and this means that any surplus income generated by raising fees has to be ring-fenced to these functions.

6.1.4 The main areas of fee generating income are shown in the table below:

 Table 11: Main areas of Income

6.2 **Property Rentals**

6.2.1 Income received from property rentals is in the region of £4.5 million per annum.

6.2.2 The forecast yield from property rentals over the period 2016/17 to 2020/21 and included in the MTFP is shown in the following table: -

Table 12: Property Income

6.2.3 The Council has an agreement with the managing agents of the Lanes whereby the Council receives a proportion of the net rental income (approx. 23%). The recurring budgeted income was reduced as part of the 2016/17 budget £434,000, from £1.659million to £1.225million to reflect the actual income achieved in the Lanes. The income from the Lanes should increase once the new development of Primark opens and any additional income will go towards the £1m saving requirement from assets from 2018/19.

6.2.4 The MTFP makes no provision for additional rental income from assets via rent reviews. However, there is a saving requirement of £1m included in the MTFP associated with asset management, and it is envisaged that any surplus rentals achieved over current base budgets be set aside against this requirement.

6.3 **Grants & Contributions**

 The Council receives grants from various sources as part of its overall funding. Some of these grants are given as part of the Settlement Funding Assessment by DCLG and as such, these are budgeted only when notification is received.

6.3.1 New Homes Bonus

The Council receives central funding in relation to the New Homes Bonus Scheme. From 2016/17, the amounts distributed under the scheme are top-sliced from the overall funding available to local authorities. The Council receives an allocation of funding under the scheme each year and each allocation lasts for six years. As part of the Local Government Finance Settlement for 2016/17 indicative figures were provided along with the proposed four-year settlement arrangements. These also proposed a consultation on reducing the term of New Homes Bonus from six-years to four-years. Further information on this consultation is still unknown, however, the MTFP has assumed indicative levels of New Homes Bonus. The MTFP has taken the assumption that like with RSG, New Homes Bonus Funding may be removed in the future to be replaced with the 100% Business Rate Retention scheme.

 Details of allocations included in the MTFP as shown in the table below:

 Table 13: New Homes Bonus

 There is uncertainty about New Homes Bonus as together with the proposals to move to 4-year allocations (from six-year), the implications of 100% retention of business rates may also have an impact. Therefore the MTFP assumes no New Homes Bonus from 2020/21 at the current time.

6.3.2 Housing Benefit Admin Grant

 The Council receives grant funding towards Housing Benefit Administration. The Council currently has a recurring budget of £499,500 for this grant. Allocations are received on an annual basis. However, it is likely that this grant will reduce with the onset of Universal Credit and the downsizing of Housing Benefit Administration by the Council. This reduction in grant will need to be considered in line with any reductions in workload associated with any transition.

# 7.0 Assumptions

7.1 The MTFP includes assumptions regarding the main items of income and expenditure. Some of these assumptions have been previously explained, e.g. RSG and Council Tax. The following sections provide further details of the assumptions currently included in the MTFP. Any deviation from these assumptions will be included in the budget process for 2016/17 as pressures or savings.

7.2 **Pay**

* Annual increase in MTFP **1%**
* Salary Turnover Savings **£412,500**
* Pension Contribution Rate (Current Service) **13.6%**
* Pension Deficit Cost **£886,200**
* Sensitivity & Risk Analysis:

 

* Key Considerations:
	+ Pension Fund Revaluation due 31/03/2017
	+ Capacity to achieve salary turnover savings will be affected by the savings requirement from Vacancy Management and Voluntary Redundancy

7.3 **General Inflation**

* Annual increase in MTFP for expenditure **2%**
* Annual increase in MTFP for Income **3%**
* Sensitivity & Risk Analysis:



* Key Considerations:
	+ Inflation level of 2% is set at the Bank of England target for inflation.

7.4 **Investment Income**

* Investment Returns –



* **The investment returns used when the budget was set in February 2016 will need to be updated given current guidance on when interest rates are expected to change.**



* Key Considerations:
	+ Use of and Contribution to Reserves will impact on average balances and subsequently investment return achieved.
	+ Capital Investment decisions will affect the Capital Financing Requirement and average balances
	+ Investment returns have changed

7.5 **Borrowing**

* Assumed Borrowing - 2018/19  **£5m** (Leisure Facilities)
* Assumed Borrowing Rate - 2018/19 **4.90%**

**This borrowing is based on a Principal and Interest repayment loan for the development of new leisure facilities and is matched by a corresponding saving in the management fee of leisure facilities.**

* Assumed Capital Financing Requirement (CFR) & Minimum Revenue Provision (MRP):





* Key Considerations:
	+ No additional borrowing assumed in MTFP
	+ Any future Capital Programme decisions will likely require a borrowing requirement, either internal or external which will have an impact on the revenue budget
	+ Re-profiling of anticipated capital receipts will impact on CFR, and subsequently MRP charge

## 8.0 Appendices

**Appendix A – Risk Assessment of Minimum Level of General Fund Reserve 2017/18******

**Appendix B - Reserves**

| **Reserve** | **Estimated Balance 31/3/16** | **Purpose** | **Conditions of Use** |
| --- | --- | --- | --- |
| Capital Reserves | £000 |  |  |
| Usable Capital Receipts | 0 | To provide funds to support the capital programme | Capital receipts can only be used to support capital spending or the repayment of debt. Management of the use of the receipts rests with the Director of Resources but approval of their use must be given by Council. |
| Asset Disposal Reserve | 0 | To provide resources to purchase properties and fund associated revenue costs (e.g. marketing) required as part of the Carlisle Renaissance project. To provide resources for investment in the Council’s industrial estates to ensure rent yields are maintained / increased | Management of the reserve rests with the Director of Resources who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council. |
| CLL Reserve | 522 | To provide funds to purchase equipment from CLL Ltd, should the leisure management contract either not be renewed or be terminated due to breach of contract on the part of CLL Ltd.  | Management of the reserve rests with the Deputy Chief Executive but can only be used with the agreement of the Council. Use of the reserve should be accompanied by a report to Council providing details of the circumstances giving rise to the need for support to be provided by the Reserve. |
| Lanes Capital Reserve | 15 | To provide funds to meet potential exceptional capital works under the terms of the lease agreement. | Management of the reserve rests with the Director of Resources who will be responsible for developing proposals requiring funding from the reserve. Approval to release funds from the reserve can only be given by the Council. |
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| **Revenue Reserves** | **£000** |  |  |
| General Fund Reserve | 2,000 | To be a general working capital / contingency to cushion the Council against unexpected events and emergencies | Management of the reserve rests with the Director of Resources. The use of the reserve is dependent on judgements taken when setting the Council’s revenue budget on: -* Cash flow requirements,
* Inflation and interest rates,
* Demand led budget pressures,
* Efficiency and productivity savings,
* The availability of funds to deal with major unexpected events or emergencies,
* Risks arising from significant new funding partnerships, major outsourcing arrangements or major capital developments.

Approval to release funds from the reserve can only be given by the Council as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.  |
| Projects Reserve | 1,511 | The balance at 31st March 2016 shall be earmarked to support potential revenue budget shortfalls identified by the 2016/17 Medium Term Financial Plan. Additions to the balances thereafter can be used either to support revenue budget shortfalls or projects within the Council’s capital programme | Management of the reserve rests with the Director of Resources. Funding for the Reserve will be provided by windfall gains over and above those required to maintain the General Fund at its approved level, balances on reserves that are no longer needed and proceeds from the Local Authority Business Growth Incentive Scheme. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis. |
| Carry Forward Reserve | 1,078 | To establish a reserve to hold carry forward budgets. Any expenditure in relation to a carry forward listed below will if possible be funded from base budgets, but can be called from this reserve if the section is likely to be in an overspend position at year end. | Management of the Reserve rests with Director of Resources. Approval to release funds from the reserve only be given by the Director of Resources and/or The Chief Executive. |
| Collection Fund (Carlisle Share) | (227) | To be the collection account for sums due from local taxpayers. | Management of the fund rests with the Director of Resources. The use of the Fund is determined by statute. The main use is to adjust the level of Council Tax required in any one year to reflect surpluses or deficits on collection targets in prior periods. |
| Building Control Reserve | 137 | To provide funds for improvements to the delivery of the Building Control function. | Management of the reserve rests with the Director of Economic Development The balance is ring-fenced by statute to support improvements to the Building Control Service and is not available for general use by the Council. Funding is provided from surpluses generated by the service annually. Approval to release funds from the reserve can only be given by the Council either as part of the budget process, or through consideration of supplementary estimates on an ad-hoc basis.  |
| Conservation Reserve | 117 | To purchase historic buildings at risk or fund repairs and / or improvements to historic buildings | Management of the reserve rests with the Director of Economic Development. Funding is provided from the sale of property. Approval to release funds from the reserve can only be given by the Executive of the Council. |
| Transformation Reserve | 348 | To fund any one off costs associated with transformation project | Management of the reserve rests with the Chief Executive. Approval to release funds from the reserve can only be given by the Executive of the Council. |
| EEAC Reserve | 43 | To hold the residual funds of the service pending future decisions with regard to the service | Management of the reserve rests with the Director of Economic Development. Approval to release funds from the reserve can only be given by the Executive of the Council. |
| Cremator Reserve | 479 | To build up resources to replace cremators when required | Management of the reserve rests with the Director of Local Environment. Approval to release funds from the reserve can only be given by the Executive of the Council. |
| Welfare Reform Reserve | 200 | To meet one off costs associated with the Welfare Reform bill and introduction of Universal Credit | Management of the reserve rests with the Director of Resources. Approval to release funds from the reserve can only be given by the Executive of the Council. |
| Car Park Enhancement Reserve | 113 | To meet future Car Park Enhancements & Land Drainage improvements  | Approval to release funds from the reserve can only be given by an Officer Decision Notice by The Chief Executive in consultation with the Director of Local Environment, Portfolio Holder and Director of Resources. |
| Economic Investment Reserve | 108 | To enable continued and dedicated project resource to support employment related projects, Business Support and Regeneration Projects. | Approval to release funds from the reserve can only be given by an Officer Decision Notice by The Chief Executive in consultation with the Director of Economic Development, Portfolio Holder and Director of Resources. |
| City Centre Reserve | 42 | To establish a reserve for the future Festive Lighting Programme.  | Approval to release funds from the reserve can only be given by an Officer Decision Notice by The Chief Executive in consultation with the Director of Local Environment, Portfolio Holder and Director of Resources. |
| Repairs & Renewals Reserve | 502 | To establish a Repairs and Renewals Fund that can be used for revenue and capital items in the future, e.g. ICT, Vehicles | Approval to release funds from the reserve can only be given by the Executive of the Council. |
| Leisure Reserve | 118 | To meet needs for procurement work in relation to Leisure Services. | Approval to release funds from the reserve can only be given by an Officer Decision Notice by The Deputy Chief Executive, Portfolio Holder and Director of Resources |
| Flood Reserve | 500 | There are likely to be further costs that are not recoverable from insurers and it is proposed to establish a new reserve to contribute to these costs.  | Management of the reserve rests with the Director of Resources with the use of the Reserve requiring an Officer Decision notice by the Director of Resources. |
| BRR Volatility Reserve | 110 | To cushion against losses in Business Rate income as a result of being part of the Cumbria Business Rates Pool  | Management of the reserve rests with the Director of Resources with the use of the Reserve requiring an Officer Decision notice by the Director of Resources. |

**Appendix C - Corporate Charging Policy**

This appendix sets out the corporate approach to the setting of fees and charges.

The Corporate Charging Policy applies to those fees and charges that the Council has control over and can set independently of any statutory provision. Any services where charges are set by Government or where services have to be self-financing are excluded from the Corporate Charging Policy.

The Corporate Charging Policy assumes that Income from fees included in the Charging Policy will increase by 1% above the inflation rate set for expenditure. For 2017/18 this equates to a 3% increase. The MTFP assumes that income will increase by 3% although this does not necessarily mean that charges have to increase by 3% as increases in demand could account for additional income.

Each service is required to consider how and to what extent each of the following applies to the fees and charges it proposes to set:

* + - * 1. **Objectives of Charge - Set out the principal objective(s) of setting the charge:**
* Recover cost of service provision
* Generate Surplus Income (where permitted)
* Maintain existing service provision
* Fund service improvements or introduction of new service(s);
* Manage demand for service(s)
* Promote access to services for low-income households;
* Promote equity or fairness;
* Achieve wider strategic policy objectives (e.g. encouraging green policies);
1. **Other factors influencing decisions on whether and how much to charge**:
* The Council’s historic approach to charging
* The views of local politicians, service users and taxpayers
* Other councils’ and service providers approach to charging
* Levels of central government funding and policy objectives
* The Council’s overall financial position
* Changes in demand for services
* Policy on Concessions
* Availability of powers to charge for discretionary services (eg pre application planning advice)
* Central government policy objectives
1. **Targeting Concessions - The following target groups should be considered:**
* Persons over the age of 65
* Unemployed
* Young persons under the age of 18
* Students in full time higher education
* Community Groups
* Those in receipt of supplementary benefits, tax credits, attendance allowance, disability living allowance and other appropriate groups
1. **Trading**

The Council is empowered to sell goods or services to other public bodies or trade commercially through a company with non-public bodies. The objectives should be considered for relevant services (including Building Cleaning and Maintenance, Vehicle Maintenance, Grounds maintenance, Legal Services, Human Resources, IT, Payroll, Planning and Development Services) as follows to:

* Deliver services more strategically on an area-wide basis
* Achieving greater efficiency
* Capitalise on expertise within the council
* Utilise spare capacity
* Generate income
* Support service improvement
1. **Value For Money**
* Has charging been used as a tool for achieving strategic policy objectives?
* Has the optimum use of the power to charge been used?
* Has the impact of charging on user groups been monitored?
* Has charging secured improvements in value for money?
* Has charging been used as a tool to reduce increases in Council Tax?

**Appendix D – Gross Expenditure Breakdown**

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