Leicester City Council

CABINET **19 FEBRUARY 2007**
COUNCIL **21 FEBRUARY 2007**

GENERAL FUND REVENUE BUDGET STRATEGY 2007/08 TO 2009/10

Report of the Chief Finance Officer

1. Purpose

1.1 The purpose of this report is to request Cabinet to approve a 3 year corporate budget strategy, 3 year departmental revenue strategies for each department, and a general fund budget for 2007/08; and to recommend these to the Council.

2. Summary

2.1 The proposed budget strategy is set in the context of change and uncertainty. These uncertainties occur in the cost of the City Council services, and in the national funding framework for local government.

2.2 Internally, the most significant changes affecting the Council's finances include:

(a) A substantial efficiency drive, including a business improvement programme which will affect the budgets of all departments;

(b) A review of the pay and grading of most of the Council's non-teaching staff;

(c) The potential impact of Building Schools for the Future. This is a huge programme of works and services to secondary schools which (if approved by the Council) will result in a substantial long-term commitment of funding;

(d) Some substantial developments including the city centre programme, the need to upgrade our accommodation, and our vision for future service delivery in neighbourhoods.

2.3 Whilst the external grant position for 2007/08 has been known for some time, providing welcome certainty, there is the prospect of significant change from 2008/09 onwards. This will be informed by the Lyons' Review of the role and function of local government, which is due to report in March, and may include changes to sources of revenue available to local authorities. The grant settlement for 2008/09 is likely to cover the period through to 2010/11, and will reflect expected national spending constraints and new efficiency targets. Decisions are also expected during 2007 on when or whether council tax revaluation will take place.

2.4 The way in which the budget has been prepared has been based on past, established practice:

(a) The Council's overall budget aims are set out in a corporate budget strategy that flows from the priorities in the corporate plan;

(b) Departments have prepared departmental revenue strategies which plan service provision over 3 years, within resources available.

2.5 The corporate budget strategy is based upon the strategy approved in 2004, as revised in 2006 to place emphasis on:

(a) Achievement of low tax increases;

(b) Delivery of efficiency savings.

2.6 Draft budget proposals were submitted to scrutiny committees for consideration during January and February.

2.7 The budget proposes spending of £240.1m in 2007/08, which results in a council tax of £1,061.21 (an increase of 2.6%).

3. Recommendations

3.1 The Cabinet is asked:

(a) To consider the draft corporate budget strategy for 2007/08 to 2009/10, the draft departmental revenue strategies prepared by each director, and the draft overall budget for 2007/08 as described in this report;

(b) Subject to any amendments Cabinet wishes to make to the proposals in this report, to ask the Chief Finance Officer to prepare a formal budget and council tax resolution, and consequent prudential indicators, for Council approval;

(c) Subject to the approval of the budget by the Council on 21 February and the Council's normal procedures, to authorise corporate directors to take any action necessary to deliver their departmental revenue strategies for 2008/09 to 2009/10;

(d) To authorise the Director of Resources to spend £0.3m of monies set aside for the cost of job evaluation on project management costs;

(e) To authorise the Chief Finance Officer to give effect to the budget adjustments arising from the Business Improvement Programme, when these are known;

(f) Notwithstanding (g) below, to recommend to the Council that authority be given to the Cabinet (after consulting the party spokespersons for Resources and Corporate Issues Scrutiny Committee) to enter into contracts with individual members of staff to discharge potential “equal pay” liabilities; to determine how the cost shall be met; and to make arrangements for the administration of such agreements;

(g) To recommend to the Council that the approved budget shall form part of the policy and budget framework of the Council, and that future amendments shall require the approval of full Council, subject to the following:

- The Cabinet may authorise the addition, deletion or virement of sums within the budget up to a maximum amount of £1m for a single purpose;

- Flexibilities and permissions provided in finance procedure rules;

(h) To agree the schedule of determinations to the Council’s finance procedure rules as shown at Appendix 6;

(i) To recommend to Council that, subject to its approval of the budget, the elements of the budget shown at Appendix 7 to this report shall be controllable budget lines for the purposes of Finance Procedure Rule 4.3.6 (being the level at which the budget is disaggregated for the purposes of applying the Council’s virement rules);

(j) To approve, and recommend Council to approve, the treasury strategy included as Appendix 8 and the investment strategy included at Appendix 9 to this report;

(k) To request Council to delegate authority to the Chief Finance Officer to vary components within the Council’s overall borrowing limit (the “authorised limit”) which relate to borrowing and other forms of finance;

(l) To seek reports on specified dates on the following issues, which are outstanding from previous years’ budget recommendations:
- Asset management plan for the city’s highways
- Review of subsidised bus services

Financial Implications

4.1 This report is exclusively concerned with financial issues. Section 106 of the Local Government Finance Act, 1992, applies to this report in respect of members with arrears of council tax.

5. **Legal Implications** (Peter Nicholls, Head of Legal Services)

5.1 The Council is required to set the council tax applicable for any financial year before 11 March in the preceding financial year.

5.2 Other legal implications are covered in the report:

(a) Adequacy of reserves, as required by the Local Government Act, 2003 (paragraph 8 of the supporting information);

(b) The Secretary of State's power to cap the budget (paragraph 12);

(c) Obligations under the Race Relations (Amendment) Act, 2000 (paragraph 15);

(d) Prudential borrowing, under the Local Government Act, 2003 (paragraph 16).

5.3 There is a need to comply with statutory requirements to consult trade unions/staff regarding any proposed changes to staffing levels and conditions of service. Consultation is also a requirement of current terms and conditions of service;

5.4 There must be meaningful consultation with any outside organisations affected by any proposed cuts included in the budget process.

6. **Other Implications**

6.1 These are included in the supporting information.

7. **Decision Status**

Key Decision	Yes
Reason	Part of policy and budget framework
Appeared in Forward Plan	Yes
Executive or Council Decision	Council

8. **Officer to Contact**

Mark Noble
Chief Financial Officer
16 January 2007

CABINET	**19 FEBRUARY 2007**
COUNCIL	**21 FEBRUARY 2007**

GENERAL FUND REVENUE BUDGET STRATEGY 2007/08 TO 2009/10

Report of the Chief Finance Officer

SUPPORTING INFORMATION

SUPPORTING INFORMATION

1. Background and Process

1.1 This report presents the Council's budget strategy for 2007/08 to 2009/10, which has been prepared in consultation with the Liberal Democrat/Conservative led administration. It is the eleventh budget since unitary status, and the last of the present electoral cycle.

1.2 The Council has an established medium-term planning system for the preparation of its budget. This has the following features:

(a) The preparation of an overall corporate budget strategy, flowing from the corporate plan, identifying key budget priorities and policies;

(b) The setting of a framework, within which directors are asked to prepare departmental revenue strategies. Departmental revenue strategies are substantial documents which identify all key financial issues affecting departments; and propose 3 year budget plans, which address the requirements of the corporate budget strategy and departments' own priorities within the resources available.

1.3 Both the corporate budget strategy and departmental revenue strategies adopt a 3 year time frame.

1.4 The corporate budget strategy is attached as Appendix 1 for members' approval. It is based upon the corporate budget strategy approved by the Council in 2004. The policies within it have been reviewed each year but material adjustments were only made in 2006/07. These adjustments reflected:

(a) A substantial emphasis on the achievement of efficiency savings;

(b) An aim to set taxes at a level which does not exceed inflation.

1.5 Whilst the budget was in preparation, a decision was taken to merge the departments of Adults' and Community Services with the Housing Department. The budget has been prepared on the basis of two pre-existing departments. A single departmental budget will be created during the course of 2007/08.

1.6 Draft departmental revenue strategies have been circulated to Cabinet members separately to this report. They have been prepared with the benefit of the Council's new approach to service planning which has enabled the budget strategies to be informed by service plans. Revenue strategies are now also required to contain efficiency plans, which set out how departments aim to achieve value for money.

1.7 The proposed budget includes the following:

(a) A council tax increase below the current rate of inflation (whichever of the three common measures are used);

(b) Substantial proposed efficiency savings;

(c) Maintenance of the enhanced level of environmental spending first agreed in 2004/05, which is a corporate spending priority;

(d) Significant growth in social care budgets, primarily to meet the effect of demographic change and the provision of additional service delivery capacity;

(e) Continuation of the enhanced level of spending on property maintenance first included in 2004/05, and continuation into 2007/08 of additional resources to maintain highways.

2. <u>Budget in Summary</u>

2.1 The table below presents the budget in summary. Only the position for 2007/08 will be formally adopted as the Council's budget for next year. Future years' figures are estimates and will change, potentially substantially:

	2007/08 £m	**2008/09** £m	**2009/10** £m
<u>Expenditure</u>			
Total of draft departmental revenue strategies	212.9	208.0	207.4
Other departmental budgets	3.5	3.5	3.5
Capital financing	19.5	21.7	23.5
Corporate budgets	(0.8)	(0.6)	(0.6)
Job evaluation	3.1	3.2	3.2
Building Schools for the Future	4.5	6.0	6.3
Business Improvement Programme Savings	(2.6)	(4.3)	(4.3)
Future Year Changes:			
- Inflation		6.0	12.2
- Planning requirement		1.5	2.5
- Pensions		1.3	1.3
TOTAL EXPENDITURE	240.1	246.3	255.1
<u>Resources</u>			
Government Grant	157.3	161.2	165.2
Council Tax	81.3	83.7	86.2
Collection fund surplus	1.5		
	240.1	244.9	251.5
Band D Tax in 2007/08	£1,061.21		
Tax increase in 2007/08 and then assumed	2.6%	3.0%	3.0%
Gap in future years		1.3	3.6

2.2 Key items of expenditure are discussed further in paragraph 4 below.

3. Police and Fire Authority

3.1 The tax levied by the City Council constitutes only part of the tax Leicester citizens have to pay (albeit the major part). Separate taxes are raised by the Police Authority and the Fire Authority. These are added to the Council's tax, to constitute the total tax charged. In recent years, the taxes set by these bodies have increased by more than that of the City Council, sometimes substantially more:

	City Council % Increase	Police % Increase	Fire % Increase
02/03	5.3	26.1	
03/04	5.3	10.0	
04/05	8.7	14.6	*12.5
05/06	2.5	4.9	4.9
06/07	2.6	5.0	4.9

*Notional figure on creation of the fire authority

3.2 The total tax bill in 2006/07 for a band D property was as follows:

	£
City Council Police Fire	1,033.91 132.33 45.23
Total tax	1,211.47

3.3 The actual amounts people are paying in 2006/07, however, depends upon the valuation band their property is in and their entitlement to any discounts, exemptions or benefit. 80% of properties in the City are in band A or band B.

3.4 The City's proposed band D tax for 2007/08 is £1,061.21. The police and fire authorities are due to set their taxes during February. I will advise Cabinet orally of the taxes set, at your meeting.

4. Expenditure Proposals

4.1 The purpose of this section of the report is to briefly describe the expenditure proposals in the budget and how it has been built up. Appendix 2 to this report shows a precise analysis of how the Council's expenditure has changed between 2006/07 and 2007/08.

Technical and Inflationary Changes

4.2 The starting position is the budget for 2006/07, which has been updated for:

(a) Pay inflation of 2.5%;
(b) Inflation on other costs and income of 2.25%;

(c) Changes in the rates of landfill tax and national insurance contributions.

4.3 The effect of the above was reported to Cabinet in October 2006.

4.4 The budget has also been adjusted for the following, which are technical changes rather than policy decisions:

(a) The impact of the 2006/07 budget, insofar as this included growth and savings in 2007/08 over and above the effect in 2006/07. This can happen either because decisions made were not due to come into effect until 2007, or because the financial impact of a decision which has already taken effect is greater in a full year than it was in 2006/07. **Members are asked to note that these are itemised in last year's, not this year's, departmental revenue strategies**;

(b) The cost of interest and debt repayment on past years' capital spending and planned spending, offset by interest earned on cash balances;

(c) Removal from the budget of assumed income from the Local Authority Business Growth Incentive Scheme (LABGI). In practice, this income (which is designed to incentivise economic regeneration by allowing authorities to keep part of the proceeds of growth in business rates) has proved impossible to predict. No income was received in 2005/06: this is believed to be due to the effect of demolition and site clearance, the effect of which has so far exceeded new development. Reliable monitoring information in 2006/07 is not available and the future of this scheme beyond 2007/08 is uncertain.

4.4 The net impact of the above technical and inflationary changes has been positive, in that estimates made this year are below those made for the budget strategy approved for 2006/07 to 2008/09. The following are particularly of note:

(a) Estimates of pay awards have been reduced from 3% to 2.5%, 'saving' £1m in 2007/08 rising to £2m in 2008/09. The pay award has not yet been settled, but the change has been made in light of national public sector pay restraint, which is Treasury led;

(b) An increase in interest on our working cash balances has been assumed. These balances have risen inexorably in recent years; they represent funds held by the Council, but also the extent to which council tax income and government grant is received in advance of need to spend. Some £0.5m pa. of additional interest is being earned solely as a result of the change made to schools' funding (the introduction of Dedicated Schools Grant) in 2006/07.

4.5 The above has been used primarily to meet the cost pressures arising in departments, principally Adult and Community Services.

Government Imposed Changes

4.6 Every year, the Government makes changes which:

(a) Provide additional grant support for new functions; and / or

(b) Change the basis on which existing services are funded, reducing general grant and replacing it with grant which can only be used on specific services (or vice versa).

4.7 As a consequence of these changes, adjustments have to be made to the budget.

4.8 The following are included in the budget for 2007/08:

(a) Addition of £87,000 to the budget of Adult and Community Services, to reflect changes in funding for long term clients with preserved rights;

(b) Removal of £88,000 added to Regeneration and Culture's budget in 2006/07 for waste (electrical and electronic equipment), for which grant was received for one year only.

4.9 Members may recall the addition of £2.3m made to the budget of Regeneration and Culture in 2006/07, reflecting additional government funding for concessionary travel (specifically the introduction of a duty to provide free travel for older people after 09.30). Estimates made in 2006/07 of the cost of the change have proved inadequate, and therefore a further £0.6m pa. has been added to the budget for 2007/08.

Business Improvement Programme

4.10 The budget has been adjusted to reflect actual savings now anticipated from the Business Improvement Programme. This is a major programme, designed to improve the cost effectiveness of the Council's administration. Key areas where savings will be made are in the procurement of goods and services, support services, and occupation of properties.

4.11 Substantial work has been done since the Business Improvement Programme was initiated, and business cases for the review of human resources (HR) and ICT have been approved by the Cabinet (together with expected savings). Work has been done to improve procurement, with two areas expected to generate significant savings in 2007/08:

(a) The letting of a new contract for the recruitment of agency staff, which could (based on previous trends) save up to £1.7m pa.;

(b) Savings of £0.3m envisaged from the letting of framework contracts for property maintenance.

4.12 The Business Improvement Programme is expected to generate £2.6m of savings in 2007/08, rising to £4.3m in 2008/09. This can be split between sums which can now be deducted from departmental budgets, sums which will generate savings in corporate budgets, and sums expected in future years which must remain as corporate provision for the time being. The breakdown is as follows:

	2007/08 £000	**2008/09 £000**	**2009/10 £000**
SUMS WHICH CAN BE DEDUCTED FROM DEPARTMENTAL BUDGETS			
Support Services Review			
HR improvement plan	400	1200	1200
ICT improvement plan	600	600	600
Procurement			
Agency contract	1000	1000	1000
Property maintenance contracts	300	300	300
Sub-Total	**2300**	**3100**	**3100**
SUMS WHICH WILL CREATE CORPORATE SAVINGS:			
Disposal of surplus operational properties – interest	270	270	270
SUMS WHICH WILL REMAIN AS CORPORATE PROVISIONS:			
Further property review savings		330	330
Further support services savings		600	600
Total	**2570**	**4300**	**4300**

4.13 The sums which can be deducted from departmental budgets have been set with regard to the improvement plans for the reviews of HR and ICT, requiring a phased introduction of savings for the new HR service; and provide for some savings from the new agency contract to remain with departments. The latter in particular recognises that spending on agency staff is ‘lumpy’, and varies from year to year; by taking less than the amount which might be realised, it mitigates the risk of non-achievement. The position can be reviewed, of course, in 12 months’ time.

4.14 At present, the savings from the Business Improvement Programme are shown as one line in the budget. Substantial detailed work is taking place to allocate the savings to departmental budgets, which will be complete by the start of the year. The recommendations in this report seek authority for the Chief Finance Officer to agree the final allocations. It is noted, however, that savings from property maintenance contracts will be deducted directly from the Central Maintenance Fund budget.

4.15 Further savings from the Business Improvement Programme (not yet costed) are required from 2008/09. It is expected that these will materialise from the review of Creativity Works, and the next phase of the Support Services Review.

4.16 Given the present status of the Business Improvement Programme, these savings have risk attached to them, which is discussed further in the risk assessment at paragraph 10.

Effect of Capital Programme

4.17 Approval to the budget is being sought in advance of the capital programme which the Council will be asked to approve in March, although a 3 year capital programme has already been approved for 2005/06 to 2007/08. Decisions taken in respect of the revenue budget reflect the 3 year capital programme:

(a) The revenue budget needs to provide for the running costs of any new capital schemes, although major schemes will not have a material revenue impact until after 2007/08;

(b) Capital spending can be met by borrowing money, government grants, the proceeds of asset sales, or revenue contributions. The budget includes provision for the costs of borrowing approved in the 3 year capital programme (as amended) together with estimated sums for further borrowing supported by Government grant.

4.18 Provision has also been made for the costs of borrowing for a Digital Media Centre (£0.3m pa. from 2008/09). This is not part of the approved capital programme, but will be the subject of a separate report to Cabinet and Council. If a scheme is not approved and added to the capital programme, this provision can be deleted when next year's budget is prepared.

4.19 The position with regard to Building Schools for the Future is complex, and is described more fully in paragraph 6.

Growth and Reductions

4.20 Finally, the budget has been adjusted for proposed growth and reductions. These are fully described in the departmental revenue strategies, which have been circulated separately to this report.

5. Resources

5.1 This section of the report describes resources available to pay for the budget.

Government Grant

5.2 The biggest source of funding for the Council is government grant. This provides some 2/3 of the money needed to fund the net budget, with only 1/3 provided from council tax (consequently a 1% increase in spending results in a 3% increase in council tax – the “gearing effect”). The transfer of funding for schools out of the main grant system last year has reduced the proportion of our net budget which is funded by general government grant, but not our overall dependence on government support.

5.3 The Council’s grant settlement for 2007/08 is £157.3m, an increase of 3.7% on 2006/07.

5.4 The system of funding of local government changed significantly in 2006/07. However, at its heart remains a formula which assesses each authority’s assumed need to spend, and compares this with the amount of council tax income which would be received if a national standard council tax was levied. The formula then calculates the amount of grant which would be required to meet the assessed level of need. This system is known as “equalisation”, ie every authority is entitled to a level of grant which enables it to provide a “standard” level of service (the standard itself reflecting different levels of need in different areas). Less affluent authorities consequently receive a higher grant entitlement than more prosperous authorities.

5.5 The Government has, however, made what may prove to be a major step away from this principle by their use of damping. Because the formula changed substantially in 2006/07, the results of applying it would have produced major swings in entitlement up and down the country.

5.6 Gains and loses have therefore been ‘damped’, with all authorities guaranteed a minimum percentage increase paid for at the expense of authorities who would have gained from the formula changes (“scaling”). Such is the scale of damping that it will be a very long time before authorities approach their formula based entitlement, by which time it may well have changed in a subsequent formula review. The Council, who gained under the 2006/07 formula changes, has lost £4.8m to damping in 2007/08.

5.7 The Council made representations to the Government about the proposed 2007/08 settlement. These representations concerned the use of out of date population figures, which have cost the Council an estimated £1.5m in grant in 2007/08 (after scaling). No changes to the proposed settlement were made, however, and the Government confirmed the figures it pre-announced in November 2005.

5.8 We do not know how much grant we are likely to get in 2008/09, and for the time being have assumed a 2.5% grant increase in each of 2008/09 and 2009/10:

(a) There are no national figures for grant funding in 2008/09, and these will not be available until the conclusion of the next Comprehensive Spending Review in the Summer. I anticipate that increases in spending for local authorities will be smaller than has been the case in previous years;

(b) There may be substantial change in the system for allocating resources to local authorities, and to the sources of finance available to local authorities. The Lyons' Review will be reporting on the role and function of local government in time to shape the next Comprehensive Spending Review, and new sources of income to local authorities may be discussed. The Lyons' Review is expected to report in March 2007;

(c) There is no guarantee that the system for allocating grant to local government in 2008/09 will mirror present arrangements, and I particularly envisage a diminishing role for the formula;

(d) There is the outstanding question of council tax revaluation, which was supposed to have taken place in 2007/08 and was postponed.

5.9 It is conceivable that the government will make the leap from a formula based grant system (which is what we presently have in theory, although less so in practice) to a system based on historic grant with a percentage uplift (which is what damping is indirectly starting to deliver). For an authority with high needs like Leicester, this is likely to have an adverse impact, and would be regrettable.

5.10 The next grant settlement is expected to cover three years (2008/09 to 2010/11). We will start to get more clarity in the Summer when the Comprehensive Spending Review is published.

Council Tax

5.11 The other resources available to fund the net budget are:

(a) Council tax income. The budget proposals in this report would mean a tax increase of 2.6%, and tax income of £81.3m in 2007/08;

(b) A surplus of £1.5m in 2007/08, arising from previous years' council tax collection performance. This surplus was reported to the Cabinet on 15 January.

5.12 Council tax resources include the effect of recent changes made to the policy for granting discounts on empty property.

6. Building Schools for the Future

6.1 Building Schools for the Future is a substantial programme of investment in secondary schools, partly funded by conventional finance and partly by PFI.

6.2 The Council is in wave one of BSF, and is presently negotiating with a preferred supplier. The Council's total scheme, if approved by members, will result in over £200m of investment in the city's secondary schools.

6.3 The treatment of Building Schools for the Future in the budget is complex, caused largely by the way the Government has provided funding.

6.4 The biggest element of cost in the budget is the servicing of debt, which should be entirely met by the Government (assuming the scheme does not exceed the total cost approved). The Government has, however, provided support for the costs of conventional borrowing (ie non-PFI) in advance of concluding a deal and in advance of need. Indeed, such support has been given since 2005/06. Thus, support provided has to be ringfenced until such time as we do need it.

6.5 Furthermore, funding for BSF has been affected by the damping rules, and has been reduced (effectively, money for BSF has been given to other authorities who would otherwise have had less than the guaranteed minimum increase in grant). The Government has recognised the problem this creates, and has promised additional funding to ensure costs can be met. This is expected to take the form of capital grant.

6.6 Provision has also been made in the budget for:

(a) The costs of a Council client team, to work with the Local Education Partnership on the development and delivery of BSF. These funds are being retained corporately, and will be returned to corporate resources should BSF not proceed;

(b) A provision in 2008/09 (the first year new schools will be operational) for the Council's agreed contribution to the affordability gap. The remainder is being met directly by schools.

6.7 Both the above provisions will be reviewed prior to concluding contracts for phase one.

7. <u>Joint Financial Plans</u>

7.1 The City Council operates in partnership with a number of other organisations in providing local services to the public which meet both nationally and locally determined priorities and targets.

7.2 Principal amongst these is the Local Area Agreement which was signed in March 2006 and covers a three year period from 1st April 2006 to 31st March 2009. The agreement identifies the government funding streams that will be used to deliver improved outcomes for local people, and should result in a reduction in the bureaucracy associated with managing these funding streams. The LAA delivery vehicle is the Leicester Partnership.

7.3 For 2007-08 the LAA pooled funding is split between the four LAA blocks on the following basis:

(a) Children & Young People – £19.75m;

(b) Safer & Stronger Communities – £9.5m;

(c) Healthier Communities & Older People – £1m;

(d) Economic Development & Enterprise – £1m.

7.4 These figures are based on the "annual refresh" submission which at the time of writing has yet to be agreed by Government Office.

7.5 Once the submission is agreed, the Leicester Partnership will determine how the money will be allocated amongst partners to ensure delivery of the targeted outcomes.

7.6 In the Local Government White Paper published in October 2006, there is a strong presumption of greater levels of funding channelled through the LAA in future years. The City Council is currently working to ensure that the infrastructure and processes to manage this are in place.

7.7 In addition to the LAA there are several other joint financing arrangements which the City is engaged in. These are more fully described in departmental revenue strategies, but the key ones are:

(a) Lead commissioning arrangements for learning disabilities, under which some £8m has been pooled under S.31 of the Health Flexibilities Act, 1999 (LCC contribution £1.9m); and a further £20m is not yet pooled;

(b) A shadow pooled budget of £27m for adult mental health (LCC contribution of £3.5m);

(c) A range of arrangements for joint care with other partners (combined budgets of £8.7m);

(d) The Leicester Single Non-Emergency Number Partnership, which has an operational budget of £3.2m (Home Office funded).

8. General Reserves

8.1 It is essential that the Council has a minimum working balance of reserves in order to be able to deal with the unexpected. This might include:

(a) An unforeseen overspend;

(b) A contractual claim;

(c) An uninsured loss.

8.2 The Council also holds a number of earmarked reserves, which are further described in paragraph 9 below.

8.3 The Council's policy for a considerable number of years has been to maintain general reserves at a level which does not sink below £5m. However, last year the Council accepted my recommendation to increase reserve holdings to £7m by 2008/09.

8.4 I have provided an overall assessment of the risks in this budget in paragraph 10 below. The key risks which I believe impact upon the Council's need for reserve holdings are the significant capital projects (particularly Building Schools for the Future) which the Council is embarking upon over the next few years, where unforeseen overspendings could greatly reduce the Council's holding of reserves; the overall programme of change which the Council is embarking upon; and the volatility associated with a major review of pay and grading across the whole authority. These risks are, however, mitigated by routine budget management (the Council has a good track record of avoiding overspendings) and enforcement of project management disciplines.

8.5 I am therefore of the view that the strategy to increase reserves to £7m by 2008/09 remains appropriate.

8.6 The Council is presently negotiating with the trade unions to settle liabilities the Council might have in respect of 'equal pay'. Large numbers of authorities have been faced with claims from predominantly female groups of staff that they been underpaid compared with comparable groups of predominantly male staff. In order to substantiate such claims (which are effectively for sex discrimination), it is necessary for such groups of employees to demonstrate that there is no objective or market related reason for such differentials. The Council is presently seeking to settle such claims without admission of liability. Negotiations are progressing and any settlement would be funded from a combination of one-off monies (including reserves). We are seeking to deal with this issue outside of the budget strategy. The precise level of reserves at the end of 2007/08 will depend on progress made.

8.7 No reserves are used in the proposed budget for 2007/08.

8.8 The Council's proposed treasury management strategy (Appendix 8) reflects the recommended minimum working balance of reserves.

9. <u>Earmarked Reserves</u>

9.1 Appendix 3 shows the Council's earmarked reserves as they stood on 31 March 2006. Whilst these consist of revenue money, under the Council's finance procedure rules they are set-aside for specific purposes: it is not regarded as good practice to use these reserves to fund the generality of Council expenditure (not only would this be just a one-off contribution, it would provide perverse incentives to departments to try to spend up any monies they have before the end of each financial year). Furthermore, of the Council's total earmarked reserves, the following can (by law) only be spent on specific restricted purposes:

(a) Schools' balances;

(b) Other funds in the schools' block;

(c) "Supporting people" monies;

(d) On-street parking monies.

9.2 Of the remainder of the earmarked reserves, the most critical for monitoring purposes is the insurance fund, which is set up to meet claims against the Council for which we act as our own insurer.

9.3 Earmarked reserves include a balance of £3m, being monies accumulated by the former Education Department. This now needs to be split between the Children and Young People's Department and the Adults' and Housing Department which have inherited the functions of the Education Department. An element of the balance will be used to fund the transitional costs of the adult learning reconfiguration (see paragraph 10 below).

9.4 Earmarked reserves may already be contractually committed for some purpose, and it is noted that Council has taken a decision to use the Payback Fund to support the Performing Arts Centre; and proposals to use the fund for rating appeals are included in the draft budget.

10. Risk Assessment and Adequacy of Estimates

10.1 Best practice requires me to identify any risks associated with the budget; and the Local Government Act 2003 requires me to report on the adequacy of reserves (which I refer to at paragraph 8 above) and the robustness of estimates (which is included in this risk assessment).

10.2 In my view, each of the departmental budgets in 2007/08 is achievable, and this is also the view of the respective corporate directors. Inevitably, some individual reduction proposals will not achieve the full expected savings, and issues will surface during the course of the year which will unexpectedly cost money. However, the flexibility given to directors to manage within their overall "bottom line" should prevent an overspending by any department.

Key Risks

10.3 The two most substantial areas of risk in the budget are, in my view:

- The achievement of assumed efficiency savings;
- Issues associated with the pay and grading of staff.

10.4 As stated above, the Business Improvement Programme is expected to deliver £2.6m of savings in 2007/08, and more in 2008/09. As the actions from which these savings will arise are not fully implemented, there is real risk that they will not be achieved to the extent envisaged (particularly in 2007/08). However:

(a) In respect of the reviews of ICT and HR, business cases for a restructured service were approved several months ago, and implementation is now well underway. In practice, most of the savings will be achieved from newly centralised arrangements, and work is taking place to put together consolidated budgets for the two services which will be under the control of the relevant service heads. They will then be responsible for building new structures within the resources available. Technically, the most difficult area to budget for in this way is ICT, where actual spending (on which savings will be based) has consistently exceeded budget. That said, the ICT review is expected to be complete by 1 April. The HR review will take longer to implement (this is reflected in the phasing of the savings built into the budget);

(b) In respect of savings from the use of agency staff, new contractual arrangements will result in greatly reduced commissions compared with what the Council has previously being paying. These can (and have) been extrapolated to demonstrate savings which **would have** been achieved had the new arrangements been in place in earlier years. Costs of employing staff from agencies are, however, largely unbudgeted by nature, increasing the difficulty of demonstrating achievable budget savings. This has been mitigated by seeking to deduct from budgets a figure lower than would have been achieved in each of the last three years. The agency contract has been let; implementation of the new arrangements will be complete by 1 April, when existing agency contracts will be transferred to the new arrangements.

10.5 The more substantial risk in respect of the Business Improvement Programme is the achievement of savings from framework contracts for property maintenance, although the amount (£0.3m) is low. The risk is higher as contracts have not yet been let. Any shortfall in 2007/08 will fall to the Central Maintenance Fund.

10.6 Other efficiency savings are included in departmental revenue strategies. The risk of non-achievement of these has reduced since they were first included in the three year revenue strategy for 2006/07 to 2008/09, as the restructuring in Regeneration and Culture is now largely complete. The big remaining area of risk is the expectation of £1m of savings from management and commissioning in the new departments of Adults' and Children's Services, which will not be fully achieved in 2007/08 as envisaged last year (the new budget reflects this). Considerable work still needs to be done to achieve these savings.

10.7 The second key risk relates to pay and grading issues. There are two aspects:

(a) Estimates of the cost of the new job evaluation scheme, for which £3.1m has been included in the budget. The scheme is likely to be implemented in 2007/08, and at present detailed cost models for the new scheme are not available. Given the scale of the issue, this must remain a key risk until concluded;

(b) Negotiations in respect of any historic equal pay liability, discussed at paragraph 8.6 above. The scale of such settlements nationally is huge, with some authorities paying tens of millions of pounds, and we hope to be able to achieve a negotiated settlement. If settlement cannot be reached with the trade unions for an affordable amount, it is bound to have an effect on the Council's budget, either in future years or requiring a review in the course of 2007/08.

<u>Other Risks</u>

10.8 A risk exists that the inflation provision (2.5% for pay, 2.25% for price) will prove inadequate, given that current inflation exceeds this. Rates for the year from December 2005 to December 2006 are variously 3.0% (the Consumer Prices Index) to 4.4% (the Retail Price Index). In respect of price inflation, however, it must be noted that we are providing for cost increases in the **next** 12 months, not the previous 12 which were covered in the last budget. The actual price inflation included in budgets for 2006/07 was in fact over 3%, after allowing for an additional £2m provision made for energy costs. Present inflation levels will, however, create some pressure points (e.g. for Social Care contracts which are often make provision for cost increases using inflation measured with RPIX). Recent rates of inflation will, however, make pay negotiations more difficult and there is therefore increased risk that the award will exceed projections. Our practice is to require departments to absorb any variations between estimates made and actual pay awards in the course of the year, but to adjust in the subsequent budgeting round. The risk is mitigated by the fact that recent inflationary increases have led to interest rate rises which will have a beneficial impact on the capital financing budget, if sustained.

10.9 The table below shows the sensitivity of the Council's budget to the inflation assumptions made:

Assumption	Impact
0.1% on pay	£0.2m
0.1% on prices	£0.2m
0.1% on income	£0.1m

10.10 The budget of the Adult and Community Services Department is volatile, and I report social care costs as a risk in every budget. Pressures on such budgets have been experienced by authorities nationally, and many authorities routinely overspend their budgets in this area. Particular areas of pressure are demand for community care services by older people, and growth in the costs of the learning disabilities service arising from medical advances. Whilst the budget of the department does not pose the risk it did earlier this decade, I believe it is becoming more volatile again, and will require careful management.

10.11 Within the budget of the Adult and Community Services Department is the adult learning service. This service is wholly funded by the Learning and Skills Council, and is currently being reconfigured to reduce costs. Transitional costs arising from this exercise are being met by earmarked reserves, and are estimated to be in the region of £1m (this includes costs arising because the service is temporarily more extensive than the LSC funding permits). The service is subject to further change, with potential reductions in funding for the 2007/08 academic year and changing LSC expectations on the curriculum. The budget of this service has to be regarded as an item of risk given this volatility.

10.12 Other risks include:

(a) The budget of the Children and Young People's Department, where changes are being made to substantially improve the culture of effective financial management. I do not believe the budget of the department poses the same degree of risk as I reported last year, but it still needs careful management;

(b) The final cost of the acquisitions / work required to meet the Council's city centre accommodation needs – whilst money has been set aside since 2004/05 to pay for the borrowing required to meet the cost of this work, the cost of this scheme is still only provisional and fluid. As the money would be borrowed, the Council's long-term revenue position is not as sensitive to change in the costs of this scheme as it would otherwise have been (i.e. the full cost of any excess will not be met from revenue in one year);

(c) Any additional costs of the Performing Arts Centre, over and above those anticipated when the Council approved the revised funding package in January 2007;

(d) The costs of operational transport, which remain a risk until completion of the passenger transport service improvement plan. Both client departments have included additional provision for growth in usage and cost which has been our experience in every recent year. The budget of Adult and Community Services, however, does include an implied saving of £0.6m through review of commissioning arrangements and other efficiencies in that department, which will be a challenging target to meet.

10.13 Additionally, given the city's attractiveness to international migration, there remains the risk of new arrivals creating unexpected budget pressures: whilst we would expect population growth to be reflected in future years' grant settlements, experience suggests that the national system fails to adequately recognise such developments.

<u>Capital Finance and Interest</u>

10.14 These budgets principally cover:

(a) The cost of interest and repayments on previous years' borrowing for capital investment;

(b) Interest earned on cash balances.

10.15 Of these budgets, interest earned on cash balances is volatile. These balances include reserves, but also income and grants received in advance of need. In recent years, underlying cash balances have increased substantially from an average of about £60m in 2003. I have always budgeted prudently for these balances, on the basis that they will, at some time, start to decline. The budget for 2007/08 assumes balances of £115m (up from an assumed £95m in 2006/07).

10.16 The Council's budget is not very volatile in respect of changes in interest rates, with a 0.1% variation in rates amounting to additional cost / saving of £80,000 in 2007/08 (an increase would result in a saving!). As stated above, recent interest rate increases will (if sustained) benefit this budget and provide some mitigation against the risk of pay awards being higher than planned.

Departmental Estimates

10.17 Corporate directors, supported by their heads of finance, believe that the financial estimates in their departmental revenue strategies are robust (subject to the risks described within them).

11. 2008/09 and 2009/10

11.1 Members are particularly asked to note the outlook for the years following 2007/08. The proposed budget suggests a gap of £1.3m between expenditure and resources in 2007/08, rising to £3.6m in 2009/10. This is based on an assumed 3.0% council tax increase in each of these years. This projection is, however, particularly volatile given the difficulties in projecting national resources discussed earlier in this report.

11.2 In addition to the present gap between spending and budget, decisions will also need to be made on:

(a) The temporarily enhanced level of spending on highways maintenance (£1.3m), which is due to end after 2007/08. Any continuation of this funding will be an additional budget pressure. The Regeneration and Culture Department is preparing an asset management plan looking at the stock and maintenance needs of all the city's highways;

(b) The city wide review of property, which is being undertaken to ensure best use is made of all our premises and that of our partners. In the meantime, additional funding has been included in the 2007/08 budget to maintain community based premises (£0.5m) in their current uses.

11.3 The pressures are mitigated to some extent by the inclusion of planning provisions in the budgets for the next two years, but experience suggests that these provisions will be needed.

11.4 Despite all the difficulties in making projections, I do believe the Council will have further difficult choices to make for 2008/09.

12. Capping

12.1 As members will be aware, the Secretary of State has power to cap the budgets of local authorities where he believes these to be excessive.

12.2 The present capping rules were introduced in 1999, and give a wide range of discretion to the Secretary of State.

12.3 Whilst originally intended as a reserve power, the government changed its policy in 2004/05 when it started to use its powers to deliver low council tax increases. This arose from government concern at high levels of tax increases in 2003/04.

12.4 The government has signalled that it will not hesitate to use its capping powers again in 2007/08, and has stated that it expects average tax increases to be below 5%. In my view, a tax rise slightly below 5% would also be a risk.

12.5 I do not believe a tax rise of 2.6% presents a risk of being capped.

13. Consultation

13.1 Consultation has taken 4 forms:

(a) Public consultation on the corporate budget strategy;

(b) Consultation with scrutiny committees;

(c) Consultation with trade unions;

(d) Consultation with the business community.

Consultation with the Public

13.2 During the Autumn of 2003, the Council undertook a comprehensive exercise to consult the public on the then draft corporate budget strategy. The conclusions of this exercise were reported to the Cabinet in January 2004. The present proposed strategy is an update of that strategy, and a further comprehensive exercise has not therefore been carried out. Further consultation will take place when the strategy is revised in conjunction with the next corporate plan. The strategy has however been made available to the public through the internet and comments were invited, although none have been received at the time of writing this report.

13.3 Two meetings of volunteers from the Citizens' Panel took place in late 2005/06, to consider and advise on options open to the Council when setting its budget.

13.4 Representation was somewhat disappointing in that only 7 panel members attended. Nonetheless the exercise was useful, and panel members expressed the view that sessions such as these increase their understanding of the decisions the Council has to take, and enable them to provide better informed views. Nonetheless, it is not possible to say their views are statistically significant given the numbers involved.

13.5 The groups focussed on what they considered to be priority services, and priorities for additional funding.

13.6 The key priority of the groups was parks and open spaces, together with general environmental services. They felt that Leicester performed better in these areas than other cities, but that this area of service should be kept in mind at all times.

13.7 As the budget for 2007/08 is strongly based on that of last year, further consultation of this nature has not taken place.

<u>Consultation with Scrutiny</u>

13.8 The draft budget proposals have been considered by scrutiny committees, at meetings in January and February. The minutes are attached at Appendix 4.

13.9 Members are asked to note that departmental proposals have been amended since consideration by scrutiny committees. The differences are:

(a) Inclusion of an additional £0.2m of income in the Resources Department, following review of resources set aside to challenge rating valuations. This income arises in 2007/08 only;

(b) Addition of £0.1m per annum to the budget of Regeneration and Culture, to implement the climate change action plan;

(c) Two one-off additions of £50,000 to the budget of Regeneration and Culture, one to improve parks and green spaces (enabling us to continue the Council's entry to the 'Britain in Bloom' competition); and one to extend the operational hours of the noise enforcement team, on a pilot basis.

<u>Consultation with Trade Unions</u>

13.10 Formal responses from the trade unions will be circulated under separate cover.

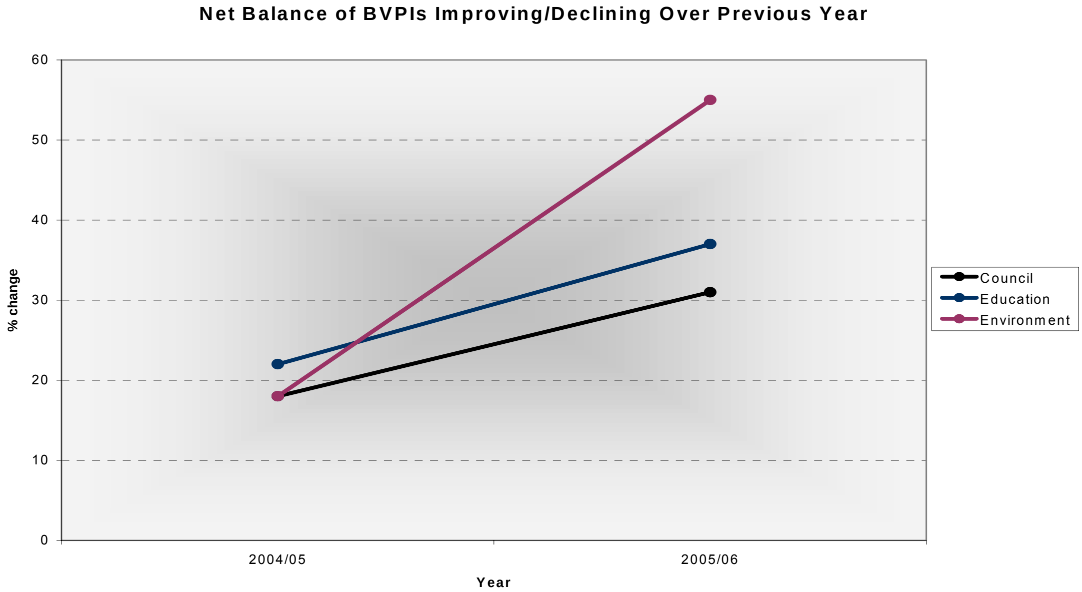
Consultation with Business Community

13.11 Representatives from the business community were advised of proposals reflected in the draft departmental revenue strategies. No comments have been received at the time of writing this report.

14. Corporate Performance Impact and Value for Money

14.1 Previous budgets have seen resources directed to the key corporate priorities of the Council, namely education and the environment, and this is having a positive impact upon those service areas. These improvements are reflected in the council's Comprehensive Performance Assessment (CPA) ratings, with the Children & Young People's service block maintaining a score of 3. The Environment score moved upwards from a 2 to a 3 last year (CPA 2005) and a score of 3 is predicted for CPA 2006 (results due late February 2007). Based on current performance trends, the Environment block may increase its score to 4 (the top score) for CPA 2007.

14.2 Despite the improvements in education and environment it is anticipated that we may lose our four star status in CPA 2006 and become a three star authority due to a drop in the Benefits score. The chart and table below illustrate the overall improvement picture in terms of the BVPIs.



Environment	Improved	Modest Improvement/decline	Declined	Net Balance
2004/05	49%	20%	31%	18%
2005/06	67%	21%	12%	55%
Education	**Improved**	**Modest Improvement/decline**	Declined	Net Balance
2004/05	43%	36%	21%	22%
2005/06	56%	25%	19%	37%
Council	**Improved**	**Modest Improvement/decline**	Declined	Net Balance
2004/05	43%	31%	25%	18%
2005/06	52%	26%	21%	31%

14.3 By analysing the proportion of annual Best Value Performance Indicators (BVPIs) that are improving against those that are deteriorating, we can see that not only has improvement increased as a whole for the council, performance in the two strategic priority areas has accelerated at a greater rate.

14.4 Each departmental revenue strategy is now required to contain an efficiency plan, prepared with the benefit of national comparative spending information. This is a recent development, designed to enable the authority to better coordinate its approach to the "Gershon" efficiency agenda. This approach is being further developed, and will lead to the production of a corporate efficiency plan.

15. Budget and Race Equalities

15.1 The Council has a national track record for its efforts to promote race equality and community cohesion, and has been accredited at level 3 of the "generic equalities standard", which requires us to assess the impact of key policies on race, gender and disability.

15.2 The Council has legal responsibilities in respect of race equality, which it needs to comply with when setting its budget. These are included in the Race Relations (Amendment) Act 2000. It is unlawful for the Council, in carrying out any of its functions, to do any act which constitutes discrimination. In carrying out its functions, the Council shall have due regard to the need:

(a) To eliminate unlawful discrimination; and

(b) To promote equality of opportunity and good relations between persons of different racial groups.

15.3 Each corporate director has considered the impact of his/her budget on the Council's obligations under the Act, and the results are included in the relevant departmental revenue strategy. No significant adverse impact has been identified for any specific racial group at this point in time, with the possible exception of certain savings in the Housing Department.

16. Prudential Borrowing

16.1 Local authority capital expenditure is based on a system of self-regulation, based upon a code of practice (the "prudential code").

16.2 The Council complies with the code of practice, which requires us to agree a set of indicators that demonstrate that borrowing is affordable, sustainable and prudent. To comply with the code, the Council must approve the indicators at the same time as it agrees the budget.

16.3 The code recommends a number of national indicators, which all authorities must set. The Council has also identified specific local indicators, which monitor the effect of borrowing which is not supported by government grant.

16.4 Indicators relating to the Housing Revenue Account were agreed by the Council on 25 January as part of the HRA budget report.

16.5 The proposed budget includes corporate provision for the costs of prudential borrowing in respect of city centre accommodation, city centre improvements and the Performing Arts Centre. These provisions are not new – they were first included in the budget in 2004/05 and 2005/06, although provision for the Performing Arts Centre has been increased to reflect the funding package agreed by the Council on 25 January. Other prudential borrowing, principally “spend to save” expenditure, has been approved over the course of the last 3 years and is reflected in departmental budgets. The proposed budget also includes (from 2008/09) provision for the costs of a new digital media centre, but this remains subject to Council approval and is not therefore reflected in the indicators.

16.6 Attached at Appendix 5 are the prudential indicators which would result from the proposed budget, and which show that the proposed additional borrowing is prudent, affordable and sustainable. The borrowing is, furthermore, consistent with the Council’s capital strategy. Ultimately, however, any prudential borrowing does represent future cost and members need to be satisfied that the rationale for it is justified.

16.7 The following table shows the overall prudential borrowing of the Council as a percentage of turnover. I believe this to be a better measure of indebtedness than the prescribed prudential indicators which include debt supported by government grant (this is of no real consequence, at least prior to the latest changes in the government grant system and the effect of damping):

	Outstanding Debt £m	Approximate Turnover £m	Debt as % of Turnover %
General Fund			
2007/08	43.52	693	6.3
2008/09	57.57	711	8.1
2009/10	66.42	737	9.0
HRA			
2007/08	23.82	66	36.1
2008/09	23.79	69	34.5
2009/10	23.73	71	33.4

16.8 This borrowing results in costs to the general fund and Housing Revenue Account as follows:

	General Fund £m	HRA £m
2007/08	4.6	2.1
2008/09	6.6	2.2
2009/10	7.8	2.2

16.9 The greater overall exposure of the Housing Revenue Account has been made possible mainly as a result of recent improvements in housing subsidy funding.

17 Procedural Matters

17.1 When the Council approves the budget for 200708 it needs to make various statutory calculations. These include:

(a) The total budget;

(b) The tax arising from the budget for each of the 8 council tax valuation bands;

(c) The total tax for each valuation band, including tax charged by the police and fire authorities.

17.2 Following the decisions of Cabinet at your meeting, I will prepare the appropriate resolution for Council.

17.3 Finance procedure rules give certain discretions to Cabinet to authorise limits and powers in the management of budgets. An updated "schedule of determinations" is attached at Appendix 6 for your approval.

17.4 The Council's budget is divided into departmental budgets, for which corporate directors are responsible. Finance procedure rules place requirements on corporate directors to ensure their overall budget does not overspend; this duty is supported by a flexible scheme of virement.

17.5 For the purposes of virement, each department's budget is split into "controllable budget lines". Corporate directors are permitted to redirect resources within controllable budget lines, provided any such redirection does not conflict with Council policy, in order to manage their budget. Movement of monies between controllable budget lines is treated as virement, and directors' discretion to act without Cabinet (or, as the case may be, Council), approval is more limited. Controllable budget lines are now defined by the Council, and the Cabinet is asked to recommend the sub-divisions of the budget shown at Appendix 7 (which essentially divide the budget to divisional level of service).

17.6 The Council is also required, as part of setting the budget, to determine the level of discretion given to Cabinet to make in-year changes. In previous years, the Cabinet has had delegated authority to move sums of up to £1m, although this has recently been reduced by the Council. In framing the recommendations to this report, I have assumed the Cabinet will wish to ask Council to restore the traditional levels of flexibility.

18. Treasury Strategy

18.1 Best practice requires a treasury and investment strategy to be approved by Council prior to the start of the year. The treasury strategy is integral to the budget strategy.

18.2 Treasury management is the process by which the Council's borrowing and investments are managed. It should be noted that, as decisions on borrowing individual sums have to be taken very quickly, these are delegated to officers within a framework in the treasury policy that has been approved by the Council.

18.3 The proposed treasury strategy is attached as Appendix 8 and is consistent with the budget. The investment strategy is attached at Appendix 9.

18.4 In summary, the strategy envisages the following:

(a) Existing long-term loans are sufficient to meet the Council's borrowing requirement for 2007/08 and 2008/09. This is partly because of decisions we took to borrow when rates were cheapest at the end of 2005/06, and partly because the amount required has reduced (the Government is now funding a much greater proportion of our capital spending from grant). No further borrowing is proposed unless low interest rates make it attractive to pre-fund part or all of the 2009/10 borrowing requirement;

(b) The cash raised from these loans will continue to be invested and drawn down to meet capital expenditure during 2007/08 and 2008/09;

(c) We will look for beneficial opportunities to repay our existing debt, either with our investments or cheaper new loans

18.5 The investment strategy is principally concerned with the security of Council investments.

19. Financial and Legal Implications

19.1 These are included in the cover report.

20. Other Implications

Other Implications	Yes/No	Paragraph References within Supporting Papers
Equal Opportunities	Yes	These are dealt with in departmental revenue strategies. The Council's obligations under the Race Relations (Amendment) Act are dealt with in para 15 above.
Policy	Yes	The budget is part of the Council's overall budget and policy framework, and makes a substantial contribution to the delivery of Council policy.
Sustainable and Environmental	Yes	Any specific environmental implications are drawn out in the departmental revenue strategies.
Crime & Disorder	Yes	Any specific implications are drawn out in the departmental revenue strategies.
Human Rights Act	Yes	There are human rights implications because of our obligations under the Race Relations (Amendment) Act – see para 15.
Elderly People/People on Low Income	Yes	Consultation responses in 2004 indicated that the elderly are the group most particularly concerned about high council tax increases. Elderly people will be entitled to free bus travel after 9.30 am across the whole county from 2007/08, if the budget is approved. A national scheme to provide free travel across the country or regionally is expected from 2008, but details are not yet available, and this is not yet reflected in the budget strategy.

21. Background Papers

21.1 Base Budget Preparation – report to Cabinet on 30 October 2006.
Council Tax – Taxbase report to Council on 25 January 2007.
Collection Fund Surpluses – report to Cabinet on 15 January 2007.
Local Discount for Furnished by Unoccupied Properties – report to Council on 25 January 2007.

22. Report Author/Officer to Contact

Mark Noble
Chief Financial Officer
16 January 2007

Revenue Budget Strategy 2007/08 to 2009/10

1. Introduction

1.1 The Council's revenue budget strategy is one of 4 resource strategies which support the Council's key policy aims and objectives. It sets out the Council's over-riding financial policies for the next 3 years within which departmental medium-term planning and the Council's annual budget setting will operate. It is revised on an annual basis.

1.2 A separate capital strategy was approved in November 2004, which sets out the Council's priorities for capital investment and formed the basis of the capital programme for 2005/06 to 2007/08.

1.3 The strategy for 2007/08 to 2009/10 is set in a context of national spending restraint, which will require savings to be made in order to achieve local priorities within a balanced budget. The delivery of efficiencies is an integral part of this strategy, but the Council is facing the expectation of tight Government grant settlements in 2008/09 and 2009/10.

1.4 This strategy will be revised for the period 2008/09 to 2010/11, in conjunction with the preparation of the new corporate plan and the new capital strategy. This revision will also take into account any changes in the system of local government finance emanating from the Lyons' Review and the Comprehensive Spending Review.

2. Key Aim

2.1 The Council's key aim is to make Leicester a more attractive place in which people can live, work and invest. The Council believes this is best achieved by concentrating its financial resources on core local authority services to the citizens of Leicester, with no pre-conceived view as to the best means of providing such services.

3. Resources

3.1 The table below shows an estimate of government grant payable to Leicester over the next 3 years in support of our general expenditure:

	Grant £m	% increase
2007/08	157.3	3.7%
2008/09	161.2	2.5%
2009/10	165.2	2.5%

3.2 The table above reflects published figures for 2007/08, and assumptions for 2008/09 and 2009/10.

3.3 Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's budget requirement (⅔). The only source of local taxation available to the City is council tax, which makes up the other ⅓. Because of these ratios, the Council is subject to a "gearing effect" whereby relatively small percentage changes in grant or spending need can result in much greater increases in council tax (a 1% spending increase without any additional Government support would result in a 3% increase in council tax). Changes in schools' funding in 2006/07 reduced the proportion of grant funding, but not, of course, the yield from a 1% increase in council tax (£0.8m).

3.4 The Government has powers to cap the budget of any local authority which it believes is spending excessively. Since 2004/05, these powers have been used to put pressure on local authorities to set moderate tax increases. The Government expects tax rises in 2007/08 to be less than 5%, and it is anticipated that capping will continue to be an instrument of Government policy in 2008/09 and 2009/10.

4. Risks to the Forecast of Resources

4.1 The above resource forecasts are estimates and will be affected by changes in nationally available funding for local authorities. Assumptions have been made about grant in 2008/09 and 2009/10, but these are volatile. Actual funding will depend upon resources made available through the Government's forthcoming Comprehensive Spending Review and decisions made about the allocation of resources to individual local authorities. None of this is yet certain.

4.2 Accurate forecasting is, of course, more difficult the further ahead it looks.

5. Taxation

5.1 The Council believes that the burden of local taxation on its citizens should be modest, and aims in principle to set council tax increases at levels which do not exceed inflation.

6. Strategic Spending Priorities

6.1 The Council's strategic spending priorities flow from the 2 strategic objectives in the corporate direction, and reflect the extent to which some form of financial commitment is being made to them. The ability to meet these commitments is affected by the present financial constraints.

6.2 The 2 priorities are:

(a) Raising educational standards – the Council's discretion in this area is reducing but it will continue to regard school improvement as a priority, and will make mainstream funding available to complement resources for Building Schools for the Future;

(b) Improving the environment – the Council will maintain the additional resources it has made available (subject to affordability) to improve the cleanliness of the city and its neighbourhoods; and to improve its parks and open spaces.

7. Other Spending Issues

7.1 Supporting vulnerable children and adults is a key priority of the corporate direction, and is a statutory duty. Subject to affordability, it is a priority to ensure that this service area is adequately and fairly resourced.

7.2 The Council will address the need to maintain our heritage, buildings, and infrastructure (including roads), and not permit these to become a drain on future generations of taxpayers.

7.3 Improving the efficiency of council services is a key element of the Council's budget strategy for the next 3 years. This business improvement programme is designed to:

(a) Improve the Council's focus on the customer;

(b) Improve business efficiency;

(c) Deliver substantial savings, which can be redirected to enable the Council to achieve its spending and taxation policies.

7.4 In particular, the Council will seek to achieve efficiencies in:

(a) Its management structures;

(b) Its back office functions;

(c) Procurement of goods and services;

(d) Its occupation of property.

7.5 The Council will, furthermore:

(a) Ensure its policies on charging for services are fair and consistent, and draw an appropriate balance between the needs of service users and the general taxpayer;

(b) Aim to consolidate services where these are extensive but of insufficient quality, and provide enhanced services from fewer locations where appropriate. In particular, the Council will seek to co-locate nearby facilities to save money working in partnership with other agencies. A major review of our needs and resources will take place during 2007/08;

(c) Continue to review the rationale for providing services, to ensure provision continues to meet present "core" requirements and services do not continue to be funded simply because they have been historically. The council will, as part of this exercise, review those areas of cost which are higher than those of similar authorities.

8. Spending Requirements

8.1 The table below shows the forecast spending requirements of the City Council over the next 3 years:

	£m
2007/08	240.1
2008/09	246.3
2009/10	255.1

8.2 The table above provides for:

(a) The Council's budgeted level of expenditure in 2007/08, inflated as appropriate in future years for pay, price and pension cost increases;

(b) Expected additional costs of capital financing in 2008/09 and later years;

(c) The expected impact of the Council's new job evaluation scheme;

(d) Planned spending changes in 2008/09 and 2009/10 included within the draft budget.

8.3 The table does not make allowance for any further spending pressures in individual departments, which arise in 2008/09 or later years. Council policy is that these pressures (which can be significant) must be contained within departmental budgets.

9. Risks to the Forecasts

9.1 Risks to the forecast of spending requirements are:

(a) Significant unexpected funding needs, which cannot be envisaged at this time;

(b) The effects of the new job evaluation scheme on the pay bill, to the extent that it differs from assumptions made. Experience elsewhere suggests costs are difficult to predict.

9.2 Accurate forecasting is, of course, more difficult the further ahead it looks.

10. Capital Expenditure

10.1 The Council agreed its capital strategy for 2005/06 to 2007/08 in September 2004. The key priorities for spending corporate, supported resources are:

(a) Improving the environment, with particular emphasis on schemes which enhance the quality of the local environment and which have a visible, lasting effect;

(b) Spending which enables us to make continuing improvements in a well managed organisation, particularly making appropriate investment in our stock of buildings and assets; and in modernising service delivery through technologies.

10.2 The capital strategy envisages use of the prudential framework (unsupported borrowing) for:

(a) "Spend to save" projects;

(b) "Once in a lifetime" schemes that generate considerable leverage;

(c) As a last resort, for cost avoidance measures.

10.3 For the purpose of forecasting the costs of borrowing in this strategy, estimates have been made of the level of capital spending which will be supported by government grant. No allowance has been made for any additional spending funded by unsupported borrowing, except where included in the 3 year capital programme or approved budget.

11. Planning

11.1 Each service department is required to prepare a 3 year departmental revenue strategy which meets the corporate requirements of this strategy, and national priorities for the service, and plans services within a pre-determined spending assumption.

11.2 Planning figures for each department are attached as Annex B.

11.3 Departments are expected to ensure all growth pressures can be accommodated within these planning figures.

12. Reserves and one-off risks

12.1 The Council risk assesses its need to hold reserves, which may be needed for sudden, unexpected spending pressures.

12.2 Key risks facing the Council which require reserves are:

(a) Sudden, unexpected events;

(b) Uninsured claims against the Council;

(c) Cost increases arising from major projects, to which the Council's exposure has increased;

(d) Unanticipated departmental overspends.

12.3 A considerable number of local authorities have had to make substantial payments in respect of compensation for unequal levels of pay to predominantly female groups of staff.

12.4 These risks are mitigated, however, particularly by means of:

(a) Routine budget and project management;

(b) Keeping of effective records;

(c) A framework in which departmental provision for specific events is encouraged.

12.5 The Council will therefore aim to:

(a) Maintain general fund reserves of at least £5m, increasing this to £7m by 2008/09;

(b) Maintain housing reserves at £1.5m.

13. Other Specific Policies

13.1 The Council will set housing rents in line with the Government's rent restructuring policy.

13.2 The Council will analyse its proposed budgets to minimise any risk to the achievement of "floor" outcomes in deprived neighbourhoods, and to ensure consistency with the aims of the local area agreement.

13.3 The Council will evaluate its support to the voluntary sector on an equal basis to its own directly provided services, and will (where there is a choice) provide a service using the voluntary sector in preference to direct provision where there in enhanced value to the community in doing so. Service provision via the voluntary sector will, however, be subject to the same scrutiny as council services and will only be funded if it continues to meet present “core” requirements.

Spending Assumptions

	2007/08	2008/09	2009/10
Pay Rises			
- Teachers	2.5%	2.5%	2.5%
- Other staff	2.5%	2.5%	2.5%
General Inflation	2.25%	2.5%	2.5%
Superannuation contribution rates			
- Teachers	13.5%	13.5%	13.5%
- Other Staff	15.0%	16.5%	16.5%

Departmental Planning Targets

	2007/08 £000	2008/09 £000	2009/10 £000
Dept'l Planning Totals (DRS)			
Adult & Community Services	71,385.9	71,050.9	71,052.9
Children & Young People	54,800.3	54,204.3	53,908.3
Housing	6,664.5	6,652.5	6,706.5
Regeneration & Culture	61,818.9	59,558.9	59,278.9
Resources	18,224.1	18,188.1	18,102.1
Total DRS	**212,893.7**	**209,654.7**	**209,048.7**
Less Full Year Effect of 2006/07 Budget		(1,657.0)	(1,657.0)
Total	**212,893.7**	**207,997.7**	**207,391.7**

Note:
The Education & Lifelong Learning Budget reflects a credit balance for the schools block of £1,486.9k, which is the element of Dedicated Schools Grant required for non-controllable spend on the schools block

Forecast budgets: Balance sheet items and cash flows

Financial Indicator:	**Actual as at April 1st, 2006 £'000**	**Forecast at March 31st, 2007 £'000**	**Forecast at March 31st, 2008 £'000**
Balance Sheet Items			
Earmarked Revenue reserves Earmarked Capital reserves Housing Revenue Account	38,921 14,421 3,371	31,709 7,500 1,815	33,810 3,000 2,251
Debtors (excl Bad Debt Provision)	68,520	70,040	71,600
Creditors	74,771	80,140	85,900
Long-term borrowing	323,895	323,889	323,289
Cashflow movements during year			
Increase/ (Decrease) in all borrowing	73,560	27,572	(31,210)

Changes between 2006/07 and 2007/08

Changes Between 2006/07 and 2007/08

	£m	£m	£m
Net Budget 2006/07			**231.2**
Plus spend supported by use of Reserves			1.3
Budgeted Spend 2006/07			**232.5**
Technical Changes:-			
Inflation			
- Pay	3.9		
- Other	1.5	5.4	
Pensions			
Landfill Tax / Rents		0.2	
Fall out of PSA Reward		0.2	
Increase in Planned Borrowing Costs		2.3	
Job Evaluation – full year provision		1.6	
Other		0.1	
			9.8
Real Changes:-			
Adult & Community Services Growth		2.4	
Budget 2005/06 - Full Year Effects		(1.7)	
Budget 2006/07 - Full Year Effects		(5.3)	
2007/08 Net Budget Growth		3.0	
Concessionary Travel		0.8	
Business Improvement Programme		(2.6)	
Building Schools for the Future		1.2	
			(2.2)
Budget 2007/08			**240.1**

Appendix 3

Earmarked Revenue Reserves

Reserve	Year end Balance 31 March 2006
	£000
Statutory / Other Ringfenced Reserves	
Schools' Balances	12,084
Insurance Fund	11,880
LMS Contingency Fund	3,781
Secondary Review Reserve	2,309
Supporting People Funds	2,341
Standards Fund - Match Funding Contributions	887
On Street Parking Reserve	137
TOTAL STATUTORY / OTHER RINGFENCED RESERVES	**33,418**
Other Earmarked Reserves	
Former Education Departmental Reserve	2,956
Job Evaluation Reserve	1,329
Key Stage 2 monies carried forward	1,087
Business Improvement Programme	1,008
BSF - Project Implementation Costs	606
IT Development Reserve - Resources	597
Area Committees	350
Rating Revaluation Appeals	340
Central Maintenance Fund	336
Payback Fund	302
Butterwick House	300
Financial Services - IT reserve	298
Children's Services - Tiffield Secure Unit	275
Department Investment Reserve - Resources	263
Cost of Elections	249
Wellington House Lease	249
LPSA Rewards Carried Forward from 05/06	212
Housing Maintenance	211
Schools Buy-Back Fund	152
Education Premature Retirement Costs	142
Schools Buy Back	122
Milford Trust Fund	109
Minor Reserves	488
TOTAL OTHER EARMARKED RESERVES	**11,980**
TOTAL EARMARKED REVENUE RESERVES	**45,398**

Appendix 4

Consultation Responses

1. Resources and Corporate Issues Scrutiny Committee – 11 January

Minutes Relating to Corporate Budget

The Chief Finance Officer submitted a report seeking the views of the Committee on the draft budget proposals.

A member of the Committee queried whether any analysis had been undertaken with regard to the amount of unavoidable increases in costs which were out of the Council's control. The Chief Finance Officer commented that this hadn't been specifically undertaken but that there were significant increases of this sort particularly in the Adults Services budget due to increased need for care for older people.

Another member of the Committee expressed concern about the Government's calculation of the city's population. He felt that the government had underestimated the number of people in the city by 5%, which would equate to significant further funding. The Chief Finance Officer was aware that government grant calculations were based on out of date data but commented that they were unlikely to change their calculations part way through a two-year settlement. The age of the data used meant the population was 6,000 less than later estimates, which had cost £1.5m in government grant to the Council. If the true population was even higher, then the loss would be greater. He further noted that there were a number of areas in which the Council would be lobbying for further funding as part of the future Comprehensive Spending Review such as matters relating to migration.

The Chair noted that UNISON had circulated their concerns to the Committee.

The Chair commented that the budget strategy seemed to do little to address the Council's corporate priorities of education and the environment.

A further query was raised with regard to the Council's policy on the use of reserves and the level at which they could be held at. The Chief Finance Officer stated that the Council had moved to a policy of having £7 million by 2008/09 at the last budget. He felt that this was sensible in view of the potential risks the Council faced with regard to equal pay claims, the Performing Arts Centre and Building Schools for the Future. He noted that to reduce the level of reserves to £5 million would not be illegal.

RESOLVED:

that the report be noted.

Minutes Relating to Resources Department Budget

The Chief Finance Officer submitted a report seeking the views of the Committee on the draft revenue strategy for the Resources Department.

The Town Clerk commented that the draft revenue strategy did not reflect the large amount of savings that were being worked towards as part of the Business Improvement Programme which mostly affected the Resources Department. These were outside of the Resources Departmental Revenue Strategy.

Members of the Committee considered the growth proposal for the development of an Information Management Team to be funded for one year. It was queried whether this proposal could be stopped. It was also felt that there was little information to support this proposal and that if officers were confident in it, it should be permanent, not just for one year. The Town Clerk agreed to provide the Committee with a briefing note on this proposal. He explained that organising the Council's information in a more digital way would make savings in the time it took officers to undertake their work. It had been proven in other organisations that this could be successful. He felt that it was to good an idea and therefore it was unlikely that people would want it to be stopped. The reason for not proposing a permanent resource at this stage was that it could not yet be identified exactly where the savings would occur and how they could be extracted. He expected that in a year's time he could identify where savings could be made and then use those savings to fund future development of information management.

It was requested that members be provided with further details about where it was expected to make savings as part of the procurement corporate efficiency review. The Town Clerk commented that at this stage he was unable to indicate clearly where savings would be possible, he expected to be able to do this at the end of year 2 of the efficiency review programme.

RESOLVED:

that the report be noted.

2. Minutes of Children and Young People's Scrutiny Committee – 8 January

The Corporate Director of Children and Young People and the Interim Service Director of Strategic Planning Commissioning and Performance submitted a report which gave details of the overall position and the Corporate Directors proposals for the Departmental Revenue Strategy for Children and Young Peoples Services for 2007/08 – 2009/10. The department had to manage a number of financial pressures and balance them against its corporate budget responsibilities. When seeking financial savings items had been identified which did not affect performance, service delivery or the departments core priorities of special educational needs and inclusion, school improvement and improvements to admissions and school place planning systems were met. Further pressures faced by the department included the need to cope with continuing transformational change, maintain and increase the pace of performance improvements and prepare for a challenging Joint Area Review Inspection in January 2008. It was stated that overall the department faced growth pressures of £2.421m, had identified possible savings of £1.661m and were therefore looking for an increase in overall budget of £760k to cover the shortfall. Over the three-year strategy it was envisaged that the increase given this year would enable the department to deliver efficiency savings in the two following years with a net contribution achievable in 2009/10. It was noted that the Strategy related to the department only and that funding for schools was dealt with differently through the DSG.

Members suggested that where growth pressures were the result of national increases the Council could request that Government grant be increased to take account of this. In response it was stated that the issues were being raised at a corporate level persuade Government to properly acknowledge within its grant the unique demographic position of the City. The Corporate Director emphasised that in relation to employee development the reduction sought to make a saving through greater efficiency not reduction in service and in relation to recruitment to build in a vacancy slippage factor, the corporate director was clear that this was not about holding vacancies.

Members thanked the Department for their work in the budget preparation. It was suggested that although the work put in to protect core priorities was welcomed and the need to meet statutory growth pressures acknowledged it was important that the provision was made for further priority areas. It was felt that these priority areas were the youth service where reductions made in previous years had made a big impact in the community, and engaging parents, particularly young parents or those with difficulties, in supporting children’s learning.

Concerns were expressed about whether it would be possible to meet the reduction proposal in relation to grants and efficiency savings in future years. In response it was stated that the grants proposals was thought to be conservative and sought to introduce a consistent approach and that efficiencies would be identified incrementally. Alongside this there was a need to consider the relationship with schools.

RESOLVED:

1. That in principle the Scrutiny Committee endorse the proposed Departmental Revenue Strategy and the proposed growth items;

2. That the Scrutiny Committee note the proposed reduction items and that they appear to be appropriate; and

3. That the Cabinet be requested to make additional provision within the Departmental Revenue Strategy for growth in monies allocated to:
   - the youth service; and engaging parents in supporting children’s learning.

3. Minutes of Adult and Community Services Scrutiny Committee – 10 January

The Chief Finance Officer and the Corporate Director of Adults and Housing submitted a report that sought the views of the Scrutiny Committee on the draft revenue strategy for the Adult and Community Services portfolio, within the Adults and Housing Department, and which have been requested by the Cabinet Lead Member.

The attention of the Committee was drawn to the Overview of Services, the Aims of the service and the Key Financial Issues contained within the report. Attention was also drawn to the Star Ratings set out within Table 4 of the report that indicated to Members that the 2006 Performance rating had slipped to 2*, compared to a 3* rating in 2005, and that the capacity for improvement had gone from an 'excellent' rating in 2005 to 'promising' in 2006.

Officers outlined the Spending and Resource Forecast 2007/08 to 2009/10 that set out Service Enhancements, Budget Shortfalls and Efficiency/Restructuring Savings within the report.

With the sanction of the Scrutiny Committee the UNISON representative spoke at the meeting and stated that it was difficult to see, from the trends of constant budget deficits, how this situation could be reversed without the injection of substantial investment. Members were also informed that the national trend was of an ageing population who were now living longer and would therefore require quality social care cover. It was stated that, to reverse the trend of constant budget deficits, decisions would soon need to be taken by the City Council as to what their priorities were and where substantial investments were to be made. Concerns were expressed as to where in the department the reported vacant/frozen posts were, as it was likely that those sections that were understaffed could be the subject of increased staff sickness. UNISON were also concerned at the number of reviews taking place, with some members being the subject of a review virtually every year, again this situation could lead to increased staff sickness. In conclusion it was stated that, in the opinion of UNISON, there should be a serious investment by the City Council in Adult Social Care, at the expense of certain other projects that were considered by UNISON to have a poor rate of return.

The Scrutiny Committee considered the report and questioned the increase of the charge for Breakfast and Tea provided for non-residents at Elderly Person's Homes from £0.50 to £0.55. Officers stated that this was a facility that was not often used but would more closely reflect the actual cost of providing Breakfast and Tea.

The Scrutiny Committee further expressed a concern at the proposal to increase the Home Care hourly rate from £7.00 to £8.00 per hour from April 2007, and which would raise an estimated extra £100,000 per year. Members were informed that this increase followed on from the 'Fairer Charging Policy' implemented several years previously. It was also reported that a number of local authorities had also increased their charges to more accurately reflect the actual cost of provision. Leicester were proposing charges that were slightly higher than average within their comparator group of local authorities.

The Scrutiny Committee had no further comments to make on the Draft Revenue Strategy.

RESOLVED:

that the Draft Revenue Strategy, as presented, be supported.

4. Minutes of the Housing and Community Safety Scrutiny Committee – 11 January

The Corporate Director of Adults and Housing and the Chief Finance Officer submitted a joint report that sought the views of the Housing Scrutiny Committee on the draft revenue strategy for the Housing Department, which had been requested by the Cabinet Member.

The Service Director, Technical Services and Financial Support directed Members to the section of the report that detailed the areas of growth and reduction contained within the budget. He explained that the total growth was £390,000 with the major item being £200,000 towards bed and breakfast costs.

The Service Director, Technical Services and Financial Support then talked through the main areas of cost reduction. He explained that there would be an additional £100,000 rental income from a site on Conduit Street and there were three areas of service reduction – the deletion of a Development Officer post (currently vacant), a Decent Homes Officer post and two Home Maintenance Advisor posts.

Dave Mitchell, UNISON, spoke on the Draft Revenue Strategy. He stated that Trade Unions had been placed in a difficult situation by not being supplied with sufficient information to make any detailed comments on the Council's overall budget. He explained that this concern was a corporate issue. He did add that the Adults and Housing Department generally integrated its strategy well, and has to constantly respond to issues such as an ageing population and deprivation.

Dave informed the meeting that his two key areas of concern were with the deletion of the Decent Homes Officer post and the two Home Maintenance Advisor posts. In terms of the former, he felt that this would have a detrimental impact in terms of the Council bringing up to standard the number of non-decent homes occupied by vulnerable people, and that this could lead to losing £475,000 if this was not achieved. Furthermore, he stated that this could lead to people living in hazardous conditions. Additionally, he felt that individual households could now miss out on obtaining grants, as it was the job of the Decent Homes Officer to provide advise on available grants and loans for work. Regarding the Home Maintenance Advisor positions, he believed that this reduction was contrary to what was stated in the

Department's service plan, and saw such a reduction as having a significant detrimental impact on the elderly and ethnic minority groups. He stated that he was aware that budget reductions were required but felt that such reductions should have been proposed within different areas.

Several Members of the Committee expressed concern regarding the deletion of the Decent Home officer and Home Maintenance Advisor positions, and asked who would perform the work of the deleted positions. The Service Director, Technical Services and Financial Support informed Members that the Development Programme would still continue, but at a slower rate. He added that some of the work carried out by the deleted Home Maintenance Advisor Post and decent Homes Officers posts would fall on other staff on the renewal area to undertake alongside their other duties, but some, such as giving impartial advice and repair schedules to residents would no longer be available from the Council. He reminded Members that the Council's budgets must balance, and that identifying areas of service reduction was never an easy task.

One Member of the Committee asked whether those who were to lose positions would be easily redeployed within the council. The Service Director, Financial Services and Technical Support stated that the authority had a good history of successfully redeploying Members of staff.

RESOLVED:

That the report be noted

5. <u>Minutes of Highways and Transportation Scrutiny Committee – 17 January</u>

The Chief Finance Officer and the Corporate Director of Regeneration and Culture submitted a report that sought the views of the Scrutiny Committee on the Draft Revenue Strategy for the Regeneration and Culture Department. Members were informed that the department had delivered considerable savings to the Council. In 2006/07 an organisational review was implemented, now completed, and this will generate annual savings of £1.6m.

Members were further informed that in 2006/07 further efficiency savings had been found amounting to £320k per annum, rising to £620k per annum in 2007/08.

Officers drew members attention to Appendix 1 of the report that set out the Unavoidable Growth and Savings relating to the Regeneration and Culture Department budget.

Members questioned the proposed savings to subsidised bus services predicted in 2008/09 and 2009/10 and questioned whether these would be achievable. Members were informed that a review of the current subsidised bus routes was to undertaken during 2007/08, and that a report covering this review would be presented to this Scrutiny Committee at a later date.

Members raised concerns at the proposals to make savings to the Local Environmental Works Budget as this would have a serious impact on a number of communities in Leicester, as the likelihood of getting environmental works carried out would be seriously reduced.

Regarding Highway Maintenance, Members questioned how much funding would be required to bring the standard of all of the highways that are the responsibility of the City Council, up to an acceptable standard. Members were informed that, although expenditure had been increased over the last few years, the previous years of under investment would, it was estimated, require some £5m expenditure per year, over the next 10 years to make a real difference to all of the highways in Leicester.

The Committee had no further comments to make.

RESOLVED:

that, having considered the Draft Revenue Strategy of the Regeneration and Culture Department, the Committee had no further comments to make to Cabinet.

6. <u>Minutes of Economic Development and Planning Scrutiny Committee – 18 January</u>

The Corporate Director of Regeneration and Culture and the Chief Finance Officer submitted a report seeking the views of the Scrutiny Committee on the draft revenue strategy for the Regeneration and Culture Department which have been requested by the Cabinet Member.

Members of the committee discussed the Performing Arts Centre (PAC). In terms of the management of the project, members of the Committee felt that the Chief Executive should take a leading role. Other more general concerns were raised about the input of senior managers in the project. Officers commented that the Cultural Quarter Project Manager and Director_reported to a project board. The Chief Executive, the Town Clerk and the Corporate Director of Regeneration and Culture were members of this board. One member felt that his query regarding the size and cost of the originally proposed theatre and the actual size and cost had not been correctly responded to. Committee members also expressed concern that they had not seen a copy of the new business plan for the PAC. The Acting Corporate Director commented that he undertook to find out the current position on the business plan and report back to committee members as a matter of urgency. The Chair noted that he had invited the Cultural Quarter Project Director to attend the meeting to discuss the PAC in private session as an item of urgent business. He felt that these issues may be clarified at that point.

A member of the committee raised concern about the 60% reduction of the existing revenue budget for local environmental works and investment in streets. It was felt that this gave the impression that the Council was over focused on the city centre.

Members of the committee also considered the Haymarket Car Park. It was felt important to retain this as a strategic asset and if potential buyers were aware the Council was to sell then a lower price would be achieved. Other members of the committee felt that fuller consideration should have been given to the proposal to sell the car park lease before it was proposed for sale in a budget strategy. Officers commented that it was previously intended to sell the car park lease as part of the PAC funding strategy. It was previously thought that a rent increase and repair of dilapidations would make retention of the lease too expensive. However it was ascertained that these costs were not as high as it was previously thought, therefore it was agreed to retain the car park lease as a strategic asset. It was however intended to put the Haymarket Theatre lease for sale on the open market.

RESOLVED:

(1) that the committee expresses its disappointment to Council that it had not seen the Performing Arts Centre business Plan;

(2) that the committee recommends that the Chief Executive take personal charge of decisions relating to the Performing Arts Centre;

(3) that the Committee recommends that Council delegates decision making powers on the Performing Arts Centre to the Chief Executive;

(4) that the Committee expresses its concern at the proposed reductions to Local Environmental Works;

(5) that a finalised and clear response be provided for the question regarding the difference original proposal for a theatre that cost £26 million for an 18,000 square foot theatre and the actual theatre which was costing £59 million for a 12, 500 square foot theatre.

7. Minutes of Environment and Culture Scrutiny Committee – 31 January

The Corporate Director of Regeneration and Culture and the Chief Finance Officer submitted a report that sought the views of the Scrutiny Committee on the Draft Revenue Strategy for the Regeneration and Culture Department, which had been requested by the Cabinet Member. It was reported that following the Regeneration and Culture Department's organisational review in 2006/07 there were £1.6 million annual savings generated. In addition to these savings in 2006/07 there were other efficiency savings of £320,000 per annum, which would rise to £620,000 per annum in 2007/08.

Members raised concerns over reductions in the existing Local Environment Works and City Centre revenue budgets by 60% and the raising costs of the Performing Arts Centre.

A Member of the Committee requested that information be provided regarding the costs for resurfacing Market Street and suggested that the street had looked better in its original state, especially with other areas in the City in more urgent need of resurfacing. However it was suggested that no judgment should be made until the works were complete.

A Member of the Committee commented that they had received information that stated that appendix 2 of the report, Regeneration and Culture Basic Equality Matrix Impact and Risk Assessment for Budget Savings, had not drawn attention to the impact it would have on disabled people, which it had a responsibility to do under the Disability Discrimination Act 2005 (DDA). Officers agreed that this was not stated in the report and assured Members that this was to be carried out separately with each item. Members asked if this implied that the assessment would be made after the decision was taken to implement the proposal.. In response it was noted that this was correct, however at the initial assessment stage of the budget it was believed that there would not be a DDA impact of any of the budget reductions. Members requested that for future reports Officers ensure that a note to that effect be included in the budget report.

A Member of the Committee raised concerns regarding the Haymarket car park, and requested that it be maintained so not to cause revenue problems, such as ticket machine breakdowns. In response it was noted that this item was being dealt with through Highways and Transportation Scrutiny Committee.

RESOLVED:

1) that it be requested that any impact of the Disability Discrimination Act 2005 be included in all future reports.

2) that the report be noted.

Appendix 5

Recommended Prudential Indicators

1. Introduction

1.1 This appendix details the recommended prudential indicators for general fund borrowing and HRA borrowing. The authorised limit is a cap on borrowing, but all other indicators are estimates, which will be subject to routine reporting to Scrutiny Committee.

2. Proposed Indicators of Affordability

2.1 The ratio of financing costs to net revenue budget:-

	2006/07 % Estimate	2007/08 % Estimate	2008/09 % Estimate	2009/10 % Estimate
General Fund	6.24	8.1	8.6	8.9
HRA	16.47	16.96	17.05	16.86

2.2 The level of unsupported borrowing for the general fund:

	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate
Unsupported borrowing brought forward	12,609	24,859	43,520	57,572
New Unsupported borrowing	15,064	25,658	18,268	12,559
Less Unsupported borrowing repaid	(2,814)	(6,997)	(4,216)	(4,661)
Total Unsupported borrowing carried forward	24,859	43,520	57,572	65,470

2.3 The level of unsupported borrowing for the HRA:

	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate
Unsupported borrowing brought forward	15,760	21,620	23,820	23,796
New Unsupported borrowing	6,500	3,100	1,000	1,000
Less Unsupported borrowing repaid	(640)	(900)	(1,024)	(1,064)
Total Unsupported borrowing carried forward	21,620	23,820	23,796	23,732

2.4 The estimated incremental impact on council tax and average weekly rents of capital investment decisions proposed in the general fund budget and HRA budget reports over and above capital investment decisions that have previously been taken by the council are:

	2007/08 Estimate £	2008/09 Estimate £	2009/10 Estimate £
Band D council tax (£1,061.21)	0.00	0.00	0.00
HRA rent	0.07 *	0.23 *	0.22 *

* Based on 2007/08 average weekly rent of £52.07.

3. Indicators of Prudence

3.1 The forecast level of capital expenditure in 2006/07 and estimates of capital expenditure to be incurred for the period 2007/08 to 2009/10 (based upon the Council capital programme, and the proposed budget and estimates for future years) are:

	2006/07 £000 Estimate*	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate
Children & Young Persons	16,808	16,400	10,500	3,900
Housing	8,907	7,905	8,155	8,355
Transport	11,480	10,000	17,000	9,250
Regeneration	16,237	22,000	4,000	5,000
Other	24,113	6,680	13,000	15,000
Total General Fund	77,545	62,985	52,655	41,505
HRA	25,719	24,320	20,190	19,990
Total	103,264	87,305	72,845	61,495

* Period 7 forecast.

3.2 The Capital Financing Requirement measures the authority‘s underlying need to borrow for a capital purpose, as opposed to all borrowing:-

	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate
General Fund	225,782	257,695	269,500	275,200
HRA	198,545	206,245	211,721	217,157

3.3 The General Fund Capital Financing Requirement split between unsupported and supported borrowing:-

	2006/2007 £000 Estimate	2007/2008 £000 Estimate	2008/2009 £000 Estimate	2009/10 £000 Estimate
General Fund Capital Financing Requirement - Supported Borrowing	200,923	214,175	211,928	209,730
General Fund Capital Financing Requirement - Unsupported Borrowing	24,859	43,520	57,572	65,470
Total General Fund Capital Financing Requirement	225,782	257,695	269,500	275,200

3.4 CIPFA's Prudential Code for Capital Finance specifies the requirement that over the medium term net borrowing will only be for capital purposes, and that authorities should ensure that net borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Based upon current capital commitments and proposals in this budget, there are not anticipated to be any difficulties for the current or future years.

3.5 The Council is required to set an "authorised limit" on borrowing which cannot be exceeded. This is a statutory limit under the Local Government Act 2003:-

	2007/08 £m	2008/09 £m	2009/10 £m
Borrowing	400	400	400
Other forms of liability	40	40	40

3.6 The proposed "operational limit" on borrowing and other forms of long term liability, which requires a subsequent report to scrutiny committee if exceeded:-

2007/08 £370 million

2008/09 £370 million

2009/10 £370 million

4. Indicators of Sustainability

4.1 It is recommended that the Council sets an upper limit on its fixed and variable interest rate exposures for the period 2007/08 to 2009/10, as a percentage of the total debt net of investments, as follows:

	2007/08 %	2008/09 %	2009/10 %
Fixed interest rate	150	130	120
Variable interest rate	25	25	25

4.2 It is recommended that the Council sets upper and lower limits for the remaining length of outstanding loans:-

	Upper Limit (%)	Lower Limit (%)
Under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	60	0
5 years and within 10 years	60	0
10 years and above	100	0

4.3 The upper limit for principal sums invested for more than 364 days is £60 million for 2007/08 and subsequent years.

Schedule of Determinations under Finance Procedure Rules

1. Orders for work, goods and services

1.1 For minor contracts, up to £5,000, the procuring officer must approach a minimum of three suppliers to obtain quotes. In the event that three quotes are not received the officer may proceed as long as value for money can be demonstrated and the appropriate approvals have been obtained.

1.2 For small contracts, between £5,000 and £35,000, the procuring officer must first consult with Legal Services and Corporate Procurement. The provisions of 1.1 above then apply, following the completion of a Risk Assessment Matrix.

1.3 The threshold above which the full tendering procedure shall apply is £35,000, although this threshold is £100,000 in respect of a works contract where a Council approved select list is used.

1.4 More detailed information about the procedures to be followed may be found in the Council's constitution, within the section setting out the Contract Procedure Rules.

2. Debt Write Off

2.1 Debts may be written off by corporate directors up to an amount of £2,000.

3. Stocks and Stores

3.1 Corporate directors may write off stock losses up to an amount of £2,000,

4. Inventories

4.1 Corporate directors may write off deficiencies in inventories up to an amount of £2,000,

5. Revenue Budgets

5.1 The following parts of the Council budget are trading organisations, and the rules applied to budgets for internal trading units shall apply to them rather than the normal rules applicable to general fund budgets. Each department may retain a percentage of the net surplus of the aggregate position of its trading organisations, listed in table 1 below. The surpluses that may be retained are detailed in table 2 below.

TABLE 1 : List of Trading Organisations

Department	**Service**
Housing	
	Housing Maintenance
Regeneration & Culture	
	City Catering
	City Transport
	Operational Transport
	City Highways
Resources, Access and Diversity	
	Cashiers
	Creativity works
	Customer accounts
	Job Shop
	Legal Services
	Payroll
	Post room
	Property Services - Projects
	Temporary staffing agency

5.2 The percentages of the departments' net surpluses which may be retained are shown in table 2 below.
The percentages are calculated after allowing for the retention of 100% of budgeted surpluses included in the Departments' revenue budget strategies for 2006/07. These surpluses, where applicable, are also shown in the table

TABLE 2: Surpluses which may be retained.

Department	**Sum permitted to be retained in full £'000**	**% of additional surpluses to be retained %**
Housing	N/a	100
Regeneration and Culture	N/a	50
Resources, Access and Diversity		50
- Legal Services	20	
- Property Services	30	
- Financial Services	10	

5.3 The only demand-led budget of the Council is in respect of housing benefit client payments, and consequently adjustments to this budget can be made so that it is revised to equal actual expenditure as the year progresses.

5.4 The maximum amount which can be vired at the discretion of corporate directors **for a single purpose** is ***£100,000***, in any one financial year.

Controllable Budget Lines

Chief Executive & Partnership office

Chief Executive & support
Partnership office

Children and Young People's services

Directorate
Learning services
Access, inclusion and participation
Safeguarding & family support
Strategic planning, commissioning and performance
PRC, contingency and departmental budgets

Note:

Delegated Schools Budgets, managed by schools under the Local Management of Schools provisions, and the LMS and the Education Support contingency budgets are all now funded from the Dedicated Schools Grant. These budgets are managed separately within a ring-fenced schools funding block.

Housing

Private sector housing & development
Housing options
Hostel & community care
Tenancy sustainment

Supporting people funding & administration

Housing benefits & Local Taxation
Miscellaneous service provision

Policy, management & support

Resources

Management & Corporate
Information services
Legal services

Financial services
Democratic services
Business improvement
Property services

Regeneration & Culture

Culture services
Environmental Services
Planning and policy
Regeneration, highways and transport

Adult & Community Services

Directorate
Older people
Community care (Adults)
Safer and Stronger communities
Strategy, commissioning, performance & business support
Departmental budgets & internal joint service arrangements

Appendix 8

Treasury Strategy 2007/2008

1. Background

1.1 Treasury management is the process by which the Council's borrowing and investments are managed. This is a vital activity because of the sums involved.

1.2 As at 5 January 2007, the Council's debt was £338m, which has been raised to pay for capital projects over many years. This level of indebtedness should, however, be seen in the light of the value of the Council's assets which were recorded at the end of 2005/2006 at a value of £1,700m.

1.3 The Council also holds a lot of externally invested cash, which stood at £106m as at 5 January 2007. These investments represent working cash balances (the extent to which the Council receives income before it has to pay bills) and the Council's reserves. The level of investments also reflects the proceeds of new loans taken in 2005/2006 to fund capital expenditure in 2006/2007 and later years.

1.4 It is the responsibility of the Council to approve the treasury strategy, and it receives a report at the beginning of each year identifying how it is proposed to borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions. Monitoring of the implementation of the treasury strategy is the responsibility of the Resources and Corporate Issues Scrutiny Committee, and reports are received twice each year.

1.5 This treasury management strategy details the expected activities of the treasury function in the financial year 2007/2008. The suggested strategy for 2007/2008 is based upon my views of interest rates, which are supported by the use of leading market forecasts. The strategy covers the matters listed below:

(a) The Council's current debt and investments;
(b) Prospects for interest rates;
(c) Capital borrowing required;
(d) Investment strategy;
(e) The balance between holding investments and using them to repay debt (or as a substitute for new borrowing);
(f) Debt rescheduling opportunities.

1.6 The key factors to consider are

(a) How much new borrowing will cost. Members are asked to note that interest rates for borrowing over a long period of time are different from rates for borrowing over a short period.
(b) Ensuring the Council has an appropriate balance of debt at fixed and variable interest rates, so we are protected against market changes.
(c) How much interest the Council can get on its investments

(d) When loans are due to be repaid and how much it is likely to cost to refinance them at that time.

2. Current Portfolio Position

2.1 The Council's current debt and investment position is shown in the table below. Members are asked to note that the figures shown represent a snapshot at a single moment in time. The table excludes £38m of debt managed by the County Council on behalf of the City Council:

Treasury Position As At 5 January 2007	**Amount**	**Average Interest Rate %***
Fixed Rate Funding		
Public Works Loan Board	£219m	4.8
Stock	£9m	7.0
Market Loans	£96m	4.4
Variable Rate Funding/Temporary Loans		
Temporary Loans	£14m	4.7
Total Debt	£338m	4.6
Investments:		
Managed Directly In House	£106m	4.7
Total Investments	£106m	4.7

* Estimate for 2006/07

2.2 The £106m of investments includes net working capital: i.e. the cash flow benefit that derives from income receipts flowing in faster than payments are made, reserves and funds (e.g. the insurance fund).

3. Treasury Limits For 2007/2008

3.1 Appendix 5 to this report includes prudential indicators relevant to the treasury function. This strategy is consistent with those indicators.

4. Prospects for Interest Rates

4.1 The Council appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates and these underpin the recommendations of this report. Given that the Council has already borrowed all it needs for 2007/08, I have not provided a detailed commentary this year.

4.2 At the time of writing there has been a surprise increase in short-term rates to 5.25% reflecting an unexpected increase in inflation. The view of our advisors is that short-term interest rates will peak at 5.5% during 2007 and fall in late

2007. In the longer run short-term rates are expected to be in the range of 4.75% to 5%.

4.3 The Council's primary source of long-term loans is the Public Works Loans Board (PWLB); a government body that lends money to local authorities at rates below normal levels. Longer term-term rates are currently around 4.25% and are expected to continue at these levels during 2007 and 2008 also. These rates are low by historic standards and in the longer term we expect these to revert to more normal levels of 4.5% to 4.75%.

5. Capital Borrowings and Borrowing Strategy

5.1 Capital borrowing strategy is mainly based on a two-year time frame and drawing up a strategy for 2007/2008 requires consideration of the Council's capital financing needs for 2007/2008 and 2008/2009. The Council needs money to finance its capital programme. However, the calculation of the total borrowing needs of the Council also takes into account the following factors:

(a) The sums the Council is required by law to "set aside" from revenue each year to repay its borrowings - in much the same way as a homeowner repays a mortgage over a number of years;

(b) The need to repay maturing loans.

5.2 Taking these factors into account the estimated future borrowing needs of the Council total £48m in 2007/2008 and £16m in 2008/2009. New loans that were taken in 2005/2006 are sufficient to meet this.

5.3 This being the case the main decision to consider in 2007/2008 will be whether to undertake further borrowing in order to prefund later years' borrowing requirements.

5.4 On the basis of the interest rates forecast described above it is not considered likely that we will to borrow to prefund later year's borrowing requirements. However, the markets will be watched closely.

6. Debt Rescheduling & Premature Repayment of Debt

6.1 Debt rescheduling is the premature repayment of loans with the repayment being financed by taking out new, cheaper, loans. Members will note from paragraph 2.1 that some of our debt is held at higher rates of interest than are currently available. Unfortunately, we cannot simply repay these, as a penalty has to be paid. Sometimes it is worth paying such a penalty, sometimes it is not. It is proposed that we undertake debt rescheduling if financially advantageous. The reasons for any rescheduling to take place will include:

(a) The generation of savings at minimum risk; or

(b) In order to enhance the balance of the long-term portfolio (i.e. the dates of repayment and balance between fixed and variable interest rates).

6.2 When making decisions we will be guided by our expectation of future movements in interest rates but the situation will be continually monitored in order to take advantage of any perceived "tremors" in the market. To maximise the savings from debt rescheduling, replacement loans should be taken at low interest rates and when interest rates are expected to fall we would delay taking the replacement loan until this happened. In the interim, temporary finance would be found by raising a temporary loan or by using cash balances.

6.3 The premature repayment of existing debt utilising cash investments may also be considered where financially attractive.

6.4 When considering the options for rescheduling, all the Council's debts will be periodically examined in the light of current market conditions.

7. Investments

7.1 The Council's investment strategy is described at Appendix 9.

7.2 In January the Council had investments of £106m. These funds will be drawn down in 2007/2008 and 2008/2009 to fund capital expenditure in those years. This would reduce the investments down to a level of around £20m by the end of 2008/09; the level that is required for day-to-day management of the cashflow of the Council.

7.3 As some of these funds may not be required until the end of 2008/2009 this suggests that investments for periods of up to 2 years may be appropriate. However, changed circumstances could mean that longer investment periods may become appropriate (for example our cash balances could be boosted by a capital receipt) and it is proposed that we have the flexibility to invest for periods of up to 3 years provided this does not compromise the availability of cash to meet the 2007/2008 borrowing requirement.

8. Sensitivity of This Strategy

8.1 This strategy is less sensitive than usual to outside events, as we have borrowed a lot of money in advance.

8.2 The attitude of the government towards the transfer of local authority housing stock to social housing landlords remains ambivalent. If the Council were to undertake such a transfer at some time in the future, the Council would need to repay its housing debt and this would incur premia. The strategy does not assume this will happen, but decisions will take into account the impact if this did happen. It may, for instance, be beneficial to restructure debt in circumstances where this has no impact on current or forecast future borrowing costs if it increases our flexibility at a future date, and any such opportunities will be taken.

8.3 The interest rate assumptions upon which this strategy is based are stated above. Given the limitations inherent in any forecast it is appropriate to consider the action to be taken if these forecasts do not come to pass. Small changes in long term or short term rates will not require a major rethink of this strategy but may make long term borrowing attractive, in which case such decisions will be taken. Such a decision would mean borrowing our 2009/2010 requirements in advance. Additionally such changes may create opportunities for debt rescheduling. If, however, such changes were the result of a significant economic or political development it would probably be appropriate to revise the Council's Treasury Strategy.

8.4 Where, exceptionally, immediate action that does not comply with this strategy will benefit the Council such action will be taken, and will be reported to the next meeting of the Resources and Corporate Issues Scrutiny Committee.

9. Treasury Management Consultants

9.1 The Council employs Sector Treasury Services as treasury management consultants. The service provides advice on our borrowing and investment policies and strategies. The annual fee for this service is £25,000.

10. Leasing

10.1 The Council is likely to acquire equipment, principally vehicles, to the value of approximately £2-3m that would be suitable for leasing.

10.2 Before leasing is pursued consideration will be given to the options of finance leasing, operational leasing, and prudential borrowing. At present the difference between the two forms of funding is marginal, and, generally, prudential borrowing is more cost effective.

Annual Investment Strategy 2007/08

1. Introduction

1.1 This investment strategy complies with the ODPM's Guidance on Local Government Investments and CIPFA's Code of Practice.

1.2 The Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year 2007/2008.

2. Investment Objectives & Authorised Investments

2.1 All investments will be in sterling, although bank deposits in euros will be permitted when placed with our bankers for operational reasons such as the receipt and disbursement of grants receivable and payable in euros.

2.2 The overriding policy objective for the Council is the prudent investment of its balances. The Council's investment priorities are:

(a) the **security** of capital; and

(b) **liquidity** of its investments.

2.3 The council will aim to achieve the **optimum return** on its investments commensurate with the proper levels of security and liquidity.

2.4 The Council will not borrow monies purely to invest or on-lend.

2.5 The list of authorised investments is as follows:

Short Term Investments

i. Deposits for periods up to one year with credit rated deposit takers (banks and building societies) plus local authorities, and the UK Debt Management Office.
ii. Money Market Funds, or equivalent credit rated schemes whereby deposits are secured.

Longer Term Investments

iii. Deposits for periods in excess of one year with credit rated deposit takers (e.g. banks and building societies) plus local authorities and the UK Debt Management Office.
iv. Credit rated supranational bonds (i.e. a bond issued by a supranational body, such as the World Bank that has the financial support of the government of one or more of the world's major economies)

2.6 The following factors apply to both short-term and longer-term deposits.

i. Deposits may be for fixed terms or may be repayable at the option of the borrower and/or the lender.
ii. Deposits may be agreed in advance that run from an agreed future date.
iii. For the purposes of applying the credit rating criteria laid down in this strategy, deposits agreed in advance shall be treated as running from the date they are agreed. However, where a deposit is agreed 10 or fewer working days in advance it shall be treated as running from the date the cash is deposited.
iv. Interest rates may be fixed at the outset or may be varied by agreement. They may also be varied by reference to market rates or benchmarks, provided that such rates or benchmarks are capable of independent verification.
v. A deposit to an organisation with an unconditional financial guarantee from a parent organisation shall be treated as if it were as a deposit with that parent organisation.

3. Security of Capital : The use of Credit Ratings

3.1 The Council primarily relies on credit ratings published by Fitch Ratings. This section of the strategy proposes minimum credit rating requirements, except for those investments that do not require a credit rating, for example deposits guaranteed by the UK government. In practice, only investments of the highest security will be made. Minimum credit rating criteria shall be as shown below.

Short Term Investments

i. For term deposits and callable deposits for periods of 1 year or less, a long-term rating of A; a short term rating of F1; and either an individual rating of C plus a support rating of 3, or an individual rating of D plus a support rating of 1
ii. For money market funds, and other commercial secured deposit facilities, a rating for the fund of AAA and a volatility rating of V1+

The maximum sum to be deposited with a single counterparty is £20 million.

Longer Term Investments

iii. For term deposits in excess of 1 year a long term rating of AA-, an individual rating of B/C, and a support rating of 2.
iv. For supranational bonds a long term rating of AAA.

The maximum sum to be deposited with a single counterparty is £10 million.

3.2 Investments are also permitted on the basis of equivalent ratings issued by Moody's Investors Services or Standard and Poor's.

3.3 When applying these criteria it shall be assumed that investments shall be held to maturity. Where, however, the Council has an unqualified option to require the investment to be fully repaid at an earlier date, then for the purposes of applying these criteria it shall be assumed that the investment shall run until the earliest repayment date.

3.4 Credit ratings will be monitored:

- All credit ratings for investments being actively used will be monitored monthly.
- If a body is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that body will cease.
- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered and put to the CFO for approval.

4. Investment balances / Liquidity of investments

4.1 The minimum percentage of its overall investments that the Council will hold in short-term investments is 40%.

4.2 A maximum of £60m can be prudently committed to longer term investments (i.e. those with a maturity exceeding a year). This will be kept under review, as the use of investments to finance capital expenditure will reduce the level of investments.

4.3 The Council will maintain liquidity by having a minimum of £10m of deposits maturing within 2 months (subject to the availability of funds to invest).

5. Investments defined as capital expenditure

5.1 This Council will not use any investment which falls to be accounted for as capital expenditure.

6. Investment Reports

6.1 Reports will be prepared twice yearly as part of the reports on treasury management activity.

Forecast Budget Position 2007/08 – 2009/10

	2007/08 £000	2008/09 £000	2009/10 £000
Departmental Spend (DRS)			
Adult & Community Services	71,385.9	71,050.9	71,052.9
Children & Young People	54,800.3	54,204.3	53,908.3
Housing	6,664.5	6,652.5	6,706.5
Regeneration & Culture	61,218.9	58,958.9	58,678.9
Resources	18,224.1	18,188.1	18,102.1
Plus Concessionary Fares	600.0	600.0	600.0
Less Full Year Effect of 2006/07 Budget		(407.0)	(407.0)
Less Highways maintenance Fallout		(1,250.0)	(1,250.0)
Total DRS	**212,893.7**	**207,997.7**	**207,391.7**
Plus Other Departmental Spending (Non DRS)			
Central Maintenance Fund	5823.9	5823.9	5823.9
Housing Benefits	507.3	507.3	507.3
Investment Portfolio	(2,842.6)	(2,842.6)	(2,842.6)
Building Schools for the Future			
- Ringfenced Govt. Funding	4,073.0	4,716.0	5,035.0
- City Council Client Cost	450.0	450.0	450.0
- City Council Additional Contribution		800.0	800.0
Corporate Budgets			
Corporate Budgets	(815.4)	(615.4)	(615.4)
Net Capital Finance	19,466.1	21,704.0	23,526.0
Job Evaluation	3,080.0	3,160.0	3,235.0
Business Improvement Programme	(2,570.0)	(4,300.0)	(4,300.0)
Other			
Inflation		6,022.0	12,206.0
Pensions		1,340.0	1,340.0
Planning Requirement	-	1,500.0	2,500.0
Forecast Base Position	**240,066.0**	**246,262.9**	**255,056.9**
Forecast Resources			
Government Grant	157,282.0	161,214.0	165,244.0
Council Tax	81,281.0	83,720.0	86,231.0
Collection Fund Surplus 2006/07	1,503.0		
Total Forecast Resources	**240,066.0**	**244,934.0**	**251,475.0**
Surplus / (Gap)	**0.0**	**(1,328.9)**	**(3,581.9)**