Leicester
City Council

OVERVIEW & SCRUTINY MANAGEMENT BOARD **4 FEBRUARY 2009**
CABINET **16 FEBRUARY 2009**
COUNCIL **25 FEBRUARY 2009**

GENERAL FUND REVENUE BUDGET STRATEGY 2009/10 TO 2011/12

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 2009/10; and to recommend these to the Council.

1.2 A draft of this report has been available for comment for some time, and was considered by the Overview and Scrutiny Management Board on 4 February. It has now been revised and updated – the most significant changes are described in paragraph 2.13 below.

2. Summary

2.1 The budget is an integral part of the Council's overall service and improvement planning processes. It expresses our financial commitment to the "One Leicester" sustainable community strategy, and the City of Leicester's Local Area Agreement; and has been prepared in tandem with the Council's corporate plan for the same period. Consultation has taken place with the Council's key stakeholders through the Leicester Partnership.

2.2 The budget for 2009/10 reflects the first year of the Council's revised 3 year financial strategy for the period 2009/10 to 2011/12, which is also submitted for approval.

2.3 Last year's budget made significant strides towards redirecting resources in order to achieve the City's priorities. Despite a worsening financial background, resources continue to be redirected in this way.

2.4 2008/09 was the first year of the Government's 3 year funding settlement, which covered the years 2008/09 to 2010/11. The year on year grant increase for 2009/10 (3.4%) is significantly below the grant increase for 2008/09, and will fall further to 2.8% in 2010/11.

2.5 Since last year, there has also been a significant deterioration in both the national economy and in the Council's financial position. This has resulted in a constrained budget, where difficult decisions need to be taken about choices.

2.6 The most substantial causes of new financial pressures are:

(a) continued growth in the cost of social care packages for older and vulnerable adults;

(b) substantial growth in the cost of concessionary fares, arising from both price increases by bus operators and increases in the numbers of older people taking bus journeys;

(c) big price increases for gas and electricity.

2.7 Recessionary factors have also played a part, and the budget reflects reduced expectations of income from planning applications, land searches and development control. Interest rate reductions have reduced our investment income expectations.

2.8 The way in which the budget has been prepared is based on established practice:

(a) the Council's overall budget aims are set out in the 3 year financial strategy;

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

2.9 2009/10 is expected to be the last year on which the budget is prepared on the basis of departmental responsibilities. The Council's new corporate structure is expected to be in place before the start of the new year, and strategic directors with cross cutting responsibilities are in the process of being appointed.

2.10 The Council's budget planning is inextricably linked to our efficiency planning. Substantial efficiency savings are planned to enable the budget aims to be achieved.

2.11 In 2008/09, the Council initiated the "Delivering Excellence" programme, designed to make substantial improvements in our performance, modernise services, and operate more efficiently. The budget includes some "quick win" savings already identified by the programme; and anticipates more substantial savings to be achieved in 2010/11 and 2011/12 from the next efficiency plan. Additionally, departments have identified significant efficiency savings. The forthcoming efficiency plan will also address the new Government target to achieve savings in excess of £30m by 2010/11. It is crucial that the impetus of the Delivering Excellence programme continues to be maintained.

2.12 The budget proposes spending of £271.0m in 2009/10, which results in a council tax of £1,168.77, an increase of 4.9% on 2008/09.

2.13 Since this report was first written, a number of changes have occurred which are now reflected in this report. The most significant are as follows:

(a) budget growth for the Link newspaper has been increased from £60,000 to £140,000 in 2009/10. This reflects a better estimate of costs, and allows for ten issues per year together with improved distribution. Up-to-date details are included in the departmental revenue strategy of the Resources Department;

(b) details of consultation responses to the budget have now been included at paragraph 16, and formal responses have been provided in full at Appendix Four;

(c) the report reflects latest work being done on charging (paragraph 7.24 onwards);

(d) the position with regard to capping (paragraph 15) has been updated, reflecting latest statements from the Minister for Local Government;

(e) Members are asked to approve a policy in respect of earmarked reserves, which is regarded as good practice. This is included in the corporate budget strategy at Appendix One.

3. Recommendations

3.1 The Cabinet is asked:

(a) to consider the draft 3 year financial strategy for 2009/10 to 2011/12, the draft departmental revenue strategies prepared by each corporate director, and the draft overall budget for 2009/10 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 25 February and the Council's normal procedures, to authorise strategic and service directors to take any action necessary to deliver the departmental revenue strategies for 2010/11 to 2011/12;

(d) to recommend to Council that the Chief Finance Officer be authorised to calculate and give effect to the following budget adjustments, for which provision is presently held corporately:

- the impact of any increase in the costs of energy, within the available provision;

- the first phase of Delivering Excellence efficiency savings, described in section 6 below;

(e) 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 £2m (either one-off or per annum) for a single purpose (this being a higher figure than approved in previous years);

- the Cabinet may determine the use of corporate budget provisions for job evaluation;

(f) to note that, on 27 January 2009, the Cabinet authorised additional budget provision of £1m for the project management costs associated with job evaluation, this being a pre-commitment against the 2009/10 budget; and, subject to the Council agreeing (e) above, to approve commitment of a further £1.374m for this purpose;

(g) to recommend to Council that £2m of the Council's reserves be earmarked for mitigation of equal pay claims, as described in section 11 below;

(h) to approve, and recommend Council to approve, the treasury strategy included as Appendix 6 and the investment strategy included at Appendix 7 to this report;

(i) 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;

(j) to recommend that Council approves the proposed policy on minimum revenue provision described in section 23 of this report;

(k) to note that Finance Procedure Rules are being revised, and will be submitted to Council in March, together with any appropriate limits in relation to the 2009/10 budget.

4. Budget Overview

4.1 The table below presents the budget in overview. Only the position for 2009/10 will be formally adopted as the Council's budget for next year. Future years' figures are estimates, and will change, potentially substantially:

	2009/10 £m	2010/11 £m	2011/12 £m
Expenditure			
Total of draft departmental revenue strategies	234.9	232.8	230.6
Other departmental budgets	3.3	3.3	3.3
Contingency for adult social care		3.6	6.8
Central budgets	(1.7)	(1.4)	(1.0)
Capital finance	21.6	23.7	24.2
Job evaluation	5.6	3.3	3.4
Building Schools for the Future	4.7	5.8	7.2
Energy costs	2.4	2.0	2.0
Delivering Excellence – programme costs	1.0	1.0	1.0
Delivering Excellence – efficiencies ("quick wins")	(0.8)	(1.2)	(1.5)
Future inflation		6.9	14.4
Pensions revaluation			1.3
National Insurance			0.7
Delivering Excellence – medium-term efficiencies		(4.0)	(8.0)
Planning requirement		1.5	3.0
	271.0	**277.3**	**287.4**
Resources			
Government Grant	177.4	182.4	186.9
Council Tax	91.5	96.0	100.8
Collection Fund Surplus	0.8		
Use of Reserves	1.3		
TOTAL RESOURCES	**271.0**	**278.4**	**287.7**

Band D Tax in 2009/10	£1,168.77		
Tax increase:			
- 2008/09 proposed	4.94%		
- provisional		4.94%	4.94%

4.2 Key items of expenditure are discussed further in section 6 below.

4.3 Provisional tax increases for 2010/11 and 2011/12 will be reviewed when future budgets are set, in the light of prevailing inflation and economic conditions.

5. Police and Fire Authority

5.1 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 so). However, the budget of the police authority has been "capped" for 2009/10 by the Secretary of State, and the tax increase cannot exceed 3%.

5.2 The total tax bill in 2008/09 for a Band D property was as follows:

	£
City Council	1,113.74
Police	160.40
Fire	49.83
Total tax	1,323.97

5.3 The actual amounts people are paying in 2008/09, 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.

5.4 The City's proposed Band D tax for 2009/10 is £1,168.77. 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.

5.5 The city's tax levels in 2008/09 are some 3.6% below the national average, and it is anticipated that we will remain below average in 2009/10.

6. <u>Expenditure Proposals</u>

6.1 The purpose of this section of the report is to describe briefly the expenditure proposals in the budget and how the total budget has been built up. Appendix 2 to this report shows a precise analysis of how the Council's expenditure has changed between 2008/09 and 2009/10.

6.2 The table at section 4.1 above includes:

(a) departmental budgets described in departmental revenue strategies – these are by far the most substantial component of the budget;

(b) other departmentally controlled budgets which are not part of the normal departmental planning processes (the central maintenance fund, investment property income, and housing benefits expenditure);

(c) budgets and other provisions held corporately, either because their volatility makes them unsuitable for managing departmentally (eg capital finance); or because the amount is still uncertain and hence provisional;

(d) items which do not affect the budget until 2010/11 or later.

Technical and Inflationary Changes

6.3 The starting position in the preparation of the budget is the budget for 2008/09. This is normally uprated for pay and price increases. Unusually this year, departments' budgets have not been uprated for the full effect of price increases, except in the following limited circumstances:

- costs determined by reference to large value, long-term contracts;
- costs of services procured from fragile markets;
- voluntary sector grants and foster care payments;
- business rate payments.

6.4 Departments have been asked to absorb half the costs of other price increases, although some have elected to provide inflation on certain services within their overall budget envelope.

6.5 Budgets have, however, been uprated for:

(a) estimated pay inflation of 2.25%;

(b) some price inflation (as described above), and inflation on income (2.5%);

(c) changes in the rate of landfill tax;

(d) the impact of the pension revaluation effective from April '08.

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

(a) the impact of the 2007/08 and 2008/09 budgets, insofar as these included growth and savings in 2009/10 over and above the effect in 2008/09. This can happen because decisions made were not due to come into effect until 2009, because the financial impact of a decision which has already taken effect is greater in a full year than it was in 2008/09, or because funding was time limited and has now ceased. **Members are asked to note that these are itemised in a previous 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. The capital financing budget includes provision for the central accommodation review which was part of last year's budget strategy. This provision rises to £3m pa by 2010/11.

6.7 For the 2010/11 budget process, it is expected that a new system of priority based budgeting will be in place, and that consequently previous years' spending will be a less significant factor in the determination of the budget.

Government Imposed Changes

6.8 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).

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

6.10 Unusually, there is only one such change this year – a reduction of £95,000 in the budget of Children and Young People's Services reflecting loss of responsibility for student loans.

Job Evaluation

6.11 As members will be aware, proposals to implement a new pay and grading scheme for most City Council employees were withdrawn during 2008, and work is taking place to develop new proposals for implementation during 2009/10. It is too early to estimate the costs of a new scheme, and therefore budget provisions are subject to a degree of risk (which is discussed further in section 13 below).

6.12 For a number of years, a budget of £3m per annum has been provided in the budget strategy for the anticipated costs of job evaluation. This level of provision has been maintained as the cost envelope for the new scheme (inflated in line with expected pay awards).

6.13 A further £2.4m has been included in the budget, on a one-off basis, for the costs of additional project management. Spending of £1m of this has been approved in advance by Cabinet, due to the need for urgent progress.

Delivering Excellence

6.14 "Delivering Excellence" is the title given to a major programme of work to transform the Council's performance, modernise service delivery and do things more efficiently. It is reflected in the budget in 3 ways:

(a) the cost of the programme (£1m pa), which was approved by Cabinet on 1 October, 2008;

(b) a programme of "quick win" efficiency savings, led by the programme, intended to save £2.3m by 2011/12 (exceeding the cost of the programme in that year);

(c) a more substantial programme of efficiencies, designed to achieve £8m savings for the budget by 2011/12, and to achieve the Government's expected £30m pa efficiencies target. This is discussed further in section 18 below.

6.15 The "quick wins" do not tell the whole story insofar as efficiency savings are concerned. Departmental budgets include a further £3.3m in 2009/10 alone.

6.16 Many of the quick wins anticipate new, non-departmental governance arrangements for support services which will improve co-ordination and management control; facilitate economies of scale; and enable greater professionalisation of key services.

6.17 The "quick wins" savings programme is as follows:

	2009/10 £m	**2010/11** £m	**2011/12** £m
Agency	0.4	0.5	0.7
IT Procurement	0.2	0.3	0.5
Printers		0.1	0.1
Soft FM	0.3	0.3	0.3
Grey Fleet	0.1	0.2	0.3
Vehicle Fleet	0.1	0.2	0.2
Policy Officers	0.1	0.2	0.2
	1.2	**1.8**	**2.3**

6.18 The 7 areas where efficiencies are sought have been developed into detailed financial cases, and can be summarised as follows:

(a) reduction in the Council's reliance upon agency staff, and more cost effective procurement of administrative agency staff under strengthened corporate arrangements;

(b) improvement in the utilisation of the Council's "green fleet" (ie vehicles we own) by enabling vehicles to be used for cross departmental purposes and reducing vehicle requirements;

(c) reduction in "grey fleet" mileage (journeys undertaken by Council officers in their own cars) in line with our carbon initiative targets, and strengthening governance arrangements to reduce other costs;

(d) greater value for money in procurement of IT hardware;

(e) increasing the utilisation of computer printers, reducing numbers required, and reducing the cost of maintenance;

(f) consolidating the provision of soft facilities management (cleaning, caretaking, catering, grounds maintenance and similar services) into a single, professional service for the Council, improving the service at reduced cost; together with better procurement of external contracts;

(g) better alignment of the Council's policy functions with the requirements of Leicester Partnership, including provision of a consolidated service to strategic directors (thus intending to provide a better service at reduced cost).

6.19 Whilst savings rising to £2.3m per annum are envisaged from the above programme, some of these savings will be achieved by areas other than the Council's general fund. The following saving has therefore been built into the budget:

(a) 2009/10 - £0.8m;

(b) 2010/11 - £1.2m;

(c) 2011/12 - £1.5m.

<u>Other Corporate Budget Provisions</u>

6.20 The budget contains the following items of expenditure which have been retained corporately, and have not been put into departmental budgets:

(a) funding for Building Schools for the Future – the treatment of BSF is complex, and is dealt with in more detail in section 9 below;

(b) a provision of £2.4m per annum for energy costs (falling to £2.0m in 2010/11). The last 12 months have seen substantial volatility in energy markets, with huge price increases that are now easing. The recommendations to this report, if approved, would give delegated authority to the Chief Finance Officer to allocate this contingency (to the extent needed).

6.21 Some provisions are anticipated in 2010/11 and later years which do not affect 2009/10. These include the effects of future inflation, the next revaluation of the pension fund, and the increase in national insurance announced in the Chancellor's pre-budget report.

6.22 As usual, a planning contingency has been included in years 2 and 3 of the financial strategy.

Growth and Reductions

6.23 The budget has been adjusted for proposed growth and reductions in departmental budgets. These have been prepared following detailed work in departments, including input from service managers who are most closely able to identify service performance impacts. They are fully described in the departmental revenue strategies, which have been circulated with this report. Unusually, a separate (corporate) provision has been made for the estimated cost to Adult Services of future demographic growth. This would normally be part of the departmental budget, but will not be released until further work has been done to review the amount needed.

6.24 Additionally, a growth sum of £0.3m rising to £1m has been included in central budgets. This is to cover potential additional costs for concessionary fares; potential costs of continuing equal pay claims after the introduction of job evaluation; and a corporate contribution to the running costs of a new Children's Hub, should a bid for capital funding prove successful. Central budgets have been reduced by £1m pa to reflect the impact of a decision taken in last year's budget to capitalise £1m pa of additional property maintenance costs.

7. Links to Sustainable Community and Other Strategies

7.1 As stated earlier, the budget is based on the draft 3 year financial strategy, which is itself based on the "One Leicester" sustainable community strategy. This section of the report describes how the financial strategy has been given effect in this budget.

7.2 The proposed financial strategy is attached at Appendix 1 for members' approval.

7.3 The rest of this section identifies specific proposals in the budget which meet the aims of the financial strategy.

Confident People

7.4 **The development of community meetings at ward level** was a key initiative in the 2008/09 budget. Funding of £10,000 per ward, approved in 2008/09, will rise to £15,000 in 2009/10.

7.5 **Meeting the growing needs of older and vulnerable people** was supported in 2008/09 by significant injections of funding for adult social care. Further substantial injections are included in the budget for 2009/10. The aim is also supported by funding for free swimming for older people.

7.6 **Facilitation of cohesion, with particular emphasis on youth** was supported last year by the provision of more funding for the youth service on a temporary basis. Permanent budget provision of £70,000 per annum has now been included in the budget for additional youth work provision in a number of areas; and a provision of £170,000 has been made available in 2009/10 to provide a programme of additional provision and activities for children and young people during school holidays. Additional provision is made in the budget to facilitate community cohesion. It is expected that revenue budget will be provided in 2010/11 for a new children's hub, subject to a successful "Myspace" bid.

New Prosperity

7.7 **Improving our schools and colleges** was supported last year by the provision of monies for the "Transforming Leicester's Learning" programme. This programme is continuing until Summer 2009, and is supported by the injection of further resources. This has enabled the Council to access additional funding from DCSF.

7.8 "New prosperity" is, however, principally supported by the use of capital monies. The capital programme has been significantly affected by the economic downturn, but the capital programme does continue to support schemes which facilitate regeneration particularly of the city centre. Physical regeneration of the city centre continues to be supported by revenue monies made available for unsupported borrowing in respect of the Digital Media Centre.

Beautiful Place

7.9 New monies were introduced in 2008/09 to **make the city "clean and green"**. This included a pilot project to introduce city wardens, graffiti removal, a targeted free service for pest control, and additional street cleaning.

7.10 All these additional provisions remain in the budget, together with additional resource for evening cleaning in the Cultural Quarter now that the Curve is open.

Delivering Quality Services

7.11 The aim of **transforming services** is supported by a substantial provision of £1m per annum included within the budget for the Delivering Excellence programme. This programme is designed to support the Council become one of the best Councils in the country, and the proposed transformation programme includes a revised senior management structure, and projects to deliver a step change in the Council's performance.

Links to Other Resource Strategies – Asset Management Plan

7.12 The Corporate Asset Management Plan (AMP) is a key resource strategy for the City Council and is informed by departmental AMP's. Its purpose is to enable the Council to manage its assets more effectively and thereby drive forward improvements in service delivery. It does this by linking service planning to capital strategy and performance measurement; thereby enabling the Council to meet future accommodation needs, programme property reviews and target resources.

7.13 Whilst the asset management plan has more obvious links to the capital programme, it also informs the revenue budget strategy through assessments of need and prioritisation of repairs via the central maintenance fund.

7.14 Other links between the AMP and the revenue budget include:

(a) achieving savings and efficiencies through improved resource management including property;

(b) Building Schools for the Future, which has a significant impact on our property portfolio and maintenance needs;

(c) the review of city centre office accommodation, for which substantial resources are provided.

7.15 The revenue budget also includes budget reshaping in the Property Services Division, designed to secure the same outcomes with less money.

Links to Other Resource Strategies - ICT

7.16 Until April 2007, ICT Services was a fully traded service. In April 2007, most core operational ICT budgets were centralised. One of the weaknesses of the 'old' structure was a lack of commitment to developing departmental ICT strategies. Correspondingly, one of the priorities of the new arrangements is to address this.

7.17 The Council's vision for ICT is captured in its e-transforming Leicester framework (endorsed by Cabinet in December 2007) which sets four priorities for the ICT work programme:

(a) 24/7 self service for staff and citizens where relevant;

(b) personalisation and choice;

(c) anywhere, anytime working;

(d) seamless working through effective partnerships.

7.18 e-transforming Leicester is supported by seven complementary strategies:

(a) Information management;
(b) Web;

(c) Communications;
(d) Customer Access;
(e) Departmental ICT strategies;
(f) Core systems;
(g) Technical infrastructure.

7.19 These strategies are all complete and are available on Insite. Some of them are more developed than others, but we recognised that this was an evolving process and we anticipate they will improve year on year. They will all be reviewed during the spring.

7.20 The budget supports these strategies as follows:

(a) £100,000 per annum was provided in 2008/09 for 2 years to establish the information management agenda;

(b) the customer access strategy was supported in 2008/09 by £50,000 to develop corporate complaints handling, and a new process has now been implemented. The strategy has also been significantly enhanced by a customer transformation fund of £1m pa approved in 2008/09 and maintained in 2009/10;

(c) funds approved in 2008/09 to enhance the technical infrastructure strategy have been maintained.

7.21 Various capital sums have also been secured.

Links to Other Resource Strategies – Pay and Workforce Strategy

7.22 The Pay and Workforce Strategy is designed primarily to build the capacity of the organisation's workforce to facilitate the achievement of its corporate objectives. It has 5 strands of:

(a) Organisational Development: Support for new structures and ways of working to deliver citizen-focussed and efficient services;

(b) Leadership Development: Building visionary and ambitious political and managerial leadership;

(c) Skill Development: Developing employees' skills and knowledge within a context of innovation, high performance and multi-agency and partnership working;

(d) Recruitment and Retention: Addressing key occupational skills shortages; promoting jobs and careers; identifying, developing and motivating talent; and addressing diversity issues;

(e) Pay and Rewards: Modernising pay systems.

7.23 The financial strategy supports the HR strategy in the following ways:

(a) providing funding for the pay and grading review, which impacts directly on the "pay and rewards" strand;

(b) including provision for the Delivering Excellence programme, of which the continued transformation of HR will be a key element; and which specifically includes £0.3m to support a temporary increase in senior HR capacity.

Links to Other Resource Strategies – Fees and Charges

7.24 Income generation is constantly reviewed by individual services as part of the annual budget process. Whilst some service charges are mandatory, there are others where the Council has flexibility to determine levels of charging. Nearly £100m is raised through charges and commercial rents.

7.25 In general, charges have been established on a service by service basis rather than by means of a corporate approach. This is not peculiar to this authority, but has been the general approach of many other local authorities.

7.26 This position has been recognised nationally, and the Audit Commission recently published a report entitled "Positively Charged", on local authority income and use of charging.

7.27 The report recommended that councils should:

(a) undertake regular reviews of their approaches to charging both within service areas and across the whole Council;

(b) engage service users and taxpayers more in decisions about whether and at what level to charge for services;

(c) collect and use information on service usage and take up of concessions, and examine the impact of charges on individual households to assess whether their equality and diversity objectives have been achieved.

7.28 To respond to this, the Council has embarked on an exercise to determine, in the first instance:

(a) what charges are made and their objectives;

(b) whether those objectives are being met;

(c) how charges are structured, and why;

(d) whether cost effective mechanisms are available for paying and collecting charges;

(e) what local people think of our charges;

(f) how charges compare to similar councils, neighbouring councils, and other service providers;

(g) the impact of charging on behaviour and budgets.

7.29 A report will be brought to Cabinet in the Spring to determine a strategy for fees and charges, with a recommendation that the strategy be used to inform the 2010/11 budget process.

8. Resources

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

Government Grant

8.2 The biggest source of funding for the Council is Government grant. This provides some two thirds of the money needed to fund the net budget, with only one third provided from council tax (consequently a 1% increase in spending results in a 3% increase in council tax – the so called "gearing effect").

8.3 The Council's grant settlement for 2009/10 is £177.4m, an increase of 3.4% on 2008/09.

8.4 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. Whilst these principles remain true, the detailed methodology by which they are delivered has now become opaque, and application of the principles has blurred.

8.5 The settlement for 2009/10 is the second of a 3 year grant settlement, and is unchanged from the figure announced in advance last year.

8.6 During consultation on the 3 year settlement (during 2007/08), the Council consistently drew attention to the inadequacies in the Government's calculation of the City's population. Population is, of course, a key factor in the grant formula. The 3 year settlement used forecasts of population based on 2004, and disregarded the substantial growth in the City's population since that time. Latest projections of population made by the Office of National Statistics (based on 2006) amply demonstrate this:

	Population assumed for grant purposes 000	**Latest projections** 000
2008/09	284.6	295.2
2009/10	284.8	298.3
2010/11	285.1	301.3

8.7 The Council is clearly providing services for more people than it receives grant for. It is impossible to be precise about the amount of grant lost, but we estimate that over the period from 2006/07 (when projections based upon old data first started to be used) to 2010/11, the Council will have lost £14m all other things being equal. Because of the way the Government uses damping in the grant formula, the effect of this loss is expected to extend into the next grant settlement period.

8.8 In reality, however, even the most up-to-date official data is believed to significantly under-estimate the City's population, resulting in an even greater loss.

8.9 We shall continue to press this case with ministers, and Government Office, but the key lobbying effort will take place prior to the next 3 year settlement.

Council Tax

8.10 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 4.94%, and tax income of £91.5m in 2009/10;

(b) a surplus of £0.8m in 2009/10, arising from previous years' council tax collection performance. This surplus was reported to the Cabinet on 5 January.

Area Based Grant

8.11 In addition to the Council's main grant settlement, the Government announced details of Area Based Grant (ABG) to be spent on priorities determined by Leicester Partnership. This amounts to £28.2m in 2009/10, rising to £42.9m by 2010/11.

8.12 The area based grant was created in 2008/09 by pooling a large number of specific, ringfenced grants into a single pool, to be managed as a totality. The only change expected in 2009/10 was the addition to ABG of Supporting People Grant amounting to £14.6m. This has, in fact, not happened and is now proposed to take effect in 2010/11.

8.13 The area based grant will be used to support achievement of service outcomes in the local area agreement, which has been negotiated between Leicester Partnership and the Government; and which directly supports the City's Sustainable Communities Strategy.

9. Building Schools for the Future

9.1 Building Schools for the Future (BSF) is a substantial programme of investment in secondary schools, partly funded by conventional finance and partly by PFI. The Council is in wave one of BSF, and its programme is split into four phases. The Council's total scheme is expected to result in over £200m of investment in the City's secondary schools.

9.2 Contracts for phase one of the BSF programme were signed in December 2007, and included four schools.

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

9.4 The biggest element of cost in the budget is the servicing of debt, which is substantially met by the Government. The first three phases of BSF will be supported (in respect of the non-PFI element) by capital grant. Borrowing will not be needed until phase four. The Government started, however, to provide support for the costs of borrowing long before a deal was concluded, 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.

9.5 Provision has been included in the budget for some years for:

(a) contribution to the costs of a Council client function, to work with the local education partnership on the development and delivery of BSF (the function is now part of a wider programme of educational projects, "Transforming the Learning Environment");

(b) the Council's agreed contribution to the affordability gap, the remainder of which is being met directly by schools.

9.6 Budget provision for the costs of phase one has now been transferred to the Children and Young People's Department. Corporate provision remains for the later phases, and will be released when specific schemes are approved by the Council.

10. Joint Financial Plans

10.1 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.

10.2 Principle amongst these is the local area agreement, which is discussed above.

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

(a) learning disabilities pooled budget arrangements, funded by the City Council and the PCT. Funding is either formally pooled under s.31 of the Health Act, 1999; held directly by partners, or passed to the Council under s.28A of the NHS Act, 1977. Some £25.2m is formally pooled under s.31;

(b) £15m of Supporting People funding is managed by a partnership from the NHS, Probation and the Council.

11. General Reserves

11.1 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.

11.2 The Council also holds a number of earmarked reserves, which are further described in section 12 below.

11.3 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 in the medium-term.

11.4 I have provided an overall assessment of the risks in the budget in section 13 below. The key risks which I believe impact upon the Council's need for reserve holdings are the significant capital projects (particularly Transforming the Learning Environment) which the Council is embarking upon over the next few years; the risk associated with the job evaluation project (and potential equal pay litigation); and concessionary fares. 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.

11.5 The use of reserves in this budget would leave reserves as shown in the table below (after allowing for a prudent estimate of this year's outturn):

	£m	£m
Balance of reserves on 31.03.08		5.5
Plus: Earmarked budget provisions (2008/09)		2.0
Plus savings in 2008/09: Interest on VAT rebate Reduced provision for housing benefit clawback Capital finance savings	 0.6 1.6 3.0	 5.2
<u>Less</u> extra cost in 2008/09: Energy Provision for equal pay	 2.5 2.0	 (4.5)
<u>Less</u> proposed use of reserves in budget		(1.3)
Uncommitted balance 2009/10		**6.9**

11.6 Some of the above items require explanation:

(a) the interest on a VAT rebate arises from a settlement made by Revenue and Customs in respect of a claim made by the Council;

(b) the reduced provision for housing benefit clawback arises from reduced expectations of subsidy penalties to be imposed by the Department of Work and Pensions, following representations by the Council;

(c) capital finance savings primarily represent investment income, and have been periodically reported to Cabinet in budget monitoring reports;

(d) increased costs of energy arise from higher prices in 2008/09, and a budget increase was approved by Council on 29th January 2009;

(e) the increased provision for equal pay is required to meet costs associated with mitigating potential equal pay claims, and is additional to a previous sum approved for this purpose. Approval to set this aside is requested as one of the recommendations to this report.

11.7 The Council's proposed treasury management strategy (Appendix 6) reflects the recommended minimum working balance of reserves, together with other balances included in the budget strategy.

12. <u>Earmarked Reserves</u>

12.1 Appendix 3 shows the Council's earmarked reserves as they stood on 31 March 2007, and as projected by March 2008. 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) on-street parking income.

12.2 The balance on the BSF reserve is now significant. The purposes of this reserve are discussed in section 9 above.

12.3 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. A recent actuarial review suggests this is funded at an adequate level.

12.4 Earmarked reserves may already be contractually committed for some purpose in 2009/10. In particular, the Children and Young People's departmental revenue strategy states how the departmental reserve is being applied to a variety of key programmes.

12.5 The corporate budget strategy includes a policy in respect of earmarked reserves. It is my view that general and earmarked reserves are adequate in the light of risks facing the Council.

13. <u>Risk Assessment and Adequacy of Estimates</u>

13.1 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 paragraphs 11 and 12 above) and the robustness of estimates (which is included in this risk assessment).

13.2 In my view, each of the departmental budgets in 2008/09 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. The Council has always, however, operated flexible budget management rules which enable pressures to be dealt with as they arise.

<u>Key Risks</u>

13.3 The most significant budget risks facing the Council are, in my view:

(a) the significant capital projects the Council is carrying out;

(b) job evaluation and equal pay;

(c) concessionary fares.

13.4 The Council is undertaking some sizeable capital projects, most of which now come within the “Transforming the Learning Environment” programme framework. These include:

(a) Building Schools for the Future;

(b) the Primary Capital Programme;

(c) children’s centres.

13.5 In addition, work continues on the Digital Media Centre (which is within budget), and £3.5m has been made available in the capital programme for new extra care provision. The Council has also bid for a £100m housing PFI grant, to redevelop a substantial number of bungalows and create new extra care capacity. Finance procedure rules expect directors to manage capital spending within resources; and major schemes include their own risk assessments and (where appropriate) contingency plans. Nonetheless, these projects remain a risk if only due to their sheer scale.

13.6 Job evaluation remains a significant risk. Following a decision to cease work on the proposed job evaluation scheme in mid-2008, a new project has been set up to propose and implement a new approach (although still based upon the GLPC framework). Earlier provision of £3m per annum for this scheme remains in the budget. The project is a risk because no financial modelling has yet taken place, and no estimates of any new scheme cost are therefore available. The funding made available, however, is all the Council can afford; and it will be incumbent on the project to design a scheme within the affordability envelope. Also material to the cost of job evaluation are decisions made in respect of protection and any back-dating, which would require one-off funding.

13.7 Concessionary fares has become a sizeable area of risk. In 2008/09, the Government enacted a scheme to provide older people with free bus travel across the country. The cost of each journey is to be met by the local authority in which the journey commenced. Reimbursement is made to the bus companies on a fixed percentage of the full fare – in Leicester, this is 51.4 pence in the pound and reflects the fact that bus companies benefit because the scheme generates additional journeys.

13.8 The Government provided funding for the new scheme by means of a special grant. The Government contended (and still contends) that this grant is adequate (across the country) to meet the costs of the scheme. The Council received £1.5m, and latest estimates are that this will be exceeded in 2009/10 by at least £1m due to fare increases during 2008/09 and increased take-up. These cost estimates are volatile. Key risks are:

(a) further increases in fares by bus operators;

(b) further increase in numbers of older people using buses;

(c) transport operators successfully challenging the level at which fares are reimbursed. Challenges have been made both at local level across the country, and at national level through judicial review.

13.9 These problems are faced by a number of local authorities, particularly centres of population and tourist areas. Representations to Government continue.

13.10 Other key risks include:

(a) the cost of energy, which remains volatile and subject to international demand and geo-political factors. Gas and electricity prices are linked to the price of oil, which soared to $150 per barrel in Summer 2008 and subsequently fell to $40 as a result of recessionary pressures. Provision of £1.0m was made in the 2008/09 budget for rising energy prices: this proved inadequate, and £2.5m was in fact required. I do not, however, regard the cost of energy as a major risk. The cost of the Council's gas and electricity supplies are not as volatile as the daily prices for oil, due to the use of long-term contracts. The risk is also mitigated by our participation in an ESPO buying consortium, which enables ESPO (on our behalf) to advance purchase gas and electricity on the futures market. This avoids the "cliff edge" problem where contracts might become due for renewal just when prices peak. Periods for which energy can be purchased in advance commence in Summer/Autumn 2009, and already around 50% of our requirements have been purchased at recent (low) prices. Thus, in the short-term, a reasonable degree of price certainty exists in 2009/10. In the longer-term, prices clearly remain volatile;

(b) the risk of losing housing benefit grant. Recent years' grant claims have been qualified by the auditor, and the Department of Work and Pensions (DWP) has clawed back substantial sums of grant. Provisions have been made for clawback, and additional resources provided in 2007/08 for quality checking benefit claims will hopefully start to bear fruit;

(c) pay and price inflation exceeding present assumptions. Budgets have been built on the assumption of 2.5% price inflation (notwithstanding that departments have been asked to absorb the effect of some inflation). The most significant inflationary risk is, however, believed to be energy costs for which separate provision has been made in the budget. A 2.25% provision has been included for pay in 2009/10. This is believed to be reasonable given the declining rate of inflation, and expected moderation of pay demands in an economic downturn;

(d) budgets for adult social care remain a risk, given the continued rise in need. However, this risk should be substantially mitigated by the new funding provided;

(e) given the City's attractiveness to international migration, there remains the risk of new arrivals creating unexpected budget pressures. This would compound the under-recognition of the City's population in the finance settlement;

(f) finally, the Council is about to change its structure as a consequence of Delivering Excellence. This will involve the abolition of the position of Corporate Director, and the creation of new Strategic Director posts (each of which will have cross cutting responsibilities). The need for the change of structure, and the delivery of substantial performance improvements in the Council, have been well discussed in the report to Cabinet of 1 October 2008. However, the previous structure has served us well insofar as managing budgets are concerned: Corporate Directors have had significant flexibility to manage departmental budgets as a totality, and switch resources from underspending services to those under pressure. In future, responsibility for ensuring budgets are not overspent will fall to service directors, with strategic directors responsible for reallocating funding between services should this be necessary (either to deliver the corporate plan or to prevent an overspend). This is a significant cultural change, which will take some time to get used to. Service directors in particular will need support to enable them to deliver their new accountabilities. Some work will be necessary between approval of the budget and the start of the new financial year to ensure that all budgets are properly aligned to reflect the new responsibilities. It will be a crucial task to ensure that past budget management disciplines are maintained as we move to new arrangements.

Pay and Price Risk

13.11 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

Capital Finance and Interest Related Risk

13.12 These budgets principally cover:

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

(b) interest earned on cash balances.

13.13 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 2009/10 still, however, assumes balances of £205m.

13.14 The Council's budget is sensitive to interest rates in the following ways:

(a) money is borrowed to fund the capital programme over long-term contracts – thus, our average cost of borrowing changes little from year to year;

(b) cash balances are invested short-term, and are thus sensitive to changes in short-term rates.

13.15 Short-term interest rates collapsed in 2008/09, and a rate of 2% has been assumed for new investment in 2009/10. However, our proposed treasury strategy would see cash balances used as a substitute for new borrowing, and investment income reduce substantially. After allowing for interest paid on, for instance, schools' balances, a further 1% reduction in interest rates would cost the general fund £0.1m to £0.2m in 2009/10. This will change if new long-term borrowing is undertaken.

Risk associated with Departmental Estimates

13.16 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).

14. 2010/11 and 2011/12

14.1 Members are asked to note the outlook for the years following 2009/10.

14.2 Savings of £4m in 2010/11 rising to £8m in 2011/12 are required to be achieved by further efficiencies. This will be dealt with in the Council's efficiency plan, which is being prepared by the Delivering Excellence Team, and will be submitted to Cabinet for approval in March. This is discussed further in section 18 below, but is a risk at the present moment.

14.3 The 3 year budget plan also assumes that the £2.5m savings can be achieved in adult social care by 2011/12. This will be delivered by means of a whole process review of systems involved.

14.4 It has always been our practice to include a planning contingency in our budget plans, and given the risks inherent in the budget this practice has been continued.

14.5 Proposed tax levels in 2010/11 and 2011/12 will be reviewed in the light of economic conditions and prevailing inflation at that time.

15. Capping

15.1 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.

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

15.3 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.

15.4 The Government has signalled that it will not hesitate to use its capping powers again in 2009/10, and has stated (as it did last year) that it expects average tax increases to be substantially below 5%. Like last year, the Government has stated that authorities should not assume previous years' capping principles will be repeated.

15.5 The Secretary of State can determine his own principles for deciding which authorities to cap, and can apply different principles to different authorities. Only one principle is mandatory – a comparison of the budget with that of an earlier year, for which the immediately preceding year is always used in practice (Leicester's budget increase for this purpose would be 4.1%). The other principle the Government has always used (when it has used capping at all) is council tax increases. Since 2004/05, the capping criteria have progressively tightened (except in 2007/08 when no authorities were capped). In 2008/09, authorities were capped if their budget and council tax increases each exceeded 5%.

15.6 A recent survey by the Local Government Association suggested average tax rises would be around 3.5%, which (if confirmed) would be lower than last year's, which was itself the lowest in 14 years.

15.7 Since issuing the draft finance settlement in December, the Minister for Local Government has further reinforced the message that he sees no excuse for excessive tax rises, and has made particular reference to the economic downturn; he has also applauded some authorities who are proposing a tax freeze. As members may be aware, some authorities have reduced their initial intended tax rises.

15.8 A council tax increase of just below 5% should, therefore, be considered a higher risk than last year. However, it remains the case that nothing has been said explicitly about expected tax levels except that the national average is expected to be substantially below 5%, which looks likely to be delivered.

16. <u>Consultation</u>

16.1 Substantial consultation has taken place on the sustainable community strategy, on which the proposed financial strategy is based. Consequential consultation has taken place on the budget strategy, which has been proportionate (recognising that the budget is a financial expression of plans which have been subject to extensive consultation).

16.2 Consultation has taken place with the following:

(a) The Council's scrutiny function;

(b) Partners on Leicester Partnership;

(c) Trade Unions;

(d) The Business Community;

(e) The Public;

(f) The Schools Forum.

<u>The Council's Scrutiny Function</u>

16.3 Scrutiny has taken place under the auspices of the Overview and Scrutiny Management Board. Task groups have scrutinised the budgets of the Children and Young People's', Adults and Housing; and Regeneration and Culture budgets. The Performance and Value for Money Select Committee scrutinised the budget of the Resources Department, and aspects of the Adults and Housing budget were also scrutinised by the Health Scrutiny Committee.

16.4 Minutes of the task groups and committees are included within Appendix Four of this report. Minutes of the meeting held on 4 February will be circulated to members under separate cover.

16.5 Issues discussed in task groups included:

- concerns about the costs of using agency staff (a matter addressed in the budget);

- the impact of bus fare increases on concessionary travel costs;

- a concern about the savings expected in future years in the Adults and Housing Department, for which detailed plans have not yet been formulated;

- concerns about the distribution of Link (a matter addressed in the revised budget proposals);

- concerns about the availability of disabled facilities grants;

- concerns about the energy efficiency of private homes, and the contribution prepaid card meters make to fuel poverty;

- concerns about the increase in home care charges.

16.6 On 4 February, the Scrutiny Management Board considered the recommendations of the task groups, together with a draft of this report. The minutes have been sent to Cabinet members under separate cover. Recommendations made which specifically affect the budget proposals were:

(a) to ask Cabinet to look again at the proposed increase in home care charges;

(b) that the additional money provided for youth work in school holidays (£170,000 in 2009/10) be made a permanent addition to the budget;

(c) that the provision for additional street cleaning in the Cultural Quarter be used for an area which includes Humberstone Gate;

(d) that Cabinet consider certain reserve scheme proposals in the Regeneration and Culture Department, should concessionary fares cost less than currently envisaged.

16.7 The Board made a number of other recommendations, principally around specific monitoring of individual proposals.

<u>Leicester Partnership</u>

16.8 The Council's budget proposals and corporate budget strategy were discussed at the executive meeting on 28 January. Proposals were discussed and noted, and the level of openness over the Council's budget plans was particularly welcomed. It was agreed that key public sector organisations needed to discuss shared responses to the future challenges of financial constraint, including options for pooling and sharing more services.

Trade Unions

16.9 At the time of writing, a response has been received from Unison. If subsequent responses are received from other trade unions, I will forward these to members.

16.10 The response from Unison is included within Appendix Four. Particular issues the union raises are:

(a) concerns over job losses in the budget, particularly when taken together with other reviews taking place in the authority;

(b) opposition to outsourcing, and a particular concern that this is the route which may be chosen following the review of elderly persons' homes;

(c) concerns about the direction Delivering Excellence may take, and the impact on jobs and staff terms and conditions;

(d) concerns about the use of agency staff and consultants.

Business Community

16.11 At the time of writing, no response has been received from the business community. Should a response be received, I will forward this to members.

Public

16.12 A public consultation exercise has been held on the budget, involving the People's Panel, during January 2009. Two sessions were held: attendance was disappointing, with only seven people in attendance at one session, and five at the other. Nonetheless, small groups give the opportunity for greater interaction and explanation than is possible with more general requests for comment; and more informed feedback is received in consequence.

16.13 The key conclusions from this exercise were:

(a) panel members, after an informed discussion, were happy with the proposals for additional spending on front line services, and were content to see council tax increases to pay for this;

(b) there was an acknowledgement that additional spending was required for adult care, but there was concern that the demarcation between medical and social care was becoming blurred and that the NHS might be transferring costs onto local authorities. Councils should make representations to the Government about this;

(c) the concept of Delivering Excellence was not clearly understood. The groups would prefer an approach of eliminating waste by identifying things that do not work or that the Council do not need to do and then, wherever possible, stopping them;

(d) there was an overwhelming view that the Council does good work, but people were unaware of many of the things that the Council does. There was strong support for additional issues of the Link magazine and better distribution – many of the panel did not receive copies of Link;

(e) communication from the Council needs to be improved, particularly in respect of events or special initiatives. The use of other organisations (eg schools, churches, voluntary organisations) was suggested as a means to target more people.

Schools' Forum

16.14 The Schools' Forum discussed the budget at its meeting on 30 January, and the relevant minute is included with Appendix Four.

16.15 Particular points made were:

(a) concern that CYPS is receiving the lowest net growth of all departments;

(b) concern about the Council's level of investment in Transforming Leicester's Learning;

(c) concern about the potential impact of the budget on schools' budgets and balances.

17. Corporate Performance Impact

17.1 This section of the report describes how resources have been redirected in last year's budget, and the impact.

17.2 In 2008/09, £10,000 per ward was allocated for the development of ward community meetings. This has been implemented. Whilst the planning priorities identified by each community vary, four themes predominate: street cleanliness, traffic and parking, anti-social behaviour and support for young people. Funds have been used to cover a variety of projects identified by local groups, including fireworks, Christmas lights, club refurbishment, and books.

17.3 Significant injections of funding were made in 2008/09 for adult social care, to meet the needs of the growing vulnerable population. Funding was also made available for free sports access for older people, which has been complemented by money from DCMS. To date this year, the number of older people taking advantage of free sports facilities is nearly 200,000.

17.4 New funding was included in the 2008/09 budget for youth work. Nine projects totalling £45,000 were commissioned after being chosen by the Young People's Panel; frontline youth services were also enhanced, including much needed provision in Kirby Frith via detached youth work, Friday night opening at Watershed Youth Centre, and work with teenage parents in Barleycroft. Activity was also provided for priority groups, including looked after young people, youth work at the African Caribbean Centre, youth work in our 3 specialist schools, and work with young offenders.

17.5 Funding was made available in 2008/09 to improve our schools and colleges. Results have improved substantially in 2008/09, and we are now the fourth most improved Council in the country. Our learning plan for transforming Leicester's schools is succeeding: schools receiving additional support improved English results by 10% and mathematics results by 8%. 78% of pupils targeted for academic coaching by the learning plan achieved level 4 for reading, 69% achieved level 4 for mathematics, and 55% achieved the same level for writing. New College which, 3 years ago, had only 9% of pupils achieving 5 GCSEs or more, now has more than 40%.

17.6 Physical regeneration of the city centre was supported by substantial investment. The Curve is now complete, and the Digital Media Centre is on track for completion on time.

17.7 New money was set-aside in 2008/09 for city wardens, and patrols have now started in 11 wards in Leicester looking out for environmental eye-sores such as litter, graffiti and dog fouling. Even though it is still early days, wardens have started addressing specific issues in each ward identified by ward committees. Anecdotal evidence suggests the number of bins obstructing the streets are reducing, fewer leaflets have been handed out in the city centre where wardens now check for licenses, and fly-posting has almost stopped.

17.8 New funds were made available for removing graffiti from private homes and businesses. To date 112 privately owned sites have been cleaned, but this figure could have been significantly increased was it not for the difficulty in contacting owners and gaining their permission to remove the graffiti. Overall, performance in removing graffiti has reduced over 2008/09. Funds set-aside last year remain in the 2009/10 budget.

17.9 Funds were set-aside in 2008/09 for a free pest control service, which has been successful in removing mice from a pilot area in Highfields.

17.10 Further funding was set-aside in 2008/09 for East Midlands in Bloom, and Leicester was awarded a silver gilt award for the second year running.

17.11 The additional street cleaning made possible by additional funding has kept the centre free from waste, and has been well received by the public.

17.12 Significant funding was made available to enhance customer services. Results include:

(a) improved telephone arrangements;

(b) fourth Neighbourhood Centre Office;

(c) improved awareness of customer care across the Council;

(d) new, robust arrangements for:

- monitoring and reporting of complaints, comments and compliments;
- embedding best practice.

17.13 Additional money has been used to equip elected members and community meetings through the provision of presentation equipment (i.e. PC, projector, screens and sound equipment). Conference Room 2 has been equipped for members, and centrally held equipment purchased for use by ward committees. To further improve communication with the public, web casting equipment to broadcast Council meetings over the internet has been installed within the Council chamber.

18. <u>Value for Money</u>

18.1 The Council seeks to secure value for money in all its activities, not just at budget time.

18.2 We have been very successful at securing efficiency savings over many years, enabling budgets to be set which enable more resources to be secured for front-line activities. The budget for 2009/10 is no exception, and departmental budgets include £3.3m of efficiency savings rising to £8.1m by 2011/12.

18.3 Departments review their costs of services against those of other local authorities, and a significant analysis was presented to the PVFM Select Committee on 17 March 2008.

18.4 Over the period 2005/06 to 2007/08, the Council met the Government's efficiency savings target of £21m; indeed this was over-achieved by £7.6m of "cashable" efficiency savings. New targets have been set by the Government, requiring us to achieve over £30m by 2010/11. The over-achievement in 2005/06 to 2007/08 can be counted towards this target. We are also working with partners locally and in the sub-region to deliver joint efficiency savings targets.

18.5 The Council's strategy to achieve these savings is:

(a) 2008/09 is a year of consolidation, following a change of administration in May 2007. Decisions have been taken to increase management capacity as part of the Delivering Excellence programme. This increased capacity will provide the means to deliver ever more challenging future targets. 2008/09 is also the year in which the previous "Business Improvement Programme" has been largely completed; and in which "Delivering Excellence" has commenced in earnest;

(b) a new efficiency plan is being prepared as part of Delivering Excellence, which will address the new efficiency savings targets. The first £2.3m has already been identified through a "quick wins" programme, most of which is reflected in the budget.

18.6 It would be imprudent to include the whole of the Government's new efficiency target in current budget plans, given that sources of these savings have not yet been identified. Furthermore, the Government's target is based on strict definitions of efficiency savings which can "count" towards the target; not all of these create actual cash that can be redirected (conversely, some cash releasing savings do not count against the efficiency target). Nonetheless, the budget requires the following efficiencies in future years (going beyond the period of the Government plan):

	<u>Corporate</u> £m	<u>Departmental</u> £m	<u>Total</u> £m
2010/11	4.0	1.5	5.5
2011/12	8.0	2.5	10.5

18.7 It will be demanding to achieve these savings, and it is important that the Council maintains the impetus of the overall Delivering Excellence programme. It is anticipated that significant levels of these savings will arise from changes in the provision of back-office services, particularly consolidation of functions presently provided departmentally; together with more focussed approaches to commissioning and procurement including shared services with local partners. All of these will require focussed management effort.

19. Budget and Equalities

19.1 Under current equality legislation the Council has a duty to promote race equality, disability equality and gender equality. It must also ensure that it does not discriminate as an employer or as a service provider on the basis of age, religion or belief, or sexual orientation.

The race equality duty also includes the promotion of good relations between people of different racial groups.

19.2 The Council has a policy of integrating equalities into all aspects of its business and services. It also has a commitment to implement the Equality Standard for Local Government. In keeping with its race equality, disability and gender equality duties, it undertakes Equality Impact Assessments of its policies, procedures and practices in order to inform its decision making.

19.3 Each corporate director has assessed his/her budget proposals for:

(a) any adverse equality implications that would negatively impact on service users' well-being (as defined by the Equality and Human Rights Commission);

(b) any negative impact on equalities insofar as the proposals affect staffing.

19.4 The results of these assessments have been included in departmental revenue strategies. In summary there are no proposals where serious adverse impact has been identified. In cases where any impact has been identified, mitigating measures are proposed.

19.5 The same assessment has been carried out for corporately held budgets. Potential impacts were identified in 2 areas:

(a) the proposed new job evaluation scheme, which (by redressing historic inequity) is likely to have a disproportionate impact on male workers and hence has to be carefully managed;

(b) the proposed "quick wins" where staffing reductions will need to be managed with a view to minimising any adverse impact on specific staff groups.

19.6 The detailed EIAs for each proposal have been deposited in Members' Services, and are available for public inspection.

20. Unsupported Borrowing

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

20.2 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.

20.3 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.

20.4 Indicators relating to the Housing Revenue Account were agreed by the Council on 29 January as part of the HRA budget report.

20.5 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 only new borrowing proposed in this budget is £3m for development of amateur football facilities, which will create substantial leverage of external funds.

20.6 The following table shows the projected unsupported borrowing of the Council (incurred in respect of approved capital schemes) 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 significant consequence):

	Outstanding Debt	**Approximate Turnover**	**Debt as % of Turnover**
	£m	£m	%
General Fund			
2009/10	57.9	811.8	7
2010/11	69.0	835.3	8
2011/12	71.7	865.4	8
HRA			
2009/10	19.4	75.6	26
2010/11	19.3	78.2	25
2011/12	20.8	82.1	25

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

	General Fund	**HRA**
	£m	£m
2009/10	6.6	1.8
2010/11	7.3	1.8
2011/12	8.1	1.9

20.8 The greater overall exposure of the Housing Revenue Account was made possible mainly as a result of recent improvements in housing subsidy funding. The exposure of the HRA is, however, not currently increasing as the subsidy position is now deteriorating.

21. <u>Procedural Matters</u>

21.1 When the Council approves the budget for 2009/10 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 (to four decimal places);

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

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

21.3 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. The recommendations to this report propose an increase to £2m, if Cabinet is minded to seek these. It follows recent increases in capital delegation limits.

21.4 I would normally ask Cabinet/Council to make certain decisions in respect of finance procedure rules as part of the budget, but these will be sought as part of an update to the rules at Council in March.

22. <u>Treasury Strategy</u>

22.1 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.

22.2 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 policy framework that has been approved by the Council.

22.3 The proposed treasury strategy is attached as Appendix 6 and is consistent with the budget. The investment strategy is attached at Appendix 7.

22.4 In summary, the strategy envisages the following:

(a) a very difficult economic outlook, with record low interest rates for short-term borrowing and investment;

(b) long-term borrowing rates being higher than short-term rates, for the first time in many years, making long-term borrowing unattractive;

(c) running down our investment balances as a substitute for new borrowing, unless opportunities arise to borrow at historically low rates for long periods (which will provide lasting financial benefits).

22.5 The investment strategy is principally concerned with the security of Council investments. This is always a paramount concern for our investment strategy, but the need for such a policy has been amply demonstrated by the events of 2008/09. The strategy gives us latitude to invest with a wide range of bodies should the global financial environment improve. At present, however, we are restricting investments to UK banks and building societies benefitting from Government guarantees; other local authorities; and the Government run Debt Management Office. Members are nonetheless asked to note that guarantees given to banks by the Government are not absolute.

23. Minimum Revenue Provision

23.1 By law, the Council is required to charge to its budget each year an amount for the repayment of debt. This is known as “minimum revenue provision” (MRP).

23.2 Borrowing for capital purposes is incurred in 2 ways:

(a) unsupported borrowing, where the Council decides to borrow money for a priority development and pay the interest and principal from its own revenue resources;

(b) supported borrowing, where principal and interest payments are matched by equivalent amounts of Government grant.

23.3 Supported borrowing must be charged to revenue at an amount equal to at least 4% of outstanding debt. This is reflected in the Government’s grant settlement for local authorities.

23.4 The same rule was also applicable to unsupported borrowing until 2007/08. However, we are now required to set our own policy which is set out below.

23.5 In essence, the proposed policy requires a charge which would repay the debt over the life of the asset it is funding. The policy also enables me to continue making repayment of debt on unsupported borrowing at the 4% rate, where the policy would otherwise produce a lower repayment.

23.6 The policy statement members are asked to endorse for unsupported borrowing is as follows:

(a) **basis of charge** – where capital expenditure on an asset is wholly or partly funded by borrowing, it is proposed that the debt repayment calculation be based on the life of the asset;

(b) **commencement of charge** – debt repayment will normally commence in the year following the year in which the expenditure was incurred. However, in the case of expenditure incurred relating to the construction of an asset, the charge will commence in the year in which the asset becomes operational;

(c) **asset lives** – the following maximum asset lives are proposed:

- land - 50 years;
- buildings – 50 years;
- infrastructure – 40 years;
- plant and equipment – 20 years;
- vehicles – 10 years;
- loan premia – the higher of the residual period of loan repaid and the period of the replacement loan;

(d) **voluntary set-aside** - authority to be given to the Chief Finance Officer to set-aside sums voluntarily for debt repayment, where depreciation would otherwise result in a charge of less than 4% of outstanding debt, subject to such set-aside being reported annually as part of the revenue outturn.

23.7 In respect of supported borrowing, members are asked to endorse a policy of making charges to revenue which match support received.

24. Implications of the Budget for the future Sustainability of Leicester

24.1 The aim of the City's "One Leicester" strategy is to transform Leicester into Britain's sustainable city. Best practice also suggests that key Council policies (such as the budget) should be assessed for any implications for future sustainability.

24.2 The budget contains a number of proposals which will improve the sustainability of Leicester. These include:

(a) continued support to growth in the use of bus travel by older people;

(b) growing enforcement of parking offences, and measures to discourage excessive use of private cars;

(c) plans to reduce fleet mileage, consistent with our EMAS plans, and the realisation of savings;

(d) modernisation of ICT infrastructure which will reduce reliance on paper; together with rationalisation of printers.

24.3 The only proposal which potentially runs counter to sustainability is a proposal to increase the charges for bus passes to certain FE students, although this is mitigated by enhancing the coverage of some passes. It is estimated that the impact of this measure on take-up will be minimal.

25. Financial Implications

25.1 This report is exclusively concerned with financial issues.

25.2 Section 106 of the Local Government Finance Act, 1992, applies to this report in respect of members with arrears of council tax.

26. Legal Implications (Peter Nicholls, Service Director - Legal Services)

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

26.2 Other legal implications are covered in the report:

(a) adequacy of reserves, as required by the Local Government Act, 2003 (sections 11 and 12);

(b) the Secretary of State's power to cap the budget (section 15);

(c) obligations under the equalities legislation (section 19);

(d) prudential borrowing, under the Local Government Act, 2003 (section 20).

26.3 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.

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

26.5 EIAs must be completed in accordance with the report.

27. Other Implications

Other Implications	Yes/No	Paragraph References within Supporting Papers
Equal Opportunities	Yes	These are dealt with in section 19 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.
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 Equalities Legislation Act – see section 19.
Elderly People/ People on Low Income	Yes	The cost of providing concessionary fares to older people has increased significantly, and budget provision has been made. Significant resources have been added to the budget for care services to older people.

28. Background Papers

28.1 Base Budget Preparation – report to Cabinet on 17 November 2008.
Collection Fund Surpluses – report to Cabinet on 5 January 2009.
Council Tax – Taxbase report to Council on 29 January 2009.
Equality impact assessments deposited in Members' Services.

29. Report Author/Officer to Contact

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5 February 2009

Appendix One

Financial Strategy 2009/10 to 2011/12

1. Introduction

1.1 The Council's financial strategy supports the Council's key policy aims and objectives, and national priorities. It sets out the Council's financial policies for the next 3 years within which detailed medium-term planning, annual budgets and the capital programme will be set. It is revised on an annual basis.

1.2 The financial strategy supports the "One Leicester" Sustainable Community Strategy, and has been prepared in parallel to the development of the Council's corporate plan for 2009/10 to 2011/12.

1.3 The financial strategy is a development of the three year strategy for 2008/09 to 2010/11, and is fundamentally unchanged. It reflects, however:

(a) completion of the then draft sustainable community strategy;

(b) completion with partners of the Leicester City Local Area Agreement, which complements the sustainable community strategy;

(c) significant change in the financial climate arising from economic downturn, which has had a substantial impact on resource availability.

2. Aim

2.1 The aim of One Leicester is to shape Britain's sustainable city. This is developed in three key themes within the strategy and the draft corporate plan. This financial strategy helps deliver that aim.

2.2 The Council believes that this aim is best achieved in co-operation with local partners; and will seek to work collaboratively both on service and financial planning, and on joint commissioning of services.

3. The City – Longer-Term Context

3.1 The City's population in 2009 is projected by the Office of National Statistics to be 298,000, although we believe the true figure to be some 10,000 higher, after allowing for perceived under-counts and short-term residents.

3.2 Over the next 15 years, population is projected to grow by an average of 0.8% per annum to 339,000 by 2024 (on official estimates). All these residents will require services, and the growth will create need for new infrastructure development.

3.3 The age profile suggests Leicester's population is relatively young. The over 65 population, which includes many people with high level needs, is projected to remain constant until 2011 before increasing disproportionately compared to the rest of the City. Despite this, adult social care budgets are showing real demand led pressures now.

3.4 The population projections are supported by projections of increased housing needs. The City is a designated housing growth area, and we are committed to supporting the delivery of 30,000 new homes by 2026, of which 6,000 have already been provided. This has implications for both our capital programme and the need to support infrastructure development; and the release of land for sale to developers. In the short-term, economic factors have slowed progress on this aim. Nonetheless, social housing needs continue to increase.

3.5 Leicester is exceptionally diverse. 38% of residents in 2006 were from BME communities. This proportion is increasing, and the number of nationalities represented in the City is also diversifying, creating a requirement for more culturally sensitive services than the average Council.

3.6 Nearly half the population live in the 10% most deprived wards in the country, whilst there are areas of significant affluence elsewhere. The City scores highly on all measures of deprivation, including the IMD, and this is reflected in the needs element of Government grant support. 27% of the population live in social housing compared to 19% nationally; although the proportion living in flats is low, particularly compared to London. This level of deprivation clearly leads to higher costs.

3.7 Leicester is one of the densest areas of population in the country, although this partly reflects its geographical boundaries.

3.8 Leicester businesses have a combined rateable value of £250m (including the majority of the new Shires development). Apart from specific incentive schemes, rates income is, however, paid to the national exchequer; and redistributed. Leicester benefits from this "equalisation", receiving around 50% more from the national rates pool than it contributes, reflecting its high level of need.

3.9 Leicester's council tax base of 80,000 Band D equivalent properties is one of the lowest (relative to population) in the country, which limits the ability to raise additional resources.

3.10 The City Council owns approximately 300 acres of investment land which can be released for sale in due course, and which could realise around £150m assuming that economic conditions improve in the long-term. In this respect, the Council is likely to be in a better position than many other authorities.

3.11 Overall, this suggests above average need for both new service spending and infrastructure investment, and above average reliance on national rather than local resources to deliver this.

4. Resources

Revenue

4.1 The three year financial strategy is set within the context of finite resources, and the tightest national funding settlement for some time.

4.2 We do, however, have certainty over our formula grant for the next 2 years, which is available to support our net revenue expenditure. Resources, together with an estimate for 2011/12 are:

	Grant £m	**Increase** %
2009/10	177.4	3.4%
2010/11	182.4	2.8%
2011/12	186.9	2.5%

4.3 Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's net 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).

4.4 It is a concern to the Council that the finance settlement does not fully reflect the recent and anticipated growth in our population, as described above. Our funding assumes a population of 285,000 in 2009/10 and 2010/11.

4.5 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 average tax rises in 2009/10 to be "substantially less" than 5%, and it is anticipated that capping will continue to be an instrument of Government policy in 2010/11 and 2011/12. Taxation revenues are discussed in section 10 of this strategy.

4.6 The Council also receives nearly £500m per annum from:

- fees and charges to service users and rents from commercial lettings (around £90m pa);

- grants given by Government for specific purposes (nearly £400m pa). Most of this is for schools, or to reimburse housing benefit payments.

Capital

4.7 Substantial amounts of capital resources are (to all intents and purposes) earmarked for education, schools and local transport.

4.8 Capital resources available to spend at our own discretion are dependent upon capital receipts. Normally, these amount to some £5m per annum, but are expected to be substantially depleted over the next three years.

Overall

4.9 The overall financial position is such that the Council needs to carefully balance new commitments to achieve the City's vision and its corporate plan within the constraints of affordability in the medium-term. There will be a continual need to ensure that Council services are delivered as efficiently and effectively as possible so that monies can be redirected to stated priorities.

4.10 In the longer-term, our resources will be dependent upon Government public spending policy, and the economic outlook. The key revenue impact of the latter is less upon our tax revenues (which are based upon notional property values and are inelastic) but upon affordability of Government support. The economic outlook more directly affects our capital position.

4.11 The economy is presently heading towards recession, and views vary as to how long the recession will last. Nonetheless, Government borrowing is anticipated to rise substantially to 50% of GDP as it attempts to put the economy on a sounder footing. In this climate, it is anticipated that future spending reviews will significantly constrain public spending.

5. Financial Priorities

5.1 This section of the strategy identifies those aspects of "One Leicester" which require some degree of financial commitment, together with the **principal sources** from which it is anticipated that such commitment will be made. Any specific commitment is dependent upon affordability in the light of detailed budget planning.

5.2 One Leicester is made up of three key themes:

(a) **Confident people** – people of Leicester will feel confident about themselves, their neighbourhoods, their city and their future;

(b) **New prosperity** – an ambitious and progressive city where everyone meets his or her individual potential;

(c) **Beautiful place** – a beautiful, vibrant, clean and green city that is a great place to live, but that does not create an unacceptable burden on the planet.

5.3 These themes are supported by six values, of which one has direct relevance to the financial strategy: **delivery quality services**. Other values pervade the financial strategy, as they do the sustainable community strategy and corporate plan.

5.4 One Leicester is also supported by:

(a) the Local Area Agreement, which includes 58 jointly agreed targets for the City as a whole;

(b) the corporate plan, which is currently at draft stage. The key performance measures in the draft plan are shown at Annex D.

5.5 Confident people

5.5.1 Key financial priorities are:

(a) the continued development of community meetings at ward level, and the devolution of resources to create a greater degree of empowerment;

(b) the development of choice based provision for the elderly, including extra care. Such development will be a commitment on capital resources, but is expected to achieve significant leverage. Meeting the growing needs of older and vulnerable people and promoting their independence is a key aim of revenue budget planning;

(c) revenue budget commitment will be made to provision that facilitates cohesion, with particular emphasis on youth;

(d) improving community safety is a key aim of the local area agreement, and a priority for the use of area based grant. A significant number of performance measures in the LAA are directed to this aim. It is anticipated that budgets devolved to communities will be targeted (in part) on strengthening neighbourhoods;

(e) improving the standard of decency of homes in the city will be a key priority for the use of housing capital resources;

(f) increasing the supply of social and affordable housing will be an aim of capital planning, and will be sought through wider development policies. The economic downturn has, of necessity, made this a medium-term aspiration.

5.6 New Prosperity

5.6.1 Key financial priorities are:

(a) improving our schools and colleges. The primary source of funding is the Dedicated Schools Grant, but the Council's general fund will support the sizable change programmes for young people (recognising the links between good schooling and the regeneration of the City). These are the "Transforming the Learning Environment" programme (a substantial programme of capital investment); and the "Transforming Leicester's Learning" plan to improve educational outcomes;

(b) we will work with our partners to secure best use of city-wide resources to improve adult skills; enabling local people to secure jobs in the new city economy;

(c) physical regeneration of the city centre, and the prosperity that creates, will continue to be a capital priority. We have levered in substantial sources of external capital to support this aim;

(d) to support co-ordinated economic development of the sub-region, through participation in an economic development company. Revenue costs will be funded through existing budgets, and the EDC will prioritise capital investment to achieve this aim;

(e) improving transport connectivity is a longer-term capital aim, although early commitment is being made to development of Park and Ride. Funding is expected to be achieved through earmarked transport capital resources, leveraged funds, and capital receipts achieved through the development of Ashton Green;

(f) we will work with our partners to secure best use of city-wide resources to improve health.

5.7 Beautiful Place

5.7.1 Key financial priorities are:

(a) both revenue and capital resources have been committed to making the city "clean and green". This will be complemented by the use of ward community meeting budgets, which it is anticipated will be targeted (in part) towards improving the living environment in neighbourhoods;

(b) improving transport and reducing car usage is a key priority for use of local transport capital resources. To the extent that transport impacts prosperity, financial aims are stated in the paragraph above;

(c) capital planning will reflect the need for schemes to minimise their carbon footprint, and the Council will adopt appropriate environmental building standards.

5.8 Delivering Quality Services

5.8.1 Key financial priorities are:

(a) the Council is committing general fund revenue resources to a substantial service transformation programme, the "Delivering Excellence" programme. This will radically transform the Council's strategic management and service delivery, ensuring appropriate focus on a high standard of services and delivery of the corporate plan;

(b) general fund revenue resources have been committed to ensure elected members and locally based community meetings are equipped to do their jobs;

(c) any further investment resources required to deliver quality services will be a priority for capital receipts arising from disposals at Ashton Green.

6. Longer-Term Revenue Spending Need

6.1 Looking beyond the currency of this strategy, the following significant spending issues are envisaged:

(a) increasing the overall level of service to meet the needs of a growing population;

(b) continued growth in the need for adult social care, to meet:

- growing numbers of older people;
- growing requirements of younger adults with complex needs;

(c) trend towards personalisation of social care, in which greater choice is given to service users who may choose alternatives to traditional care. This will need careful management to ensure services are appropriately reconfigured and do not result in growing costs. Cost pressures will be exacerbated by the likely increase in take-up of services generated by personalisation;

(d) the need to maintain education services at an improved level, once Transforming Leicester's Learning is complete;

(e) a continued emphasis on safeguarding.

7. Principles of detailed Budget Planning

7.1 This section of the strategy identifies the principles on which budget decisions will be taken.

7.2 Decisions will be taken in the context of "One Leicester" and the corporate plan, and the financial priorities described above.

7.3 Over the next 3 years, baseline service standards will be set for each service, and publicly communicated. Budget decisions will ensure those service standards can be met.

7.4 Traditional service delivery approaches will be challenged as part of the Delivering Excellence programme. Delivering Excellence is also intended to drive sizeable efficiencies out of the organisation. The first £2m pa is built into budget planning for 2009/10 to 2011/12.

8. Spending Requirements

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

	£m
2009/10	271.0
2010/11	277.3
2011/12	287.4

8.2 The table above provides for:

(a) the Council's budgeted level of expenditure in 2009/10, inflated as appropriate in future years for expected pay, price and pension cost increases;

(b) expected additional costs of capital financing in 2010/11 and later years;

(c) the likely impact of a new job evaluation scheme;

(d) planned spending changes in 2010/11 and 2011/12 included within the 2009/10 budget;

(e) the impact of efficiency savings.

8.3 The table does not make allowance for any further spending pressures in individual services, which arise in 2010/11 or later years. These will be reviewed in later years, with a prima facie assumption that these pressures (which can be significant) must be contained within existing 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) changes in expected levels of inflation or pay, which is particularly difficult to estimate over 3 years;

(c) the effects of a new job evaluation scheme on the pay bill, to the extent that it differs from assumptions made.

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

10. Taxation

10.1 The council tax (Band D) for the City is £1,114 in 2008/09, which is below the national average, and below the average of comparable local authorities.

10.2 Future tax rises will not be excessive, and will be consistent with:

(a) the need to ensure appropriate funding levels to deliver service improvement;

(b) the need to avoid capping.

10.3 Planned tax rises are 4.9% in each of 2009/10 to 2011/12. This will yield the following income:

	£m
2009/10	92.4
2010/11	96.0
2011/12	100.8

10.4 Whilst lower increases would have been desirable, the Council needs to plan for:

(a) essential service improvements;

(b) provision of services to a population larger than allowed for in the Government finance settlement;

(c) responding to the problems of an economic downturn.

10.5 These planned rises will be reviewed each year when the budget is prepared; and this review will take into account prevailing inflation and the impact of economic conditions at that time.

11. Neighbourhood Service Provision

11.1 The Council is committed to giving ward community meetings a decision making role in relation to spending budgets. Budgets of £15,000 have been made available to each ward.

11.2 It is anticipated that monies spent by community meetings will be increasingly targeted to works which improve the living environment in neighbourhoods, principally local environmental improvements and strengthening neighbourhoods.

12. Value for Money

12.1 The Council is committed to providing services as efficiently and effectively as possible, and to meeting the Government's expected efficiency targets.

12.2 Accompanying each budget will be a detailed efficiency plan, identifying:

(a) the Council's planned efficiency programme for the next 3 years;

(b) how the efficiencies have been built into budget planning.

12.3 The efficiency plan for 2009/10, however, is being prepared as part of the Delivering Excellence programme and will be approved in March 2009. The plan will identify how the Council will meet the efficiencies required to achieve National Indicator 179, and the shared target incorporated in the Local Area Agreement.

12.4 Efficiencies are expected to arise from increasingly non-departmental corporate governance, commissioning, and support service arrangements; and increased sharing of these functions with partners in the City and other authorities in the sub-region.

12.5 Monies saved through efficiencies will be available to spend on service priorities and to balance the budget.

13. Revenue Budget Planning

13.1 The Council's structure is changing, and will no longer be based upon service departments. The process described below has been operational for several years, including 2009/10, but will be reviewed during 2009.

13.2 Each service department is required to prepare a 3 year revenue strategy which meets the corporate requirements of this strategy, statutory obligations and national priorities for the service.

13.3 Departmental revenue strategies should specifically address how resources are being redirected to meet priority spending needs.

13.4 As part of budget planning for 2009/10, budget planning targets have been set for each department for the next 3 years.

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

13.6 Departmental revenue strategies are published, and contain:

- details of expenditure and resources for the forthcoming 3 years;
- analysis of the relative costs and performance of individual services;
- charging policies;
- detailed growth and reduction proposals;
- how proposals support the delivery of LAA and corporate plan targets.

14. Specific Policies Applicable to Capital Spending

14.1 The following sources of funding are available to support capital expenditure:

(a) government grant;

(b) supported borrowing – borrowing of amounts allocated by central government, and for which the government provides revenue funding to service the debt;

(c) capital receipts;

(d) unsupported borrowing – borrowing which the Council has to service at its own expense.

14.2 Government supported capital resources (grant and supported borrowing) are almost entirely ringfenced for specific purposes, either as a condition of the funding, or arising from the expectations of the department or body awarding the money.

14.3 Capital receipts are treated as corporate resources, with the exception of:

(a) receipts from the sale of Council housing, which are ringfenced for housing purposes;

(b) receipts which are required to fund projects which enable the property to be sold in the first place (eg relocation of services from one building to another). Decisions on ringfencing such receipts are taken on a case-by-case basis.

14.4 Unsupported borrowing is only used in the following circumstances:

(a) "spend to save" schemes, where principal and interest costs of unsupported borrowing can be met from savings achievable from the initial investment;

(b) "once in a generation" investment opportunities, being substantial projects which can attract significant leverage;

(c) investment to meet the decent homes standard, provided such borrowing does not exceed the implied level of capital included in housing subsidy determinations;

(d) as a last resort, for cost avoidance measures (ie where it is cheaper to borrow now than face a bigger problem later);

(e) as an alternative to leasing vehicles and equipment, where this is cost effective.

14.5 A two year capital programme has been prepared for 2008/09 to 2009/10. This reflects the anticipated level of capital receipts available in the current market. A new programme will be prepared in Autumn 2009.

15. Longer-Term Capital Spending Need

15.1 As resources permit, the Council will plan to tackle the following needs over the next 15 years.

15.2 There is a backlog of investment need for the Council's current asset base:

(a) the Council is responsible for 794km of road, which is likely to increase with housing development. There is an estimated maintenance backlog of £65m for principal and non-principal roads and footways, plus another £100m (very crudely) for unclassified roads. Current spending levels of £4m pa will not make significant inroads into this;

(b) the Council owns 93 schools, with an estimated maintenance backlog of £30m. A substantial, Government supported, programme of works will improve and modernise all secondary schools and half our primary schools over the next 14 years, which should substantially reduce this backlog and improve educational outcomes;

(c) the estimated backlog of repairs to other operational properties (9 children and family homes, 8 Elderly Persons' Homes, 2 golf courses, 42 parks, 18 libraries, 6 museums, 53 administrative buildings and 17 neighbourhood centres) is £60m. Current spending levels of £7m per annum of spending will not make significant inroads into this. This is being mitigated by means of a corporate review of property holdings considering both future need and suitability.

15.3 Conversely, the Council's stock of 22,000 rented dwellings was expected to achieve the Government's decent homes standard by 2010/11 and substantial resources have been committed to this. However, some further investment will be necessary after 2010 to continue to achieve and maintain the standard.

15.4 Other capital investment need will arise from:

(a) the required infrastructure for new housing growth;

(b) continued modernisation of Council IT infrastructure;

(c) expected new service standards for elderly people's homes and continued growth in demand for extra care housing. The Council is considering alternative delivery options to meet this need;

(d) transport and other infrastructure needs arising from development of the Stoughton eco-town, should this proceed. The Council is actively pursuing the development of a tram solution;

(e) a likely need for new secondary schools to meet the growth expected in the under-18 population.

16. Ashton Green

16.1 The Council owns development land at Ashton Green in the north west of the City which has significant value.

16.2 The Council's aim for Ashton Green is to facilitate development of an exemplar housing scheme, which demonstrates exceptional levels of sustainability. Achievement of this aim will depend on a balance to be struck between sustainable development, the achievement of capital receipts, and the ability to lever in additional finances to support the aim.

16.3 Receipts from Ashton Green will be invested to meet the City's sustainable communities plan. Specifically, it is intended that they will be used to address:

(a) transport connectivity, and improvements to transport infrastructure. Such use will be complementary to other transport resources received from the government, and other grant funding;

(b) improvements to the quality of service provided to Leicester citizens and the accessibility of such services; aiming to ensure that services are available either from premises which are fit for purpose or extended hours telephone and electronic access.

17. Capital Budget Planning

17.1 In March 2010, decisions will be taken on which capital schemes will be supported for following years. The length of the programme will depend upon forecast resource availability, which will depend upon the duration of the current recession.

17.2 Decisions will be based on a formal assessment process. This will be in 2 stages:

(a) an initial sift of schemes to determine which meet the agreed financial priorities in this strategy;

(b) a financial and qualitative assessment of each scheme which passes the first stage assessment.

17.3 The financial assessment will consider the value and affordability of the project.

17.4 The qualitative assessment will consider:

(a) the extent to which proposed schemes meet stated financial priorities in this strategy; or

(b) the extent to which expenditure is required to meet a statutory need or national expectation.

18. Reserves and One-off Risks

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

18.2 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 overspends.

18.3 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.

18.4 The Council has historically had a minimum working balance of £5m of reserves. This, however, is low for an authority of our size and level of ambition.

18.5 The Council will therefore aim to:

(a) maintain general fund reserves of at least £5m, seeking to increase this to £7m by 2011/12;

(b) maintain housing reserves at £1.5m.

18.6 The aim to increase reserves will be applied pragmatically, in the light of economic circumstances generally.

18.7 The Council also maintains “earmarked” reserves, being sums of money set-aside for specific purposes. The Council’s policy is to maintain earmarked reserves in the following circumstances:

(a) where monies are ringfenced by law;

(b) where monies have been received from outside bodies for a specific purpose;

(c) to “save up” for one-off unbudgeted purposes; or for known future occurrences which do not happen every year; or to make contributions to jointly funded initiatives;

(d) to meet self-insured losses.

18.8 The Council also permits the creation of earmarked reserves to facilitate good financial management; budget management rules specifically eliminate perverse incentives to “spend up” budgets at year end.

Spending Assumptions

	2009/10	**2010/11**	**2011/12**
Pay rises: - teachers - other staff	 2.30% 2.25%	 2.30% 2.5%	 2.5% 2.5%
*General Inflation	2.5%	2.5%	2.5%
Interest: - paid on new borrowing - earned on investment	 2.0% 2.0%	 2.5% 2.5%	 2.5% 2.5%
Superannuation contribution rates - teachers - other staff	 14.1% 16.64%	 14.1% 16.64%	 14.1% 17.92%

* In 2009/10, services have been asked to absorb 50% of the cost of inflation on general running expenses.

Departmental Planning Targets

	2009/10 £000s	2010/11 £000s	2011/12 £000s
Dept'l Planning Totals (DRS)			
Adults & Housing	87,152.8	85,078.8	82,906.8
Children & Young People	58,552.1	58,391.1	58,383.1
Regeneration & Culture	60,457.2	60,641.2	60,633.2
Resources	28,093.9	28,254.9	28,264.9
Total DRS	**234,256.0**	**232,366.0**	**230,188.0**
Less Full Year Effect of 2008/09 Budget		(155.8)	(155.8)
Pensions – 2007/08 Revaluation	590.0	590.0	590.0
Total	**234,846.0**	**232,800.2**	**230,622.2**

Note:
The Education and Lifelong Learning Budget reflects a credit balance for the schools block of £2,001.4k, which is the element of Dedicated Schools Grant required for non-controllable spend on the schools block.

Forecast Budgets:
Balance Sheet Items and Cashflows

Fixed Assets and Debt	Actual as at 1.4.08 £'000	Forecast at 31.3.09 £'000	Forecast at 31.3.10 £'000
Fixed Assets	2,169,167	2,135,122	2,105,444
Long-Term Borrowing	(285,090)	(276,598)	(272,000)
Capital Financing Requirement	456,251	483,693	503,728

Investments & Liabilities	Actual as at 1.4.08 £'000	Forecast at 31.3.09 £'000	Forecast at 31.3.10 £'000
Investments (excl. company investments)	63,997	73,898	46,602
Short Term Borrowing	(15,495)	(760)	(52,602)
Debtors (excl. Bad Debts Provision)	84,941	74,794	76,693
Creditors	(90,397)	(95,396)	(101,176)

Cash flow movements during the year	Actual as at 1.4.08 £'000	Forecast at 31.3.09 £'000	Forecast at 31.3.10 £'000
Increase/(Decrease) in net borrowing:	(48,752)	(33,128)	74,544
- High risk	-	(8,128)	99,544
- Low risk	-	(78,128)	49,544
Impact on Capital financing budget:			
- High risk	-	Minimal*	Minimal*
- Low risk	-		

*The main uncertainty in relation to net borrowing is the level of grants that we are expecting to be receiving in advance of the related expenditure (in particular BSF). The impact on budgets is shown as minimal because interest rates are low and in some cases interest is being earmarked for the purpose the grant is being received (thereby not directly impacting on the budget).

Reserves & Balances:	Actual as at 1.4.08 £'000	Forecast at 31.3.09 £'000	Forecast at 31.3.10 £'000
Uncommitted General Fund Reserves	5,475	6,800	6,800
Earmarked Revenue Reserves	58,138	62,520	47,830
Earmarked Capital Reserves	5,576	6,200	3,140
Housing Revenue Account	4,574	4,573	2,820

Performance Measures from the Draft Corporate Plan

We will know we have succeeded when we have:

1. Reduced the percentage of young people not in education, employment or training from 8.9% to less than 7.7%.

2. Reduced the rate of teenage conceptions per 1,000 from 61.2 to less than 29.1.

3. Increased the percentage of young people achieving 5+ A* GCSEs (including English and Maths) from 36.4% to more than 65%.

4. Increased the percentage of young people achieving level 4(+) English and Maths KS2 from 62% to more than 82%.

5. Reduced the proportion of children in poverty.

6. Reduce journeys to work by car to less than 50%.

7. Reduced CO_2 emissions to 1.6m tonnes.

8. Reduced recorded crime from 89 per 1,000 population to 54 per 1,000.

9. Increased numbers of people in control of their Social Care Services through self-directed support from 703 to 1,957.

10. Delivered 992 new affordable homes.

11. Maintained/increased the numbers of people who believe people from different backgrounds get on well together in their local area.

12. Reduced the all-age all cause mortality rate (Males from 844 to 692) (Females from 591 to 501) rate per 100k population by 2011.

13. Increased the proportion of population (aged 19-64 for males and 19-59 for females) qualified to at least level 2 or higher from 55.8% to 67.05%.

14. Supported 1,115 businesses so that small businesses showing employment growth increased from x (Baseline awaited from BERR) to x.

15. Increased employment rates so that the percentage of working age people on out of work benefits is reduced from 16.7% to 14.3%.

16. Increased the % of people satisfied with their area (proxy) from 65% to 77%.

Changes between 2008/09 and 2009/10

	£m	£m	£m
Net Budget 2008/09			**259.1**
Plus spend supported by use of Reserves			1.9
Budgeted Spend 2008/09			**261.0**
Technical Changes:-			
Inflation			
- Pay	3.8		
- Other	1.0	4.8	
Pensions		0.6	
Landfill Tax / Rents		0.6	
Energy Costs - Planned Increase in 2008/09 Budget		0.2	
- Additional Provision in 2009/10		1.2	
Increase in Planned Borrowing Costs		0.3	
Grant Transfer		(0.1)	
			7.6
Real Changes:-			
Net Budget Growth 2009/10:			
Adult & Community Services Growth		2.8	
Other Net Budget Growth		1.2	
Budget 2007/08 - Full Year Effects		(0.6)	
Budget 2008/09 - Full Year Effects		(2.1)	
Policy Decisions in 2008		1.2	
One - Off Budgets in 2008		(3.1)	
Job Evaluation		2.4	
Delivering Excellence		1.0	
Delivering Excellence - Efficiencies "quick wins"		(0.8)	
Building Schools for the Future		0.4	
			2.4
Budget Spend 2009/10			**271.0**
Less Contribution from Reserves			(1.3)
Net Budget 2009/10			**269.7**

Earmarked Revenue Reserves

Reserve	Year-end balance 31 March 2008	Forecast balance 31 March 2009
	£000	£000
Statutory / other ringfenced reserves		
Schools' Balances	19,308	19,300
Insurance Fund * (see note below)	4,241	3,990
Dedicated Schools Grant (carry forward)	3,693	3,000
Supporting People Funds	2,461	1,630
On Street Parking Reserve	781	590
Standards Fund – Match Funding Contributions	656	200
Schools Buy Back	763	60
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TOTAL STATUTORY / OTHER RINGFENCED RESERVES	**31,903**	**28,770**
Other Earmarked reserves		
BSF - Capital Financing Costs	8,607	15,490
Area Based Grant – carry forward (subject to approval)	-	4,570
Job Evaluation Reserve	2,765	3,780
CYPS Departmental Reserve	2,088	2,100
Equal Pay Reserve	982	2,000
Transforming the Learning Environment (formerly the Secondary review) (subject to approval)	1,579	1,580
Raising Achievement Plan (formerly TLL)	3,806	1,260
Housing Capital Reserve	828	830
IT Development Reserve - Resources	654	710
Minor Reserves (balances below £100k)	793	420
Ward Community Meetings	534	400
Butterwick House	300	300
Improving Information Sharing and Management (Formerly known as the Bridges Project)	146	145
Cost of Elections	75	75
Adults and Housing - Strategic Reserve	88	50
Resource Management System	240	40
Property & CMF	606	-
Business Improvement Programme	377	-
Children's Services – Tiffield Secure Unit	375	-
HR Improvement Plan	355	-
Key Stage 2 monies carried forward	318	-
Economic Regeneration	300	-
Highways / Traffic Reserve	173	-
Department Investment Reserve - Resources	146	-
LPSA Rewards	100	-
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TOTAL OTHER EARMARKED RESERVES	**26,235**	**33,750**
	=======	=======
TOTAL EARMARKED REVENUE RESERVES	**58,138**	**62,520**

* there is also a provision for known insurance claims outstanding at 31/3/08 of 6.4m

Appendix Four

Consultation Responses

This appendix includes the following formal responses to the budget proposals.

Scrutiny Committees and Task Groups

Minutes of:

(a) Performance and Value for Money Select Committee, 15 January;

(b) Joint meeting of Culture and Leisure Task Groups, 19 January;

(c) Health Scrutiny Committee, 21 January;

(d) Joint meeting of Adults and Housing, and Community Cohesion and Safety, Task Groups, 26 January;

(e) Children, Schools and Young People Task Group, 28 January.

Trade Unions

Response from Unison, received on 30 January.

Schools Forum

Minutes of meeting held on 30 January.

NB: Members are asked to note that some of the above minutes remain draft until endorsed by a subsequent meeting of the body in question.

Leicester City Council

Appendix Four

MINUTE EXTRACT

Minutes of the Meeting of the
PERFORMANCE AND VALUE FOR MONEY SELECT COMMITTEE

Held: THURSDAY, 15 JANUARY 2009 at 5.30pm

P R E S E N T :

Councillor Coley (Chair)

Councillor Dr. Chowdhury	Councillor Hall
Councillor Naylor	Councillor Porter
Councillor Russell	Councillor Westley

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59. THE DRAFT REVENUE BUDGET STRATEGY OF THE RESOURCES DEPARTMENT 2008/09 - 2010/11

The Chair requested that the budget information be made available to Members earlier in future to allow a greater amount of time for the information to be considered. Councillor Russell supported this and added that a special meeting for consideration of the Budget Strategy would be preferable.

Councillor Naylor entered the meeting during this item.

Members considered the Departmental Revenue Budget Strategy for the Resources Department. The Chief Accountant talked through the report and explained the service context within which the budget strategy was set.

Discussion took place on the following:

- Budget information in relation to Leicester Link, which was to be detailed in a revised departmental revenue strategy;
- Use of agency staff in Resources Department;
- Criteria for redundancy selection;
- Budget information in respect of community cohesion; and
- Maximising income at Council owned properties.

Individual members sought further responses on the following:

- Costs of the translation unit;
- Costs of calls to the Council, and the number of calls satisfactorily dealt with;
- Costs of cleaning central administrative buildings; and
- Costs of the administration of community meetings.

Councillor Hall left and returned to the meeting during this item.

Councillors Hall, Naylor and Westley left the meeting during this item and did not return.

RESOLVED:

1) that the Overview and Scrutiny Management Board consider the current costs of the Leicester Link, what extra distribution is planned, and what the total cost of delivery and production will be for the entire updated distribution;

2) that a half yearly budget monitoring report be received to review the use of temporary staffing across the organisation;

3) that the Committee be assured that the Council is taking all necessary steps to let vacant properties and maximise income generation; and

4) that the community cohesion budget items be considered at the Joint Adults & Housing and Community Cohesion & Safety Task Group on 26 January 2009.

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Appendix Four

Minutes of the Joint Meeting of the
CULTURE AND LEISURE TASK GROUPS (REGENERATION AND CULTURE DRAFT DEPARTMENTAL REVENUE STRATEGY

Held: MONDAY, 19 JANUARY 2009 at 5.30pm

P R E S E N T :

Chair – Councillor Wayne Naylor

Councillor Corrall
Councillor Grant
Councillor Palmer
Councillor Russell
Councillor Shah

Martin Judson – Head of Finace, Regeneration and Culture
Andy Keeling – Chief Operation Officer and Deputy Chief Executive
Jeff Miller – Service Director, Regeneration, Highways and Transportation
Richard Watson – Service Director, Culture and Deputy Corporate Director
Jerry Connolly – Member Support Officer
Steve Letten – Member Support Officer
Julie Harget – Democratic Support Officer

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1. ELECTION OF CHAIR

RESOLVED:
that Councillor Naylor be elected as Chair for the meeting.

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bajaj, Kitterick, Newcombe, Shelton and Westley.

3. DECLARATIONS OF INTEREST

Members were asked to declare any interests they may have in the business to be discussed on the agenda and/or indicate that Section 106 of the Local Government Finance Act 1992 applied to them.

Councillor Russell declared a personal interest in that her partner, Councillor Connelly was Cabinet Lead for Culture and Leisure.

Councillor Palmer declared that he was a Governor at Regent College.

4. DRAFT DEPARTMENTAL REVENUE STRATEGY FOR THE REGENERATION AND CULTURE DEPARTMENT 2009/10 TO 2011/12

The Corporate Director, Regeneration and Culture and the Chief Finance Officer submitted a report of the draft Departmental Revenue Strategy (DRS) for the Regeneration and Culture Department 2009/10 and 2011/12. Members were asked to consider and comment on the budget proposals and to provide their comments to the Overview and Scrutiny Management Board.

Andy Keeling, Chief Operating Officer and Deputy Chief Executive presented the report to the Task Group. It was reported that there were about £1.9m of growth items in the budget, which were offset by approximately £1m of budget reductions. It was explained that a big pressure on the budget was due to the increased costs of concessionary fares and also the reduction in fee income, for example in Planning and Development Control, due to the economic downturn.

The growth proposals included £1m for the new concessionary fare scheme. Andy Keeling explained that the extra grant provided by the Government, was insufficient to cover the additional costs of the scheme. Leicester would be one of several Local Authorities (including Derby and Nottingham) that it was anticipated would lose out financially because of the scheme. Officers had discussed this issue at the Local Government Association Conference with a view to taking the matter forward.

A Member stated that she was concerned that the bus companies had increased their fares because of rising costs resulting from higher fuel prices and delays caused by road works and although these reasons no longer applied, bus fares had not been reduced. Additionally, passenger usage had increased because of the concessionary fare scheme and extra visitors to the city following the opening of the Highcross Quarter. Members argued that the inflated bus fares meant that the cost of council subsidies were higher than they should be. Jeff Miller, the Service Director for Regeneration, Highways and Transportation explained that the Council were investigating the charge the bus companies were making.

A Member queried whether the Council were subsidising non-city residents who caught buses within the city boundary. Officers commented that while there could be no certainty over this, it was generally thought to be unlikely.

Members heard that there would be an increased contribution to De-Montfort Hall for both the outdoor festivals and classical programmes. The outdoor festival programme included the Summer Sundae and the Big Session, which the Chair commented were important, as they were both nationally recognised festivals.

Andy Keeling also explained that £40k had been allocated towards opening New Walk Museum until 7.00pm on weekdays and a further £35k to open Belgrave and Westcotes libraries on Sundays. A Member questioned the process for agreeing which libraries should be opened on Sundays and Richard Watson, the Service Director, Culture and Deputy Corporate Director explained that in response to a request, a consultation had been carried out. The consultation had demonstrated that there was a demand for Sunday opening in Westcotes and Belgrave libraries. The Member requested a copy of the consultation.

Andy Keeling informed the Members that an extra £40k had been allocated for evening street cleaning in the Cultural Quarter. The proposal would allow for three cleaning staff, each working 20 hours, seven days each week. A Member expressed concerns that this would be insufficient and there would be no leeway to cover staff sickness etc. Andy explained that the additional staff would complement the existing teams and factors such as sickness and holidays would have been taken in account. The same Member also questioned whether the evening street cleaning could be extended to other areas of the city centre, especially in those areas where there were problems with litter from takeaway restaurants.

Andy Keeling also explained the reduction proposals and Members heard that the De-Montfort Hall car park would be used as a site to provide parking for essential car users, as it would no longer be possible for the Council to rent space at Regent College for such a purpose. Members noted that the car park was some distance from New Walk Centre and the Town Hall and queried whether it was necessary to provide such facilities when many staff would need to walk a considerable distance anyway to reach their place of work. Members suggested that this could be a future topic for a Task Group Review.

Members considered the Equality Impact Assessments and stated that they would like more details included in the report in future, as more information was needed to help Members make an informed decision.

The Efficiency Plan was discussed and in response to a question from Members as to whether any savings could be implemented early, Officers explained that efficiencies had already been identified and had been made.

Members questioned the transfer between the Phoenix Arts Centre and the Digital Media Centre (DMC) and Officers advised that the Phoenix was due to close at the end of March. The DMC was scheduled to open a few months after that and Members queried whether it might be possible to open the Phoenix at weekends only from April to the end of June.

Members suggested the following additional items for consideration for funding, if extra money were made available:

The Chair stated that the Culture and Leisure Task Group Review into Libraries had identified a need to increase the book stock in libraries and an increase in the budget would be very useful. Officers explained that book stock included general resources as well, including audio books and Members agreed that an increase in funding would be beneficial for library users.

The Chair added that the Culture and Leisure Task Group Review into Leisure Centres had identified that there was no corporate identity for the Leisure Centres and requested that new signage be considered. Andy Keeling explained that there would be discussions relating to the council corporate identity and signage could be included within those discussions.

Members also stated that some refurbishment and renovation at De-Montfort Hall was urgently required to keep it in line with Curve. They acknowledged that a long-term overhaul was needed, but in the short term requested that some improvements be carried out.

The Chair and Andy Keeling expressed their thanks to the appropriate staff for the work that had been carried out on the draft departmental revenue strategy.

RESOLVED:

that the comments of the Task Group be presented to the Overview and Scrutiny Management Board.

5. CLOSE OF MEETING

The meeting closed at 6.35 pm.

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Appendix Four

Minutes of the Meeting of the
HEALTH SCRUTINY COMMITTEE

Held: WEDNESDAY, 21 JANUARY 2009 at 10.30am

P R E S E N T :

Councillor Allen- Chair
Councillor Dawood – Vice Chair

Councillor Bhavsar Councillor Hall
Councillor Naylor

IN ATTENDANCE
Bhupen Dave, Service Director, Community Care Services,
Rod Pearson, Head of Finance (Adults & Housing),
Ruth Lake, Service Director, Older People's Services

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13. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Glover and Manish Sood and Deb Watson.

14. DECLARATIONS OF INTEREST

Members were asked to declare any interests they may have in the business on the agenda and/or declare that Section 106 of the Local Government Finance Act 1992 applied to them.

Councillor Allen declared a personal non-prejudicial interest on items within the report that related to day care centres, home charges, emergency alarm systems and any items on community centres as his wife was a user of these services.

Councillor Dawood declared a personal non-prejudicial interest on items within the report that related to Connexions.

Councillor Naylor declared a personal non-prejudicial interest in as he was the Vice-Chair of a men's health group.

15. DRAFT DEPARTMENTAL REVENUE STRATEGY FOR THE ADULTS AND HOUSING DEPARTMENT 2009/10 TO 2011/12

The Corporate Director Adults and Housing and the Chief Finance Officer submitted a report on the draft departmental revenue strategy for Adults and Housing Department 2009/10 to 2011/12.

Bhupen Dave, Service Director, Community Care Services, Rod Pearson, Head of Finance (Adults & Housing), and Ruth Lake, Service Director, Older People's Services, presented the report. It was noted that the report reflected the restructuring of sections to remove duplication of work and the difficulties facing Social Care as funding was not increasing with demand.

Members heard that the growth aspects within the report only covered one year, as the longer-term growth was being investigated. The savings were over the three-year period.

Members expressed concern that the £2.5m efficiency savings were not identified. It was felt that unless it was known where these savings would be made that this could not be recommended. In addition by only spreading the savings over a two-year time scale there would also be a significant impact. In response Officers stated that the savings would be identified over the next few months and could not be given at this time. The pressure for the savings had arisen across the Council budget.

It was noted that the unions had been consulted regarding the budget with feedback expected on 22 January 2008.

The Chair queried where the money gained from the sale of the Night Shelter on New Walk had been allocated. Officers suggested that this had be used to part fund the Dawn Centre and agreed to provide information to the Chair..

Members discussed the importance of the community centres and the benefits of luncheon clubs. Ruth Lake explained that luncheon clubs had not received equal subsidies, as this had been provided based on the amounts requested. The amounts had not been equal in the past due to the sensitivity of the impact on the voluntary sector. The introduction of the higher maximum charge would help to cover the costs.

A Member queried if new arrivals to the Country were accounted for in the demographic growth. Bhupen Dave stated that the figures were based on predictions of likely numbers of arrivals and the impact this would have on services.

Bhupen Dave reported that the Support Agency called Mosaics was currently providing the support for direct payments. Mosaics were able to provide help towards care support contributions for tax. The Chair noted that this could benefit many more people.

In response to a question Bhupen Dave assured Members that consultation with users of Beaumanor House would be carried out regarding any change in service. Members expressed concern that residents becoming tenants in their own right might be of detriment to their care. Bhupen Dave explained that this would provide better care housing, as people would be in supported living accommodation that provided more independence.

Members requested that they be kept updated with the amalgamation of the three day centres for Older Persons Mental Health Day Services.

In response to a question regarding the Elderly Persons Homes Ruth gave assurance that staff would be protected through legislation during any transfer. She noted that the options available would be communicated to staff and that the cost of running these homes was more expensive than through in-house services.

A Member of the Committee expressed concern over the efficiency savings within adult skills and learning and suggested that people entering the jobs market could be more in need of help rather than less, especially as charges had been continuously increasing. In response it was stated that the demand for the service had been declining.

The Chair thanked officers for their work on the report.

RESOLVED:

1. that the comments of the Committee be presented to the Overview and Scrutiny Management Board and that particular concern be expressed regarding the £2.5m of efficiency savings that had not yet been identified.

2. that Members be kept updated with the amalgamation Older Persons Mental Health Day Centres.

16. CLOSE OF MEETING

The meeting closed at 12.25pm.

Appendix Four

Leicester
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Minutes of the Meeting of the
JOINT MEETING OF THE ADULTS AND HOUSING AND COMMUNITY COHESION AND SAFETY TASK GROUPS (ADULTS AND HOUSING DRAFT DEPARTMENTAL REVENUE BUDGET STRATEGY)

Held: MONDAY, 26 JANUARY 2009 at 5.30pm

P R E S E N T:
Councillor Joshi – Chair

Councillor Grant Councillor Hall
Councillor Naylor Councillor Potter

Also in Attendance:

Councillor Aqbany – Cabinet Lead, Housing
Councillor Cooke – Cabinet Lead, Adults and Older People

Officers in Attendance:

Ann Branson – Service Director, Housing Renewal, Options and Development
Bhupen Dave – Service Director, Community Care Services
Ruth Lake – Service Director, Older People's Services
Steve Letten – Member Support Officer
Palbinder Mann – Democratic Services Officer
Keith Murdoch – Director of Partnership, Performance and Policy
Kate Owen – Member Support Officer
Rod Pearson – Head of Finance, Adults and Housing
Alistair Reid – Interim Corporate Director, Adults and Housing

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23. ELECTION OF CHAIR

Councillor Joshi was elected as Chair for the meeting.

24. APOLOGIES FOR ABSENCE

Apologies were received from Councillors Dawood, Marriott, Newcombe, Shah and Thomas.

25. DECLARATIONS OF INTEREST

Councillor Potter declared a personal non-prejudicial interest as she was a council tenant and her grandparents were in receipt of a care package.

Councillor Joshi declared a personal non-prejudicial interest as his sister was a council tenant, his wife worked for the domiciliary department at Leicester City Council and he worked for a voluntary organisation.

26. DRAFT DEPARTMENTAL REVENUE BUDGET STRATEGY 2009/10 TO 2011/12

Alistair Reid, Interim Corporate Director, Adults and Housing Department presented the Adults and Housing Draft Departmental Revenue Budget Strategy 2009/10 to 2011/12.

Alistair gave a brief outline of the departmental structure and divisions within it. He noted that matters relating to Council housing were funded through the Housing Revenue Account, which had been considered separately. He commented further that the Commission for Social Care Inspection (CSCI) had rated adult social care services ‘good’ on delivering outcomes, ‘promising’ on capacity to improve, with an overall two star rating. He outlined details of 21 key performance indicators noting that nine were top rank achievements with none that were questionable or required further investigation. In respect of the current year’s budget, it was expected that the previously forecast overspend could be managed to a balanced position, but pressures did remain.

Alistair noted that delivering the 2009/10 budget could face difficulties due to issues with specific cases costing a large amount of money and negotiations with the Primary Care Trust over funding. He also outlined details of the proposed budget reductions. The key elements of this included a major staffing reorganisation and a review of elderly persons homes.

A Member of the Task Group raised concern with referrals in social care as she had constituents in her ward that had been waiting for an adaptation for up to two years. She also stated that there were a lot of elderly people living in two and three bed properties in the city as there was a shortage of bungalows. Ann Branson, Service Director, Housing Renewal, Options and Development commented that there was a difficult situation with adaptations. If people were not a council tenant then there would be a waiting time. Alistair stated that there would be funding provided for Council tenants. A query was raised by a Member about how funding could be found and the backlog reduced. Alistair commented that as a direct impact of the recession the Council were no longer selling as many council houses and the funding for adaptations had previously come from those funds.

A Member of the Task Group raised concern that the care budget package increase from £8.20 to £9 would prevent people from getting support. Ruth Lake, Service Director, Older People's Services commented that people who were in receipt of a care package were assessed as to how much they could afford and the maximum charge they would be paying would be no more than they could afford. The rise would impact people who paid the full amount or a lower amount, it would not affect people who did not pay towards their care package. The Member commented that 80p was to big a rise and up to 50% of people in receipt of a care package would face a larger bill.

Another Member stated that the money made from the increase would be a small amount and it should be looked into if the saving could be made from another area of the budget. He also raised concern at the reductions in the Employment Work Out scheme, which meant that employees with learning difficulties would be made redundant. He also stated that any review of elderly people's homes across the city should involve residents and staff of the care homes.

Following from concerns expressed by members on the reduction in the employment workout scheme, Bhupen Dave, Service Director, Community Care Services commented that there seemed to be a misunderstanding about the proposal. The intention was not to cut the services but to manage them in a different way. Savings would be from running costs and not from staffing. He added that service users in the workout scheme did some work for private sector firms for which they were paid a nominal amount. Due to the complications arising from the employment legislation and not enough work coming through from the private firms, this particular scheme, in the way it was operating, was no longer viable. He also informed the Task Group that the employment services provided to people with learning Difficulties in Leicester were well recognised nationally. He pointed out that a team of officers from the Cabinet office were currently in Leicester trying to learn from Leicester's employment schemes and projects.

Regarding the elderly persons homes consultation Alistair reassured the Task Group that staff and service users at care homes would be engaged in the consultation process for the review.

A Member of the Task Group queried what the long term strategy for Community Centres was. Alistair commented that there had been a review four years ago. The plan was to reduce the number of centres from 44 to 23 however the review had never been implemented. A further review was scheduled for the coming year. The review would include looking at centres that did not perform a community function and those that could be managed by someone else other than the Council.

A Member stated that to reduce traffic as stated in the One Leicester vision, work needed to be done with the bus companies as residents in outer areas of Leicester had lost some bus services. The Member also commented that the aim to reduce everyone's Carbon footprint would be difficult, as residents would be paying for large amounts of gas and electricity. Ann commented that Council housing had a better record of energy saving measures than the private sector. There had been double glazing and extra insulation installed on many houses. However houses without those features installed were a problem.

Concern was also raised at the wording of a letter that had been sent out to care homes staff. A Member of the Task Group felt that the letter should have been better worded as the staff were now panicking. Alistair accepted the issue with regard to the letter.

Concern was raised by a Member at the 5.9% rent increase for Council Housing tenants. Alistair commented that the 5.9% rent rise had been forced upon the Council were not allowed to subsidise the rent. Rod Pearson, Head of Finance, Adults and Housing, commented that the above inflation rent increases were likely to occur for many years as part of the Government's rent convergence policy. Rod added that of the 5.9% increase the Council would only keep 2.2%. A Member of the Task Group commented that by increasing the rent it would mean people would struggle to pay it. Another Member stated that there should be another set of Task Group meetings to discuss the Housing Revenue Account as it had not been before Members.

The Cabinet Lead for Adults and Older People criticised pre payment metres installed in homes as people had to pay before they could use the utilities. He added that there had been some work conducted to look at suppliers, as it was big issue for some people. He offered to work with a Member who had a raised an issue about the high charges made to pre payment meters and the Home Energy Team.

The Chair thanked all Officers for their attendance.

RESOLVED:

1) that the comments of the Task Group be presented to the Overview and Scrutiny Management Board with particular concern raised in the following areas:

    - Energy efficiency.
    - Fuel poverty and card meters
    - Disability facilities and grants.

2) that, in respect of proposal R35, increase in home care charges, the Overview and Scrutiny Management Board be recommended to give reconsideration to this proposal and recommended that savings be identified from elsewhere within the Adults and Housing budget.

27. ANY OTHER URGENT BUSINESS

Keith Murdoch, Director of Partnership, Performance and Policy was present to present two extra base budget growth proposals from the Resources Department budget that had been requested to appear at this meeting by the Task Group Leader, Community Cohesion and Safety Task Group as there had been insufficient information on the items at the meeting where the Resources budget had been considered.

The first proposal was in the area of community cohesion, this was to develop a project that challenged extreme and violent activity that threatened the cohesion of the city in challenging economic circumstances and to reinforce services that addressed economic disadvantages.

A Member queried whether the amount of money listed would be enough for the challenges that the city was facing such as an increase in unemployment Keith commented that the proposal was about identifying where problems could arise and then using the information to inform delivery decisions of existing Council services and partners rather than putting new services in place.

The Chair queried why there had not been any increases in the number of staff detailed as part of the proposal. Keith stated that it was not the intention to look at increasing the amount of City Council staff with the proposal but to increase capacity such as looking to acquire staff from the voluntary sector or community organisations.

The second proposal was to increase the publication of the Link to a monthly basis and to explore introducing a system where Link was distributed to each household in the city through the post. Keith commented that the publication of the Link had been previously reduced to six a year however as results from the recently conducted residents survey had stated that it was valued by residents across the city as it was a useful source to obtain information as to what events were taking place in the city. Keith mentioned that there were a number of issues related to the distribution of the magazine and the aim was to increase the frequency and circulation of the magazine and both of these issues were being worked on. Keith informed the meeting that the increased publication of the Link would require additional printing and distribution costs however no further staff would be required.

A Member of the Task Group raised concern about the distribution, as she was not receiving the magazine in her ward. Keith commented that most distribution companies in the city would use the same staff to deliver the magazine. The Council needed to look at how to deal with particular areas, which faced distribution problems in the city, and perhaps there should be money given back by the distribution companies as they were being paid to deliver to every home in the city and were not achieving this.

A Member of the Task Group stated the Link should also be delivered to places such as doctors and dentists surgeries along with schools. Keith commented that delivering to surgeries could be looked into.

The Chair queried whether there was any mechanism to keep track or monitor the distribution. Keith commented that in the current contract there was random checking that occurred a week or so afterwards however this process needed to be made robust.

A Member suggested possibly using Community Meetings to monitor if the Link was being delivered or not.

RESOLVED:

that concern be raised by the Task Group over distribution of the Link magazine.

28. CLOSE OF MEETING

The meeting closed at 6:56pm.

Leicester
City Council

Appendix Four

CHILDREN, SCHOOLS AND YOUNG PEOPLE TASK GROUP

MINUTES OF MEETING

Held: WEDNESDAY, 28 JANUARY 2009 at 5.30pm

P R E S E N T :

Councillor Bajaj– Chair

Councillor Chowdhury
Councillor Dempster
Councillor Joshi
Councillor Potter
Councillor Westley

* * *   * *   * * *

47. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor J Blackmore, Councillor Desai and Councillor Mayat

48. DECLARATIONS OF INTEREST

Members were asked to declare any interests they may have in the business to be discussed and/or indicate that Section 106 of the Local Government Finance Act 1992 applied to them.

Councillor Dr. Chowdhury declared that his son was a Secondary School Teacher and that he was a school Governor.

Councillor Potter declared that she had a child in full-time education.

Councillor Joshi declared that he was a school Governor.

49. DRAFT DEPARTMENTAL REVENUE STRATEGY FOR THE CHILDREN AND YOUNG PEOPLE DEPARTMENT

Andrew Bunyan, Interim Corporate Director, Children and Young People's Services presented the Departmental Revenue Strategy report and explained that this was the third integrated Children’s services strategy since the Children’s and Young People’s Department was established in 2006.

It was reported that the overall aim of the budget was for every child to have the support they needed and to comply with the ‘Every Child Matters’ agenda. The department’s three key priorities could be encapsulated in the phrase “A good school for all children in their local community”. The three key areas where progress was required were noted as School Improvement, Admissions and School Place Planning and Inclusion of all children.

Andrew stated that following the Joint Area Review, the Council received an Improvement Notice from central Government that required improvements in how the Department drives and supports school improvement, a reduction in the number of teenage pregnancies and reductions in the number of young people not in employment, education or training.

The proposals for growth and investment to address these priorities were summarised by Officers. It was reported that the Council would contribute to funding of the ‘Raising Achievement Plan (incorporating ‘Transforming Leicester’s Learning Plan’) and would also continue to support additional out of school provision.

Additionally, plans included Transforming the Learning Environment through ‘Building Schools for the Future’ and Primary Capital Programme.

Officers also confirmed that they would maintain a commitment to Safeguarding vulnerable children. This should include investment in legal costs and safeguarding funds ahead of the expected Lord Laming recommendations.

They would also aim to reduce the number of teenage pregnancies in a joint project with the Primary Care Trust.

Officers confirmed that efficiencies and additional income would be gained and that funds accumulated in reserves would be applied.

Members offered comments and sought clarification on some aspects of the budget. Members enquired how much money was available in the reserves. Officers advised that the current reserves stood at £6.7m in General Fund reserves and £5.9m in the Schools Block, most of which would be used by March 2010 to support key priorities as set out in the DRS.

Members expressed concerns regarding reserves held by schools, which totalled £19.3m at March 2008. They requested measures to draw back unspent reserves from schools, to be used to support educational improvement. Members suggested that a timetable for schools to spend funds would be beneficial. Officers explained the statutory basis of school balances, and stated that the schools balances scheme was to be reviewed for March 2010, with some short term clarifications for March 2009, and that a discussion was scheduled at the January meeting of the Schools Forum. Members heard that the Council would work with schools where there are concerns about educational achievement to identify suitable ways for any unspent reserves to be used.

Members raised a further issue regarding the forthcoming national review of child protection services by Lord Laming. It was suggested that more money in the budget was needed for child protection. Officers noted that money could not be found elsewhere within the CYPS budget due to the other pressures and that more money would need to be allocated by the council for this purpose should Members so wish. Councillor Dempster, Cabinet Lead for Children, Young People and Schools, supported Members' views and further stated that the figure of £30k was proposed, as the Laming report had not yet been received. Members expressed views that this was an issue of great importance and it was essential that Leicester was prepared and took preventative measures in safeguarding children. Officers advised that the CYPS Dept takes child protection very seriously and has a good record in this area.

Officers also advised Members of the suggestion that schools should pay a contribution to safeguarding services in schools, which would be discussed at the Schools Forum.

The Cabinet Lead Member explained that service remodelling had lead to improved services for children by providing a central contact centre to allow them a neutral and safe environment to meet with parents and family members.

Members enquired as to whether the National Health Service funds programmes to reduce teenage pregnancies. They expressed concerns that it should be in the remit of the health authority to provide these services. Officers explained that the ' Every Child Matters' initiative required health matters to be addressed by the Council in partnership with the Primary Care Trust, who do provide a significant amount of funding.

Members welcomed the continuation of funding for school holiday activities but concerns were raised that the funding was in place for one year only. Members felt it essential that the financial position was maintained for these activities, as it was important for young people to be occupied during school holidays. The Cabinet Lead Member explained that the funding is for 2009/10 only pending the outcomes of the development of an Integrated Youth Support Service.

Members also raised concerns regarding 16-18 year old group who were not engaging in education, employment or training (NEET). They noted that this group of individuals appeared to them to be growing in number in particular areas of the City and contributed to the rising statistics of long-term unemployed. They asked to see more being done with this group of young people. It was noted that the Council would soon be taking responsibility from the Learning and Skills Council for all 16-19 education, and had recently gained responsibility for the 'Connexions' service, which would go some way to resolve these issues.

The Chair thanked Officers for presenting the report and members for taking part in the scrutiny process.

RESOLVED:

1. that the Task Group recommend to the Overview and Scrutiny

Management Board that the Draft Departmental Revenue Budget Strategy for 2009/10 – 2011/12, in respect of Children and Young People's Services, be supported with the following recommendations :

2. that the Council increase the proposed budget growth of £30k for responding to the expected recommendations of Lord Laming's report in respect of Safeguarding Children.

3. that the Council make a provision for repeat funding of School holiday activities in years 2010/11 and 2011/12.

50. CLOSE OF MEETING

The Chair closed the meeting at 6.30

Leicester City Council

Appendix Four

UNISON

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UNISON – RESPONSE TO LEICESTER CITY COUNCIL'S 2009 BUDGET

Overview

The budget for 2009 – 2012 hides the true extent of both job losses and cuts to services that can be expected over the next 2 years.

For the first time in a long time job cuts are being proposed to front line services as a consequence of the merger of the three Older Persons Mental Health Day Centres, re-provisioning of some Learning Disabilities Services and the review of Elderly Persons Homes. UNISON would submit that cuts here are either cuts to service provision, or cuts to the quality of those services provided.

Whilst this administration will undoubtedly claim that staff have 'got off' lightly in relation to job cuts compared with some neighbouring authorities, they can do so only because many of the cuts to be made **don't** appear in the budget papers.

Ongoing reviews as a result of the recession in Economic Development, Planning and Building Control have resulted in the loss of a total of 26 jobs.

Plans to transfer Highfields Community Centre to community governance is outsourcing by any other name. Staff will be left facing reductions in terms and conditions and anxieties about the future that is often associated with TUPE transfer.

A last minute suggestion in the Service Director review (initially intended to increase capacity at this level) prompted the deletion of 2 jobs apparently as a result of the budget. Despite there being no corresponding line in the summary budget presented to the unions it has since been clumsily and hastily added to an existing reduction in the Adult and Housing DRS. This act appears to indicate either a lack of transparency or a lack of proper deliberation/consideration of individual proposals.

References to reviews, re-organisation and 'future year's efficiencies' as offering savings are also concerning because of their imprecision. The figures attached to these budget lines are so high that the conclusion can only be that job losses and/or privatisation are involved.

Delivering Excellence – delivering job losses and cuts to terms and conditions

The Delivering Excellence programme is another vehicle being used to hide both job losses and cuts to terms and conditions.

A saving of £100,000 rising to £200,000 in 2010/11is expected from the deletion of policy officer posts; and a review of 'Grey Fleet', (which is management speak for staff mileage and expenses), is expected to save the same.

At this point in time UNISON perceive that changes to the terms and conditions of support staff (premises officers/commissionaires) working at the Town Hall proposed by Delivering Excellence also give cause for concern.

The Delivering Excellence team view these cuts in jobs and terms and conditions as 'quick wins'. Obviously the staff affected won't share this view.

Overall at present the quick wins envisaged by the Delivering Excellence programme will 'save' the council only a fraction more than the estimated cost of the programme itself.

Indeed if the growth item of £1,125 million in the Resources DRS - 'Savings not now deliverable as they have been superseded by Delivering Excellence' is taken into account then DE delivers no savings at all in the next three years.

How DE will deliver the more substantial savings it promises, (£8 million savings for the budget by 2011/12 and £30 million pa in 'Gershon efficiencies') is as yet unknown: but savings of that level are probably only achievable through staffing cuts and wholesale privatisation of services – cutting back on the paper clips won't do it.

Further it appears that the whole purpose of Gershon efficiencies, (the re-investment of savings in front line services) has been lost over time.

The employer and its representatives that comprise the Delivering Excellence team seek to cast the trades unions in the position of nay sayers, lacking in understanding and therefore unappreciative of the programme and its many benefits to Leicester City Council. With respect it is precisely because we do understand the drivers and possible consequences that we are concerned. The DE team shouldn't be surprised if they can't persuade the turkeys to vote for Christmas.

The privatisation agenda

This drive towards privatisation of as many council services as possible is apparent from the budget and cannot be dismissed as scaremongering. The clearest evidence of this aim is the proposal to review the Council's Elderly Persons Homes with a view to transferring them to an Arms Length Management Organisation (ALMO), or the private sector.

It is UNISON's view that this is being done in part because of an ideological imperative toward privatisation but more cynically to avoid the costs of improved pay for these mainly part time women employees which will be a consequence of Job Evaluation and Equal Pay claims.

The proposal to include two of the Councils EPHs in a Private Finance Initiative (PFI) bid was not referred to at either the Corporate or the Departmental budget briefings.

Whilst it might only be an expression of interest at this point in time we believe that the bidding round was launched in July 2008 and submissions had to be made by the end of October. Some ground work would have been required prior to this submission; thus the opportunity existed to brief the trades unions some considerable time before the budget briefings and in any event as part of those briefings.

Claims are made that at this stage nothing is ruled in and nothing is ruled out, every option will be explored. The trades unions of course received similar assurances in respect of Academies. Whilst scepticism might appear to be the trade union default position, management, through their lack of transparency, are doing little to assuage/counter this position.

Management may claim to be looking at **all** options including maintaining the in-house provision. We cannot believe this to be the case given the intention is to save over a million pounds. Only privatisation/closure could possibly achieve that level of savings.

Whilst the Administration will be keen to direct everyone's attention away from privatisation to the additional investment in adult services in particular, consider the truth of the matter; the population of Leicester is an aging one, if Leicester City Council is to meet its statutory obligations to the people then it has little choice other than to invest.

It will be noted that the additional investment is for one year only and that further monies for future demographic change, rather than be included has been set aside in the overall corporate budget. This seems to indicate that it won't be necessary – privatisation ensuring that the cost is borne elsewhere.

That old chestnut of 'choice' will be cited as the rationale for the cuts in the Learning Disabilities Services and the 'review', (privatisation), of the EPHs. It is always worth noting that the 'choice' on offer tends to be the cheapest possible.

The notion of public sector bad private sector good is both naïve and misconceived. Setting aside the arguments about accountability and quality there are many other reasons why public services should remain public.

Amongst other things it is a well established, if rarely acknowledged fact that public providers can be flexible and responsive and that private sector funding mechanisms such as PFI and Public Private Partnerships (PPP) have often been more expensive than publically financed projects.

In respect of the figures provided in the budget relating to EPHs the claim that the in-house provision costs £1.27million higher than externally commissioned places appears to be little more than a crude comparison.

It is to be hoped that proper analysis of the true costs and differences occurs before decisions are made to transfer the homes and staff to any external provider.

Conclusion

Councils have been able to make double the efficiency savings required by Government, double reserves since 2002 and spend large amounts of money on consultants and agency workers, while our members have not felt any benefit in their pay, conditions or access to training. So where is the money going? Theatres, pavements, street

cleaners (for very specific parts of the city), and of course consultants and agency staff appear to be current priorities.
Consider the fact that in the period April 2005 to January 2008, (less than three years), Leicester City Council spent £19,086,696 on consultants and between April 2005 and December 2008 £36,081,072 on agency staff.

Whilst the authority claim that the issue of consultancy/agency costs is being tackled members would do well to remember that similar claims have been made in previous years. While there remains a culture of using consultants and agency staff in the first instance and whilst the current crop of consultants are still circling, this problem will never be resolved.

When resources are limited spending priorities become the issue. Whilst some may baulk at references to those doing well at this time or priorities being wrong, it must be remembered that not only do many staff face an uncertain future, but many staff and members of the public will not share the ideology that's driving this process– private sector good, public sector bad.

Difficult choices have to be made; in – house and therefore accountable services provided by trained and well motivated staff or external, possibly for-profit services where the reduction in cost is achieved through staff salaries and training, where turnover is high because staff can achieve better working conditions at Tesco.

A dialogue is required about priorities and ideologies before irreversible decisions are made. Rather than trade insults and accusations UNISON would like to see this administration and senior officers in the Authority sit down with the trades unions and have this discussion.

At the present time the proposals to cut staff and services and to privatise large elements of service provision cannot be supported by UNISON and indeed will be strenuously resisted.

Janet McKenna
On behalf of UNISON Leicester City Branch

Appendix Four

MINUTE EXTRACT

Leicester City Council - Children and Young People's Services

Schools Forum - Thursday 29th January 2009

Minute 11 Budget Planning 2009-12

The report of the Head of Finance and Efficiency was received. This sought Forum's comments on the proposals for the CYPS General Fund budget for 2009-12. It was emphasised that the departmental revenue budget strategy was still in draft form and proposals for schools budgets would follow in due course.

Members of Forum made the following comments:

- Children's and Young People's Services had received the lowest growth across the Authority over the previous three years. It was extremely worrying that a department with such enormous responsibilities was funded so poorly in comparison with other departments. This, and the poor level of investment by the Authority in the Raising Achievement Plan, did not demonstrate the professed commitment to education and children's services.

- The statement ('pressures to be managed within CYPS resources') with regard to Transforming the Learning Environment, combined with the potential increases in charges to schools supported these concerns. In summary there would be little growth and money would be taken from schools in other ways.
  CYPS officers pointed out that the growth items would be funded from the General Fund and would not fall on schools.

- It was suggested that the provision for youth work could be included under the provision for extended schools. It was agreed that this would be reviewed.

- The statements with regard to 'services traded with schools' and 'safeguarding support to schools' (two of the 'pressures to be managed within CYPS resources') might also lead to additional pressure on schools' budgets
  CYPS officers explained that many services provided free to city schools were charged for in other Authorities. There was a possibility that there might be a need to trade additional services with schools and it was intended to bring a report on traded services to a future meeting of the Forum.

- The budget process had become very complicated and lacked transparency.
  Officers explained that this largely resulted from the complexity of the financing of children's services. There was no intention to obfuscate.

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 the PVFM Committee.

2. Proposed Indicators of Affordability

2.1 The ratio of financing costs to net revenue budget:

	2008/09 Estimate %	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %
General Fund	5.9	8.3	7.4	7.3
HRA	16.29	15.35	14.94	14.47

2.2 The level of approved schemes funded by unsupported borrowing for the general fund:

	2008/09 Estimate £000s	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
Unsupported borrowing brought forward	29,913	48,543	57,929	69,031
New Unsupported borrowing	22,015	13,524	15,577	7,455
Less Unsupported borrowing repaid	(3,385)	(4,139)	(4,475)	(4,750)
Total Unsupported borrowing carried forward	48,543	57,929	69, 031	71,736

2.3 The level of unsupported borrowing for the HRA:

	2008/09 Estimate £000s	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
Unsupported borrowing brought forward	20,121	19,647	19,357	19,253
New Unsupported borrowing	400	600	810	2,560
Less Unsupported borrowing repaid	(874)	(890)	(914)	(947)
Total Unsupported borrowing carried forward	19,647	19,357	19,253	20,866

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:

	2008/09 Estimate £	2009/10 Estimate £	2010/11 Estimate £	2011/12 Estimate £
Band D council tax (1,168.77)	0.00	0.52	2.72	5.03
HRA rent	0.01	0.01*	0.04*	0.04*

* Based on 2009/10 average weekly rent of £58.30.

3. Indicators of Prudence

3.1 The forecast level of capital expenditure to be incurred for the period 2008/09 to 20010/11 (based upon the Council capital programme, and the proposed budget and estimates for future years) are:

	2008/09 Estimate £000s	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
Children & Young People	57,585	44,889	52,984	52,541
Housing	4,791	4,200	4,000	4,700
Transport	15,863	8,858	8,202	7,500
Regeneration	15,995	11,075	6,858	3,000
Other	12,139	26,679	11,668	3,804
Total General Fund	106,373	95,701	83,712	71,545
HRA	22,270	21,377	22,151	21,187
Total	**128,643**	**117,078**	**105,863**	**92,732**

3.2 The capital financing requirement measures the authority's underlying need to borrow for a capital purpose, as opposed to all borrowing:

	2008/09 Estimate £000s	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
General Fund	277,325	292,150	301,811	303,386
HRA	206,368	211,578	216,974	218,587

3.3 The general fund capital financing requirement split between unsupported and supported borrowing:

	2008/09 Estimate £000s	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
General fund capital financing requirement – supported borrowing	219,562	222,175	223,136	224,783
General fund capital financing requirement – unsupported borrowing	48,543 (specific schemes)	57,929 (specific schemes)	69,031	71,736
General fund – capital financing requirement (capital financing)	9,220	12,046	9,644	6,867
Total general fund capital financing requirement	277,325	292,150	301,811	303,386

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 in the preceding year plus the estimates of any additional capital financing requirement for the current and next 2 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 2008:

	2009/10 £m	2010/11 £m	2011/12 £m
Borrowing	466	481	485
Other forms of liability	36	35	34

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:

2009/10	£390m
2010/11	£390m
2011/12	£390m

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 2009/10 to 2011/12, as a percentage of the total debt net of investments, as follows:

	2009/10 %	2010/11 %	2011/12 %
Fixed interest rate	150	150	150
Variable interest rate	45	45	45

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

	Upper Limit %
Under 12 months	30
12 months and within 24 months	40
24 months and within 5 years	60
5 years and within 10 years	60
10 years and above	100

4.3 It is recommended that lower limits are:

Less than 5 years	5%
Over 5 years	60%

4.4 The upper limit for principal sums invested for more than 364 days is £90m for 2009/10 and subsequent years. In the present investment climate, such investments would only be made in Government backed securities.

Treasury Strategy 2009/10

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 9 January 2009, the Council's debt was £278m, 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 2007/08 at a value of £2,169m.

1.3 The Council also holds a lot of externally invested cash, which stood at £111m as at 9 January 2009. These investments represent working cash balances (the extent to which the Council receives grant or other income before it has to pay bills) and the Council's reserves.

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 Performance and Value for Money Select 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 2009/10. The suggested strategy for 2009/10 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:

i. the Council's current debt and investments;
ii. prospects for interest rates;
iii. capital borrowing required;
iv. investment strategy;
v. the balance between holding investments and using them to repay debt (or as a substitute for new borrowing);
vi. debt rescheduling opportunities;

1.6 The key factors to consider are:

i. 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.
ii. Ensuring the Council has an appropriate balance of debt at fixed and variable interest rates, so we are protected against market changes.
iii. How much interest the Council can get on its investments.
iv. Ensuring the security of investments.

v. 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 £35m of debt managed by the County Council on behalf of the City Council.

Treasury Position As At 9 January 2009	**Amount**
Fixed Rate Funding	
Public Works Loan Board	£172m
Stock	£9m
Market Loans	£96m
Variable Rate Funding/Temporary Loans	
Temporary Loans	£1m
Total Debt	£278m
Investments	£111m
Net Debt	£167m

3. Treasury Limits For 2009/2010

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 retains Arlingclose 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 strategy.

4.2 The economic background to this report is the difficult economic outlook for both the UK and the world economy.

4.3 Because of the economic slowdown, and probably recession, the Bank of England has cut short-term interest rates to a record low of 1.5%. Arlingclose see rates soon falling further to 1% until starting to rise again in mid-2010. They see a real risk that rates may fall lower and not rise until later than forecast.

4.4 The outlook for long-term interest rates is more uncertain. 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 market levels. Longer term-term rates are currently around 4%. Arlingclose forecast that long term rates will gradually increase during 2009 and peak at around 4.8% in 2010. It is unusual in recent years for long-term rates to exceed short-term rates.

4.5 There is a lot of uncertainty and a number of scenarios are considered below.

4.6 The UK government, in common with the governments of all major economies is substantially increasing its level of borrowing and the increased overall level of borrowing may drive up the cost of long-term borrowing for all governments.

4.7 The interest rates paid on long-term borrowing by the UK government will depend on the perceived risk of default which will be determined by the affordability of debt repayments on public finances. The main risks to the government's borrowing projections are that recession lasts longer than predicted and/or that it is deeper.

4.8 The view of many commentators is that the current economic slowdown and expected recession is not a normal cyclical slowdown. Rather, they point out that this follows a banking crisis and that, typically, this leads to longer and deeper recessions than the "average". In such a situation government debt is likely to increase more than would be expected, and tax revenues are likely to decrease. Interest rates on government debt are likely to be higher to reflect this reduction in the affordability of repayments.

4.9 Some commentators consider that there is a real possibility that one or more country may have to leave the Eurozone within the next few years. The disruption and uncertainty that such a scenario would create might well lead to higher long-term interest rates for all but the very largest economies such as the US.

4.10 Another possibility is that in order to counteract a deep recession, the UK government may resort to "quantitative easing" which increases the money-supply. If such a policy is adopted then there are two factors that are particularly relevant to our Treasury Strategy:

- Whilst such an approach is in force the Bank of England may buy government debt and this would reduce long-term interest rates, possibly to historically low levels.
- In the medium term, such a policy would have to be reversed and the return to normality would carry the risk of higher interest rates (long-term and short-term) due to high inflation. Long-term borrowing costs on government debt could also rise because the return to normality may require large amounts of government borrowing at a time when government finances were tight.

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 2009/10 requires consideration of the Council's capital financing needs for 2009/10 and 2010/11. 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:

i. 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;

ii. The need to repay maturing loans.

5.2 Taking these factors into account the estimated future borrowing needs of the Council total £24m in 2009/10 and £26m in 2010/11. The bulk of this could, if we so chose, be met from existing cash balances.

5.3 In addition, the Council prematurely repaid £92m of existing PWLB loans in 2007/08 and £47m of replacement loans have yet to be raised.

5.4 If we borrowed for all of these items the value of loans raised during 2009/10 could total £97m. It’s considered that the Council should be in a position to take advantage of any favourable opportunities to “lock into” low interest rates which the present turbulence might present. We would do this if we thought that we could borrow at cheaper rates than we could in the future. In addition we would take into account the budgetary certainty offered by fixed rate loans. It’s quite possible that we won’t borrow this full amount as the borrowing decisions that we take will depend on whether attractive interest rates are available. We may also stagger any borrowing decisions.

5.5 In 2009/10 the rate of interest on any new loans that are borrowed is expected to be higher than short-term interest rates and hence will result in less interest being earned than we would pay on the investments. We would only borrow when we expected a clear long-term benefit that justified the short-term cost.

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. Sometime we have to pay a penalty to repay a debt early but this may be worth paying if the interest rate on the new loan is sufficiently low. At other times we may be able to repay a loan at a discount. It is proposed that we undertake debt rescheduling if financially advantageous. The reasons for any rescheduling to take place will include:

i. the generation of savings at minimum risk; or

ii. 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.

6.5 The Council also has market loans totalling £96m and may reschedule these if opportunities present.

6.6 At present it seems unlikely that favourable opportunities for rescheduling will present in 2009/10.

7. Investments

7.1 The Council's investment strategy is described at Appendix 7. This section of the report describes the underlying reasoning for the approach recommended.

7.2 In January the Council had investments of £111m. In the absence of new borrowing, these funds will be drawn down in 2009/10 and 2010/11 to fund capital expenditure. We will not use all of these funds to fund capital expenditure as we require balances of around £20m for day-to-day management of the cash flow of the Council.

7.3 A substantial part of these cash balances represent earmarked grants received in advance of expenditure. The balances on these grants will reduce as they are spent, and there is always the possibility that grant regimes will tighten and limit the amount of cash received in advance of expenditure.

7.4 New borrowing would increase the level of investments, although the level would fall as the money raised was subsequently spent. In the current economic climate we would reinvest the money with very secure counterparties.

7.5 The investment strategy in Appendix 7 represents the normal stance of the Council, which is that we seek very high levels of security for our investments. However, so long as the current levels of uncertainty continue we will be even more cautious. Even where a bank meets our credit rating criteria we won't lend them money if other factors give us cause for concern (for example we stopped using Northern Rock ahead of the crisis which occurred in the Autumn of 2007).

7.6 So long as this uncertainty continues we will continue to enhance the security of our investments. Our current stance is that investments are limited to the following investments that are considered to be very secure:

- The UK Government, via the UK Debt Management Office
- Local authorities
- The 7 large UK Banks that are eligible for capital injections from the UK government

7.7 We will continue to take a cautious approach until the return of more normal conditions. We will report on this matter to the Performance and Value for Money Select Committee when we submit six-monthly reports on the implementation of this Treasury Strategy.

8. Sensitivity of This Strategy

8.1 This strategy is based on the view that the economic outlook for 2010/11 is very uncertain.

8.2 The biggest factor influencing our revenue costs is the interest rate on investments, which is mainly determined by the base rate, set by the Bank of England. It is low, and probably will go lower still. The difficulties that this creates for us when attractive borrowing opportunities present are discussed at 5.5 above. If short-term interest rates were to rise then this situation would ease, but this scenario is considered to be unlikely during 2009/10.

8.3 If long-term interest rates rise, this is not expected to have a major financial impact in 2009/10. If they are high, we won't borrow long-term but will continue to run down our investments.

8.4 If long-term interest rates fall then borrowing new long-term loans would become more attractive. From a historic perspective long-term rates are at relatively low levels and there is probably only limited scope for further reductions.

8.5 If the government and the Bank of England adopts a policy of quantitative easing this may lead to more attractive long-term interest rates. Furthermore it will increase the risk that both short-term and long-term interest rates are higher in the future, perhaps substantially so, and perhaps for a long time. This would make borrowing long-term fixed-rate loans more attractive.

8.6 The cash balances of the Council are boosted by unspent earmarked grants and the level of such balances could reduce. If this happened there would be less cash available in lieu of borrowing, and this would accelerate the need to borrow.

8.7 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.

8.8 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 Performance and Value for Money Select Committee.

9. Treasury Management Consultants

9.1 Since January 2008 the Council has employed Arlingclose as treasury advisors. The service provides advice on our borrowing and investment policies and strategies. The annual fee for this service is £18,000.

9.2 Arlingclose's performance in the recent market turmoil has been good.

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 these forms of funding is marginal, and, generally, prudential borrowing is more cost effective. This judgement takes into account the costs of the two forms of finance over the expected economic life of the asset. In addition, because of lease termination charges it is more expensive to dispose of a leased vehicle than an owned vehicle, and this is important because the Council is reviewing the utilisation of the existing fleet.

Annual Investment Strategy 2009/10

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 in 2009/10.

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

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

2.4 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) and local authorities.
ii. Money Market Funds.
iii. Any deposit, bond, bill or other loan instrument with a maturity of up to one year which is issued by, or explicitly guaranteed by, the UK Government (including the Debt Management Office).

Longer Term Investments

iv. Deposits for periods in excess of one year with UK local authorities or which is explicitly guaranteed by the UK Government.
v. Any deposit, bond, bill or other loan instrument with a maturity in excess of one year which is issued by, or explicitly guaranteed by, the UK Government or the UK Debt Management Office.
vi. Bonds issued by multilateral development banks.

2.5 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 and may, or may not be negotiable.

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 AIS, 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.
vi. Where an institution is part of a group then limits shall be set both at group level and at the level of the individual institution.

3. Security of Capital : The use of Credit Ratings

3.1 The Council utilises credit ratings published by Fitch Ratings. This section of the strategy proposes minimum credit rating requirements. In practice, only investments of the highest security will be made. Minimum credit rating criteria shall be as shown below:-

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+
iii. For deposits for periods of up to one year or less with banks and building societies benefiting from the UK Government's 2008 Credit Guarantee Scheme or which receives substantial support from the Government a long-term rating of AA- alone will suffice
iv. No credit rating is required for investments issued by, or subject to an explicit guarantee from, the UK government
v. For bonds issued by multilateral development banks a long-term rating of AAA.

The maximum sum to be deposited with individual counterparties shall be as shown below:

i. For money market funds and commercially secured deposit facilities - £10m. We shall not normally take account of the underlying exposures to individual banks etc when considering our exposure against the other limits specified below unless such an approach materially improves the control of our credit exposure.
ii. For investments with, or explicitly guaranteed by the UK Government – £ unlimited for a maximum period of 3 years.
iii. For investments in institutions receiving substantial support from the UK Government falling short of an explicit guarantee - £10m for a maximum period of one year.

iv. For deposits with UK local authorities £10m.
v. For short term deposits in banks and other institutions - £10m.
vi. For bonds issued by multilateral development banks - £10m.

3.2 The Council will also utilise:-

i. Market intelligence including the prices of credit default swaps when available (this is routinely done by our treasury advisors as part of a programmed monthly review of credit limits).
ii. Advice from our treasury advisors.
iii. Information on the economic outlook for countries in which any given institution is based.

3.3 The above will be seen as contra-indicators and will be used to prevent investments being made solely on the strength of credit ratings.

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

3.5 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.

3.6 Credit ratings will be monitored:

i. All credit ratings for investments being actively used will be monitored monthly and credit rating alerts will be acted on as soon as practical.
ii. 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.
iii. 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.
iv. If other market intelligence suggests that credit ratings give an over-optimistic view of credit-worthiness, this will be taken into account.

3.7 The criteria specified above control the credit exposure to individual investments. We shall also monitor the overall credit exposure resulting from all investments. It seems likely that in the light of the problems encountered by local authorities who invested in Icelandic banks that this is an area in which best practice will be redefined, probably over the next few months. We shall develop proposals that reflect this.

3.8 Whilst credit institutions are still in a period of turbulence, the following more limited investment criteria are being applied to short-term investments. These represent the only short-term investments we are currently making, and will continue to be applied until determined otherwise by the CFO:-

i. Deposits for periods of up to one year or less with banks and building societies benefiting from the UK Government's 2008 Credit Guarantee Scheme.
ii. Deposits with the UK Government via the Debt Management Account Deposit Facility offered by its Debt Management Office.
iii. Other UK local authorities.
iv. Money market funds.

These investments must also satisfy the paramount credit criteria specified above.

3.9 The Council's bankers are the Co-op bank and it has been announced that they plan to merge with the Britannia Building Society. The combined entity will be a bank and will be owned by the Co-operative Group. It currently appears likely to have credit ratings that are just within the normal lending criteria shown at 3.1 above. It is possible that these credit ratings may decline in the face of an economic downturn to below the minimum level. There is a steady flow of transactions throughout the working day and it is not usually possible to invest all funds which would otherwise be held in the bank account. Typically there is a balance of a few hundreds of thousands of pounds that will remain with bank for which the only option is to invest into a deposit account linked to our current account. Occasionally the balance may be higher. The credit worthiness of the Co-op bank will be kept under review. Any decision to change bankers would not be a trivial one – in the normal course of events a tendering exercise leading to a change of bankers is a major project taking around a year to implement.

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 £90m 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 may use investments which may be deemed as capital expenditure, but if it does will ensure that this does not impair its ability to deliver its capital programme.

6. Investment Reports

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

Appendix Eight

Forecast Budget Position 2009/10 to 2011/12

	2009/10 £000	2010/11 £000	2011/12 £000
Departmental Spend (DRS)			
Adults & Housing	87,152.8	85,078.8	82,906.8
Children & Young People	58,552.1	58,391.1	58,383.1
Regeneration & Culture	60,457.2	60,641.2	60,633.2
Resources	28,093.9	28,254.9	28,264.9
Total DRS	**234,256.0**	**232,366.0**	**230,188.0**
Less Full Year Effect of 2008/09 Budget		(155.8)	(155.8)
Pensions - 2007/08 Revaluation	590.0	590.0	590.0
Total Departmental Spend	**234,846.0**	**232,800.2**	**230,622.2**
Plus Other Departmental Spending (Non DRS)			
Central Maintenance Fund	5592.9	5592.9	5592.9
Housing Benefits	527.6	527.6	527.6
Investment Portfolio	(2,838.8)	(2,838.8)	(2,838.8)
Corporate Budgets			
Central Budgets	(1,678.5)	(1,368.5)	(978.5)
Energy Cost Increase	2,400.0	2,000.0	2,000.0
Pensions	0.0	0.0	1,320.0
Net Capital Finance	21,614.0	23,708.0	24,190.0
Building Schools for the Future			
- Ringfenced Govt. Funding	4,704.0	4,970.0	4,759.0
- City Council Cost - Future Phases	0.0	801.0	2,502.0
Job Evaluation	3,250.0	3,330.0	3,415.0
Job Evaluation – Additional	2,374.0	0.0	0.0
Corporate Provisions			
National Insurance	0.0	0.0	700.0
Contingency for Adult Social Care		3,600.0	6,800.0
Delivering Excellence	1,000.0	1,000.0	1,000.0
Delivering Excellence - Efficiencies "Quick Wins"	(800.0)	(1,200.0)	(1,500.0)
Other			
Inflation		6,926.0	14,359.0
Other		(36.0)	(36.0)
Delivering Excellence Efficiency Plan		(4,000.0)	(8,000.0)
Planning Requirement		1,500.0	3,000.0
Forecast Base Position	**270,991.2**	**277,312.4**	**287,434.4**
Forecast Resources			
Government Grant	177,371.0	182,370.0	186,954.0
Council Tax	91,513.0	96,034.0	100,778.0
Collection Fund Surplus 2008/09	855.0		
Use of Reserves	1,252.2		
Total Forecast Resources	**270,991.2**	**278,404.0**	**287,732.0**
Surplus / (Gap)	**0.0**	**1,091.6**	**297.6**