Leicester
City Council

OVERVIEW & SCRUTINY MANAGEMENT BOARD 4 FEBRUARY 2010
CABINET 15 FEBRUARY 2010
COUNCIL 24 FEBRUARY 2010

GENERAL FUND REVENUE BUDGET STRATEGY 2010/11 TO 2012/13

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, commissioning strategies for each priority board, and a general fund budget for 2010/11; and to recommend these to the Council.

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 strategic plans for the same period.

2.2 The budget for 2010/11 reflects the first year of the Council's revised 3 year financial strategy for the period 2010/11 to 2012/13; which is also submitted for approval.

2.3 The budget has, as a key aim, the need to make Leicester more resilient, and well placed to move out of recession. Strategic investment in skills for school-children complements a major £25m programme to combat worklessness.

2.4 2010/11 is the third and final year of the Government's 3 year funding settlement, which covered the years 2008/09 to 2010/11. The settlement provides an increase in "formula grant" of 2.8% in 2010/11. Beyond 2010/11, a period of very substantial financial constraint is expected as the UK Government seeks to reduce the gap between public spending and income, and to reduce the national debt. Very little information has been released about local government spending beyond 2010/11, and assumptions have therefore had to be made; we are working on a forecast 2% per annum grant reduction in cash terms (and consequently a greater reduction in real terms). Greater reductions than this are expected in specific grant and capital resources.

2.5 Whilst the impact of public spending reductions will not, in the main, be felt until 2011/12, it is important that the Council starts to plan and reduce its spending now.

2.6 Despite the outlook of substantial funding reductions, the strategy behind the budget has been to continue to support delivery of “One Leicester” whilst proposing a tax increase that is affordable in recessionary times. In summary, the budget proposes:

(a) continued investment in the Council’s top priorities, including a new initiative (“Whatever it Takes”) to improve primary school reading, and continued support to Building Schools for the Future. Both these investments help address a key challenge in improving educational outcomes;

(b) continuation of recent investment in making the City “clean and green”, and in ward community meetings;

(c) a tax rise of 1.9%, being the lowest since unitary status in 1997/98.

2.7 Additionally, the budget supports a very substantial transformation project aimed at modernising adult social care, and creating personal budgets for service users.

2.8 The way in which the budget has been prepared has changed this year to reflect the introduction of more strategic management processes, and cessation of the traditional departmental structure. The Council has created priority boards, each chaired by a strategic director, with responsibility for delivering part of the One Leicester programme and the corporate plan. Each board is responsible for preparing a commissioning strategy, and the budget plan to achieve that strategy (within the overall financial resources available to the Council). These commissioning strategies, and supporting budget plans, are being scrutinised by the Council’s scrutiny committees. 2010/11 is the first year the budget has been prepared in this way, and the approach will be developed further as the new arrangements become bedded in.

2.9 The budget has also had to deal with the usual array of cost pressures. These include a growing level of need for adult social care, continued growth in costs of the concessionary fares scheme, and significant reductions in forecast income from on-street parking.

2.10 The budget includes a very substantial programme of efficiencies, aiming to secure £8m per annum by 2011/12 principally from support services and procurement. Furthermore, the budget is accompanied by a series of HR initiatives designed to create a more flexible workforce and support modem working practices.

3. Recommendations

3.1 The Cabinet is asked:

(a) to consider the draft 3 year financial strategy for 2010/11 to 2012/13, the draft commissioning statements prepared by each strategic director, and the draft overall budget for 2010/11 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 24 February and the Council's normal procedures, to authorise strategic and divisional directors to take any action necessary to deliver budget plans for 2011/12 to 2012/13;

(d) 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;
- the Cabinet may determine the use of £3m pa held for the central accommodation review;
- the Cabinet may determine the use of corporate budget provisions and monies held for job evaluation;

(e) 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:

- savings arising from the ODI transformation plan;

(f) to note the proposals in respect of HR policies at section 7 of this report, and the intention to save £1m over and above the 2010/11 budget through managed reductions in working hours and restricted recruitment;

(g) to request PVFM Select Committee to monitor achievement of the £1m savings described above;

(h) to recommend to Council that no inflationary uplift be provided to third parties, except where:

- contractual terms provide otherwise;

- in the view of the relevant divisional director, an uplift is required to stabilise a fragile market;

(i) to approve an increase of £60,000 in the 2009/10 budget to fund costs of the proposed pensioners' passport, to be met from reserves;

(j) to approve the creation of an earmarked reserve for potential redundancies arising from later phases of the Organisational Development and Improvement Programme, and the transfer of £1m from corporate reserves to this reserve;

(k) to approve the transfer of £1.5m from the insurance fund to general reserves, this sum being no longer required to meet future insurance liabilities;

(l) 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;

(m) 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;

(n) to recommend that Council approves the proposed policy on minimum revenue provision described in section 22 of this report;

(o) to recommend that Council approves the controllable budget lines at Appendix 8 to this report, being sub-divisions of the budget to which the Council's virement rules apply (ie discretion to move funds between budget lines is limited).

4. Budget Overview

4.1 The table below presents the budget in overview, at 2010/11 prices. Only the position for 2010/11 will be formally adopted as the Council's budget for next year. Future years' figures are estimates, and will change, potentially substantially:

	2010/11 £m	2011/12 £m	2012/13 £m
Mainstream Budgets			
Spending on services	243.6	239.6	237.5
Capital Finance	23.1	25.0	25.8
Other corporate budgets	0.8	1.6	2.4
Other Costs			
Building Schools for the Future	5.3	6.7	7.1
Job Evaluation	3.3	3.4	3.4
Capital programme support	2.0		
Transformation reserve	2.0		
Future Provisions			
Inflation		1.5	4.3
Pension Fund Revaluation		2.1	3.2
National Insurance Contributions		1.4	1.4
Planning provision		1.5	3.0
Savings			
ODI Programme	(2.0)	(8.0)	(8.0)
	278.1	**274.8**	**280.0**
Resources			
Government Grant	182.4	178.9	175.4
Council Tax	93.5	96.2	99.0
Collection Fund Surplus	0.5		
Use of Reserves	1.7		
Balance to be addressed			5.6
	278.1	**275.1**	**280.0**

Band D Tax in 2010/11	£1,186.22		
Tax increase:			
- 2010/11 proposed	1.94%		
- provisional indication		2.94%	2.94%

4.2 Key items of expenditure are discussed further in section 6 below. A more detailed breakdown is provided at Appendix Nine.

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). The budget of the police authority has been "capped" for 2010/11 by the Secretary of State, and the tax increase cannot exceed 3%.

5.2 The total tax bill in 2009/10 for a Band D property was as follows:

	£
City Council	1,163.65
Police	165.21
Fire	51.82
Total tax	1,380.68

5.3 The actual amounts people are paying in 2009/10, 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 2010/11 is £1,186.22. The police and fire authorities are due to set their taxes on 9 and 10 February respectively. I will advise Cabinet orally of the taxes set, at your meeting.

5.5 At 1.94%, the proposed tax rise is the lowest since 1997/98. (In 1997/98, the City's tax fell by 12.9%, as a direct consequence of local government re-organisation and the then existing capping rules). It is expected that our tax level will remain below the average of unitary and metropolitan authorities; and that the total City tax (including police and fire) will remain below the national average.

6. Expenditure Proposals

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 2009/10 and 2010/11.

6.2 The table at section 4.1 above includes:

(a) mainstream budgets for services - these are controlled by divisional directors, routinely monitored through scrutiny committees, and are by far the most substantial part of the budget;

(b) 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;

(c) proposals which do not take effect until 2011/12 or later;

(d) savings programmes which are being managed corporately and will result in budget adjustments to services at a later date.

Mainstream Budgets

6.3 As stated above, mainstream budgets for services are by far the most significant element of the Council's budget. These have been prepared as follows:

(a) last year's budget has been used as the starting point, and has been updated for:

- pay and price changes;
- changes in landfill tax;
- the effect of decisions taken as part of the 2009/10 budget which have a financial impact in 2010/11 or later;

(b) each priority board has reviewed those elements of the budget which are the "closest fit" to its strategic objectives - either the budget of a whole division, or part of a division. Budget growth or reduction proposals have been made so as to better secure the objectives of the sustainable community strategy, whilst making reductions in cost. The results of this exercise have been summarised in commissioning statements for each priority board which have been circulated with this agenda.

6.4 Inflation has been provided for in 2010/11 as follows:

(a) 0.5% for pay awards. Since preparing the draft budget, the Local Government Employers have stated their intention of not offering a pay increase in 2010/11. It is, as yet, unclear how trade unions will react to this; we have, furthermore, assumed that pay awards will be nil in 2011/12 and 2012/13 (reflecting the expected reductions in government grant in those years) and a nil award in 2010/11 makes it more likely that a small award will be made in 2011/12. Thus, it is in any event necessary to build 0.5% as an annual provision in the Council's budget. Should it not be required in 2010/11, a one-off saving will be available to facilitate the expected difficult budget process ie 12 months time. It is noted that it is not the Council's intention to impose a pay freeze in 2011/12 and 2012/13 - our provisions are estimates of the likely outcome of national bargaining;

(b) 1.0% for price inflation, and 1.5% for general income (except in the case of services funded by specific grant, where pay and price have been inflated on the same basis).

6.5 Services have also been asked to assume that, for 2011/12 and 2012/13, specific grants generally will fall by 5% in each year. Services have also been advised that, in general, no inflationary update should be provided to contracted service suppliers, and this is reflected in the recommendations to this report.

6.6 The table in paragraph 4 above also includes 2 other headings under "mainstream budgets". These are:

(a) capital financing - the interest on debt repayment costs on past years' capital spending and planned capital spending. This budget also includes provision of £3m per annum for the central accommodation review, which was first included as part of the 2009/10 budget strategy and provides for refurbishment or replacement of New Walk Centre. Use of this provision will be dependent upon the conclusions of a structural survey, which was taking place as this report is being written;

(b) other corporate budgets, consisting of miscellaneous provisions which it is not appropriate to allocate to services. These include external audit and inspection fees, some pensions costs of former staff, charitable rate relief, bank charges, and the effect of charges from the general fund to other statutory accounts of the Council.

Other Costs

6.7 Certain other costs have been provided for in the budget. These are described below.

6.8 **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 was in the first wave of BSF, and its programme is split into phases. The Council's total scheme is expected to result in over £300m of investment in the City's secondary schools.

6.9 The four schools in phase one of BSF are complete. A strategy for implementing the remaining phases is now with Partnership for Schools for approval.

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

6.11 The biggest element of cost in the budget is the servicing of debt, which is substantially met by the Government. The initial phases of BSF will be supported (in respect of the non-PFI element) by capital grant. Borrowing will not be needed until the final phase. 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.

6.12 Provision has also been included in the budget for the Council's agreed contribution to the affordability gap, the remainder of which is being met directly by schools. This will amount, in due course, to £3m pa for all phases.

6.13 As members will be aware, proposals to implement a **new pay and grading (job evaluation) scheme** have been approved by Cabinet, and are currently the subject of consultation with the trade unions.

6.14 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 current proposed scheme (inflated in line with actual and expected pay awards).

6.15 The budget also proposes two one-off, corporately maintained, provisions:

(a) resources available for the capital programme are exceptionally restricted. Whilst some elements of the programme (education, housing and transport) are funded separately by Government resources, the part of the programme we can spend at our own discretion is heavily dependent upon the generation of capital receipts from asset sales. These are minimal in the current economic downturn. £2m was set-aside from underspends when the revenue outturn for 2008/09 was approved, and it is proposed that a further £2m is set-aside now. This will result in a total of £4m, some of which can be committed to a programme in 2010/11, and some of which should be retained in the event that the market does not pick up in time for 2011/12;

(b) a provision of £2m to support the Council's programme of organisational development and improvement (ODI) is proposed. ODI is a substantial programme of change, requiring significant investment to deliver future savings. The first £0.7m of this will be committed to implementing phase 2 of the Resource Management System (RMS) project, which will (amongst other things) automate the Council's procurement function, delivering both processing efficiencies and much improved control over suppliers' performance.

<u>Future Provisions</u>

6.16 This part of the budget includes:

(a) provision for inflation in 2011/12 and 2012/13. As stated above, the most significant assumption is of a nil pay award in both 2011/12 and 2012/13;

(b) provision for the expected impact of the next triennial review of the County-wide pension fund in 2011/12;

(c) an increase of £1.4m per annum in national insurance costs from 2011, following decisions announced by the Chancellor of the Exchequer in the pre-budget reports of November 2008 and November 2009;

(d) a planning provision, for dealing with future uncertainty and turbulence (such a provision is routinely included in our budget strategies).

ODI Programme Savings

6.17 The budget for 2009/10 to 2011/12 included a provision of £4m rising to £8m of savings from the ODI programme with effect from 2010/11. Since that budget was approved, the programme has been further developed, and reviews of Property, Finance, Policy and Communications/Marketing are being prepared.

6.18 Additionally, a programme of work has been created to deliver significant improvements and savings in the Council's arrangements for procurement of goods and services. This aims to create category management across the Council (an approach which divides major suppliers into categories and manages the market accordingly). Such an approach is regarded as best practice, and the programme of work will be facilitated by the expected automation of procurement procedures discussed above.

6.19 Overall, the anticipated savings from the ODI programme are now as follows:

	2010/11 £000s	2011/12 £000s	2012/13 £000s
Support Services			
Property	750	1,200	1,200
Finance	600	1,000	1,000
Policy	50	100	100
Comms/Marketing	50	100	100
Other	550	1,600	1,600
Sub-Total	2,000	4,000	4,000
Procurement	2,500	5,000	5,000
Total	4,500	9,000	9,000
Less non-general fund	(500)	(1,000)	(1,000)
Net Savings	4,000	8,000	8,000

6.20 This programme of savings is significant, and is one of the key areas of risk to the budget described in section 12 below. To mitigate this risk, provision of £2m has been made for slippage in 2010/11; the full saving of £8m will be made in 2011/12.

6.21 Members may recall that the budget strategy for 2009/10 to 2011/12 included a number of "quick win" efficiency savings. By the time this budget is discussed at Council, these savings will have been delivered and allocated to service budgets.

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 One 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 £15,000 per ward will continue to be provided, despite the financial climate.

7.5 **Meeting the growing needs of older and vulnerable people** is supported by substantial growth in adult care budgets; supporting the development of personalisation, new preventative services and future higher levels of need. Funding is also provided for the anticipated cost of the Government's commitment to free personal care services.

7.6 **Appropriate levels of funding for youth** provision have been retained, and a provision of £0.4m pa (in a full year) has been made for the proposed "My Space" children's and youth hub in the former Haymarket Theatre.

New Prosperity

7.7 The Council continues to make substantial provision for "**Building Schools for the Future**".

7.8 Funding has also been made available to **improve educational outcomes**, chiefly through investment in new laptops; and "Whatever it Takes". The latter is a substantial programme, involving total resources of £1m, designed to deliver a step change in reading performance before children arrive at secondary school.

7.9 A substantial programme aimed at improving **adult skills** and enabling workless adults to become active members of the workforce is supported by a £25m Working Neighbourhoods Fund programme. Plans for spending this money include the development of 8 multi-access centres, of which two are now operational. Proposals in this budget will enhance the city centre multi-access centre by freeing up adjacent premises for expansion (the central library will merge with the reference library to enable this to happen).

Beautiful Place

7.10 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. These areas of service have been protected from savings. Some of the monies provided for city wardens have now been commuted in order to make a more significant impact.

Delivering Quality Services

7.11 The aim of **transforming services** is supported by a one-off provision of £2m included within the budget for the ODI programme. This programme is designed to support the Council become one of the best Councils in the country, deliver a step change in the Council's performance and make the substantial savings required from 2011/12 onwards.

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

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

(c) the need to secure significant savings in the Council's property function, whilst improving the overall service.

Links to Other Resource Strategies - ICT

7.15 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.

7.16 The following three strategies collectively form our e-transforming Leicester programme:

(a) Information management;

(b) Applications;

(c) Technical infrastructure.

7.17 These strategies were recently reviewed and are available on Insite.

7.18 The ICT strategy is a key enabler of the ODI programme, and £0.6m of resource approved in previous budgets has been committed to improving the council's management of electronic information. ICT will also benefit from the new budget of £2m for further ODI investment.

Links to Other Resource Strategies – Pay and Workforce Strategy

7.19 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 five 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.

7.20 It is recognised that the continual need to improve services in a period of substantial financial constraint means that the Council needs to look again at its HR strategies, with a view to ensuring that they are flexible, support modern working practices, and enable change to take place with minimum disruption to either the organisation or its employees. Consequently, the HR strategy is being revised in tandem with the budget strategy. The aim of this revision is:

(a) to provide greater control over the use of agency staff, by means of a central co-ordination and clearing point for all significant new requests; and automatic termination of most agency engagements on conclusion of the original assignment. New controls will also be placed on the use of external consultants;

(b) to modernise employment contracts, so that employees can be deployed in whatever part of the Council requires their skills rather than being contracted to a single employment unit; and to cease the rigid use of standard hours contracts;

(c) to enable employees to buy leave, and to reduce the hours they work each week, subject to approval;

(d) to make use of single job descriptions and contracts for common roles (eg admin officers). This would mean that, in the case of admin officers for instance, the substantial number of current job descriptions will be scrapped and replaced by a single one (or perhaps a small handful). As a consequence of this change, it will be possible to deploy officers wherever work is required, to carry out recruitment of officers in a single exercise, and more easily manage any future down-sizing by natural wastage;

(e) review of the existing scheme of compassionate leave and impairment related sick leave, and schemes for additional allowances such as subsistence. These are believed to be overdue for review.

7.21 These measures will be complemented by a freeze on recruitment, subject to exceptions on a business case basis, and greater control over overtime.

7.22 Whilst the above will undoubtedly save money, the prime function is to secure greater flexibility. It will result in reduced severance payments within any future reorganisation, and make the Council more able to introduce modern ways of working. It will provide greater certainty for members of staff, as compulsory redundancy becomes more unlikely.

7.23 It is recognised nonetheless that savings will be made, particularly through a recruitment freeze and overtime restrictions. It is difficult to anticipate the extent of these savings precisely; and there is a clear danger of double counting savings as managers will undoubtedly review their own structures over time and build-in reductions which have already been achieved. For this reason, it is recommended that savings from these changes are not built-in to the 2010/11 budget, but are monitored separately. A target of £1m is suggested, and the Council may wish to ask the Performance and Value for Money Select Committee to monitor achievement of this saving. Achievement of this sum will provide much needed investment in 2011/12, and the success or otherwise of the initiative can be reviewed when the budget for that year is prepared.

7.24 Consultation on these proposed changes will take place with trade unions.

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 2010/11 is £182.4m, an increase of 2.8% on 2009/10. Grant figures for 2011/12 are not yet known, and an assumed 2% cash reduction in each of 2011/12 and 2012/13 has been built into plans.

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 2010/11 is the third of a 3 year grant settlement, and is unchanged from the figure announced in advance last year. The detailed make-up of the 3 year settlement is shown in the table below:

	2008/09 £m	2009/10 £m	2010/11 £m
Needs Element	131.7	135.1	138.2
Resources Element	(2.9)	(4.3)	(5.7)
Central Element	53.0	54.5	55.9
Formula Entitlement	181.8	185.2	188.4
Less Scaling	(10.2)	(7.8)	(6.0)
Grant	171.6	177.4	182.4

8.6 As can be seen, the Council does not receive the full amount of grant the formula suggests we should be entitled to. Grant is "scaled" in order to provide extra money for parts of the country which would otherwise see smaller grant increases, or reductions.

8.7 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 000s	Latest projections 000s
2008/09	284.6	295.2
2009/10	284.8	298.3
2010/11	285.1	301.3

8.8 New draft projections by the ONS, based on 2008 data, would (if adopted) increase the population in 2010/11 by a further 7,000.

8.9 The Council is clearly providing services for a lot 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 £20m on the basis of the latest draft projections. 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.

8.10 In reality, however, even the most up-to-date official data excludes certain elements of the population such as short-term migrants.

8.11 We shall continue to press this case with ministers, and Government Office. It will be critical to step up our efforts during 2010, as ministers and civil servants start to prepare the 2011/12 settlement.

Council Tax

8.12 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 1.94%, and tax income of £93.5m in 2010/11;

(b) a surplus of £0.5m in 2010/11, arising from previous years' council tax collection performance. This surplus was reported to the Cabinet on 25 January.

Area Based Grant

8.13 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 £42.1m in 2010/11.

8.14 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. We will also discuss with partners appropriate levels of ABG required to support improvement plans for health inequalities and combating crime.

8.15 The future size of ABG (after 2010/11) remains to be seen, but in my view it is highly vulnerable to national cutbacks.

9. Joint Financial Plans

9.1 The Council is a party to a number of joint financial plans with local partners.

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

9.3 In addition to the LAA, there are several joint financing arrangements which the City is engaged in. These will be fully described in Service Improvement & Efficiency Plans (SIEPs), 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 £27.6m is formally pooled under s.31;

(b) £14.7m of Supporting People funding is managed by a partnership from the NHS, Probation and the Council;

(c) Prospect Leicestershire (charged with delivering physical regeneration and growth, business innovation and support, and inward investment across Leicester and Leicestershire) is the Council's main delivery partner to whom we contribute £250,000 pa. A multi-area agreement (MAA) was prepared by the two authorities with support from the district councils and signed in January 2009.

9.4 In addition to the above, following the abolition of the Learning & Skills Council (LSC) at the end of March 2010, the City Council will be planning and commissioning education for 16-19 year olds through a joint team with the County Council. Whilst firm figures have yet to be agreed the City Council's contribution is likely to be around £45m out of a total budget of approximately £100m.

9.5 During 2009/10, formal structures for joint financial planning have been further developed. These include:

(a) initial development of an economic preparedness plan with partners on Leicester Partnership. For the first time, a joint exercise with partners has taken place to consult the public on the budget (see section 15 below). Work is taking place on 2 key strands of work with the PCT - development of prevention and re-ablement services; and reviewing of joint commissioning arrangements for learning disability services. These areas of service were identified as being capable of producing "quick wins" for both organisations;

(b) development of a County-wide leadership board, consisting of the major local authorities, health bodies and the police authority. This board is chaired by the leaders of the City and County Councils, and is working on an ambitious agenda of shared services and efficiency initiatives.

10. General Reserves

10.1 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.

10.2 The Council also holds a number of earmarked reserves, which are further described in section 11 below.

10.3 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.

10.4 I have provided an overall assessment of the risks in the budget in section 12 below. The key risks which I believe impact upon the Council's need for reserve holdings are the risks to future funding (particularly the possibility that grant is even lower than forecast); the ambition of our transformation programmes (ODI and adult care); and BSF as it embarks on the next phases. Some risks are, however, mitigated by routine budget management (the Council has a good track record of avoiding overspendings) and enforcement of project management disciplines.

10.5 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):

	£000s	£000s
Balance 1.04.09		6,474
Plus:		
Pay award savings	1,520	
Insurance Fund	1,500	
Other monies	442	3,462
Less:		
Benefits improvement plan	200	
Hardship relief	175	
Pensioners' Passport	60	
Redundancies provision	1,000	
2010/11 budget	1,731	(3,166)
Uncommitted balance 2010/11		**6,770**

10.6 Some of the above items require explanation:

(a) £1.5m has been saved, as a consequence of the pay award for 2009/10 being below what was assumed when the 2009/10 budget was approved;

(b) the Council self insures most of its risks, and has an insurance fund for this purpose. In effect, services pay premia into the fund as they would to an insurance company, and the fund settles claims. The Council's approach to risk management has seen some significant successes, with the result that we are now paying considerably less in insurance claims than we were until very recently. Following an actuarial review of the insurance fund, I believe it is now safe to regard £1.5m as surplus to requirement, and this can be transferred to the general reserve;

(c) other monies include sums paid to the Council under the Local Authority's Business Growth Incentive Scheme, and interest secured on a rebate of VAT;

(d) the Council has agreed to spend £0.2m of its reserves on a plan to improve the benefit service, and the economic recession has resulted in a greater number of claims for rate relief on account of hardship;

(e) it is proposed to add a sum of £60,000 to the 2009/10 budget, funded from reserves, to provide resources for a new "pensioners" passport;

(f) in the light of the substantial savings required from the ODI programme in later years, it is proposed to earmark £1m from reserves for potential redundancies. Whether or not this is needed will be subject to review in due course. Proposed HR changes discussed above will hopefully reduce the need for such a provision.

10.7 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.

11. <u>Earmarked Reserves</u>

11.1 Appendix 3 shows the Council's earmarked reserves as they stood on 31 March 2009, and as projected by March 2010. 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 divisions 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.

11.2 The balance on the BSF reserve is now significant. The reason for this is explained in section 6 above.

11.3 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. As stated above, a recent actuarial review has permitted some of this fund to be transferred to general reserves.

11.4 Earmarked reserves may already be contractually committed for some purpose in 2010/11.

11.5 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.

12. <u>Risk Assessment, Adequacy of Estimates and Scenario Analysis</u>

12.1 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 10 and 11 above) and the robustness of estimates (which is included in this risk assessment).

12.2 In my view, each of the divisional budgets in 2010/11 is achievable. For budgetary control purposes, the budget of the Council is split into divisions, with a divisional director accountable for spending within budget. 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.

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

(a) the overall scale of reductions facing the public sector;

(b) the ambition of our transformation programmes, in respect of ODI and adult care;

(c) BSF, which is a huge, complex capital project and is expected to commit significant resources during 2010/11.

12.4 National debt is expected to increase to nearly 80% of Gross Domestic Product (GDP) by 2012/13, nearly double the Government's previous yard-stick for sustainable debt. It is now incontrovertible that whoever forms the next Government will need to rein back public finances, and a 2% per annum cash reduction has been built into our grant forecasts. There is, as yet, no certain information about funding, although no commentators have suggested that local government services (other than education) should be protected from reductions. A 1% margin of error amounts to £1.8m. Closely tied to the projection of grant is the forecast of very low pay awards (0% from 2011/12). Scenario analysis was carried out at earlier stages of budget preparation. These used flat cash assumptions for grant and built in modest pay rises. In some respects, these assumptions are different sides of the same coin: if the grant settlement were not as bad as expected, there would be scope for modest pay rises. If it is, or worse, zero is a robust assumption. The impact of 1% pay awards and 1% grant reductions are very similar. If the grant settlement is substantially worse than the 2% assumed, we will at least have more time to plan as it will not take effect before 2010/11. Additionally, a small contingency has been built into each year's inflation allowance, which would (roughly) provide for an additional 0.5% pay award or a 0.5% grant loss. The contingency also enables us to hedge some of the risks around the major transformation programmes, particularly (in 2010/11 and 2011/12) the Support Services Review.

12.5 Adult transformation is a major national programme involving re-deployment of millions of pounds within the service. As such, it carries risk, particularly that the proposed new investment in preventative services does not generate the subsequent savings envisaged. This has been mitigated by erring on the side of caution - the extent of resource diverted into such new services is estimated to be less than that of a large number of other authorities.

12.6 Likewise, the ODI programme carries risk because of its significant scale, and the size of the task required to save £8m by 2011/12. This risk is mitigated by providing £2m for assumed slippage in 2010/11.

12.7 Building Schools for the Future is a major risk given its scale. However, phase one was completed within budget and on time. Key to delivering BSF within budget is effective project management, and Cabinet recently approved a new organisational structure designed to deliver this.

12.8 Other areas of risk in the budget are:

(a) job evaluation, which will remain a risk until it is implemented. This is due to its scale - the pay of several thousand staff, with a total pay-bill of £200m, are affected. Financial estimates cannot be regarded as certain until the exercise is complete. There remains, furthermore, a risk of equal pay litigation - such is the complexity of this area of law that some claims may arise regardless of the successful conclusion of the job evaluation project. The Council has made past provision for compromising such claims;

(b) concessionary fares remains a key area of risk. £1m per annum was added to the budget in 2009/10, all of which is expected to be spent. A further £1.3m per annum has been added to the budget for 2010/11. The Council's costs are susceptible to continued increased usage by older people, and fare increases by the bus companies. The bus companies are also prone to challenging the basis of fare reimbursement, and there have been a number of decisions by the transport commissioners since the scheme was implemented which have had the effective of increasing cost;

(c) safeguarding costs, which have increased substantially following the “Baby Peter” case, and may further increase as a consequence of the recent Southwark judgement about homeless 16 and 17 year olds;

(d) 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 are starting to bear fruit.

Pay and Price Risk

12.9 The table below shows the sensitivity of the Council’s budget to the inflation assumptions made:

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

Capital Finance and Interest Related Risk

12.10 These budgets principally cover:

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

(b) interest earned on cash balances.

12.11 Unusually this year, there is little risk associated with these estimates. The treasury strategy envisages minimal borrowing, and interest earned is at such low rates that variation can only be helpful.

Risk associated with Departmental Estimates

12.12 Strategic directors, supported by their heads of finance, believe that the financial estimates in their commissioning statements are robust (subject to the risks described within them).

13. 2011/12 and 2012/13

13.1 Members are asked to note the outlook for the years following 2010/11.

13.2 Savings of £8m in 2011/12 are required to be secured through the ODI programme. The risk attached to this is discussed above.

13.3 The budget plan for 2012/13 requires a further £5.6m of savings to be identified in the course of the next 2 years.

13.4 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. Capping

14.1 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.

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

14.3 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.

14.4 The Government has signalled that it will not hesitate to use its capping powers again in 2010/11, and has stated (as it did last year) that it expects average tax increases to fall below last year's 3%. Like last year, the Government has stated that authorities should not assume previous years' capping principles will be repeated.

14.5 I believe the risk of the Council's budget being capped is very low.

15. Consultation

15.1 Substantial consultation has taken place on the sustainable community strategy, on which the proposed financial strategy is based. Subsequent consultation has taken place (or is taking 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).

15.2 Consultation has taken place (or is taking 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) Children and Young People;

(g) The Schools Forum.

15.3 At the time of writing this report, consultation with scrutiny is complete in respect of commissioning statements for Talk Up Leicester and

Investing in Children Priority Boards. Minutes of the meeting on Talk Up Leicester are included at Appendix Four to the report; Investing in Children minutes will be sent under separate cover.

15.4 Leicester Partnership Executive has been briefed on the proposals on 20 January: no detailed comments from partners have yet been received.

15.5 Consultation with trade unions is taking place - full written responses are expected for Cabinet, and OSMB will be advised if received by the time of your meeting.

15.6 Comments have been requested from the New Business Council - at the time of writing, none had been received.

15.7 Consultation took place with two residents focus groups in December 2009 - for the first time, this consultation took place jointly with NHS Leicester City and the Leicestershire Fire and Rescue Service. Comments made and responses are provided at Appendix Four. A meeting is also taking place with the Youth Council.

15.8 The Schools' Forum will consider the Council's budget proposals at its meeting on 4 February.

16. Corporate Performance Impact

16.1 This table below describes how resources have been redirected in last year's budget, and the impact:

Budget redirection areas in 2009/10	Performance outcomes
Confident People	
Community meetings at ward level 2008-09 - £10,000 per ward plus support costs. This was increased to £15,000 in 2009-10.	Local community engagement is improving. This is recognised in the Comprehensive Area Assessment (CAA) Organisation Assessment Report. Our neighbourhood working strategy will build on this to further enhance the impact of ward level community meetings.
Protecting vulnerable people: Additional funding for adult social care. A further £1.5m was added to the budget in 2009-10 to help fund demographic growth in this area.	The CAA Organisation Assessment Report recognised adult social care services are good. The 2009 annual report highlighted delivery of: •Transformation programme in place •£255K Assistive technology programme delivered •Intermediate care service has been developed through re-enablement and plans for single pathways with health •Extra care facilities via housing partners and PFI bid for two further schemes •Improvement in performance on 33% of our PAF indicators •Additional 1,423 pieces of equipment delivered

Budget redirection areas in 2009/10	Performance outcomes
	(13.6% increase) to disabled people compared to the previous year.
Facilitation of cohesion – youth and children work. In 2009-10 an extra £70k of youth funding was made permanent and an additional £170k of funding was provided for school holiday activities.	The £170k of additional funding has enabled both an extension of the number of weeks of existing schemes and the addition of new schemes. As a result, the range of activities and the numbers of children and young people accessing them have increased. The permanent funding has helped increase the opening hours of a number of youth centres around the City.
New Prosperity	
Raising Educational Attainment: Funding "Transforming Leicester's Learning programme". Following the TLE programme introduced in 2008-09 further resources were injected for the period up to the summer of 2009 and this enabled the Council to access additional funding from the DCSF.	The CAA Organisation report recognizes an improvement in education attainment. Attainment results have shown year on year improvement at GCSE (since 05/06) and overall improvement at Key Stage 2.
Facilitating Regeneration: Physical regeneration projects continue to be supported by revenue monies to fund borrowing on capital schemes – in 2009-10 these were particularly focused on the Digital Media Centre.	The new Phoenix Square development was opened to the public in November 2009 with over 1000 people turning up to a special event. As well as two cinema screens, a café bar and the De Montfort University Cube – an interactive digital art gallery – the centre, which is in the heart of Leicester's Cultural Quarter, includes 63 individually-designed new homes, 22 workspaces, seven two-storey office studios and eight incubation units for creative businesses.
Beautiful Place	
A Cleaner Environment: In 2008-09 a programme of growth was introduced which covered: a) Pilot project – city wardens b) Graffiti removal c) Additional street cleaning In 2009-10 this funding was continued together with additional resource for evening cleaning of the Cultural Quarter following the opening of the Curve Theatre.	Performance analysis in the Environment Service Improvement and Efficiency Plan shows improvement in all areas. Place survey 2008 reported high importance of clean streets with fewer people (4.5 percentage points) reporting need for improvement. A further place survey will be taken in the autumn of 2010.
Delivering Quality Services	
Service Transformation: Organisational Development & Improvement. Further substantial funding of £1m was provided in the 2009-10 budget to help transform the way services are provided, making them more efficient and effective.	A number of quick win efficiency savings planned in the 2009-10 budget have or are being realised and steady progress is being made in service and other reviews through the work of the Organisation Development & Improvement (ODI) Team. This will lead to modernisation of business processes and some substantial cost reductions in 2010-11 onwards.

17. Value for Money

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

17.2 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. Taken together, the budgets for 2009/10 and 2010/11 deliver efficiencies of £13.0m in 2010/11 rising to £24.9m by 2012/13.

17.3 Divisions review their costs of services against those of other local authorities, and the outcome will be reported in detail in the 2010/11 Service Improvement and Efficiency Plans.

17.4 Over the period 2005/06 to 2007/08, the Council met the Government's (separately measured) 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 £37m across the years 2008/09 to 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.

17.5 It is estimated that the Council will under-achieve its target in 2009/10, requiring "catch up" in 2010/11. Measures to achieve this will be reflected in the ODI and Efficiency Plan.

17.6 It will be demanding to achieve these savings, and it is important that the Council maintains the impetus of the ODI programme. It is anticipated that significant levels of savings will arise from further 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.

18. Budget and Equalities

18.1 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.

18.2 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.

18.3 Each strategic director has assessed his/her budget plans 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.

18.4 The results of these assessments have been included in commissioning statements. In summary there are no proposals identified which pose a high risk of serious adverse impact, although for some proposals EIAs remain to be carried out. This will be the case where detailed reviews remain to be carried out. In cases where any impact has been identified, mitigating measures are proposed. Several budget proposals have a positive equalities impact.

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

19. Unsupported Borrowing

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

19.2 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.

19.3 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.

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

19.5 Attached at Appendix 5 are the prudential indicators which would result from the proposed budget, and which show that borrowing is prudent, affordable and sustainable. This budget strategy does not propose any new unsupported borrowing which has not already been approved by members, although approval may be sought in due course in relation to the merger of city centre libraries.

19.6 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 £m	Approximate Turnover £m	Debt as % of Turnover %
General Fund			
2010/11	66.0	844	7.8
2011/12	71.6	840	8.5
2012/13	67.1	837	8.0
HRA			
2010/11	29.0	72	40.3
2011/12	29.6	74	40.0
2012/13	30.4	75	40.5

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

	General Fund £m	HRA £m
2010/11	10.7	1.8
2011/12	11.9	2.4
2012/13	12.0	2.5

19.8 The greater overall exposure of the Housing Revenue Account was made possible mainly as a result of recent improvements in housing subsidy funding. This has, however, now changed, and the only significant new exposure of the HRA relates to the Council's "new build" programme - the cost of this borrowing will be met by additional rent income from new dwellings.

20. Procedural Matters

20.1 When the Council approves the budget for 2010/11 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.

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

20.3 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. The recommendations to this report propose a maximum of £2m, which is the same as 2009/10.

21. Treasury Strategy

21.1 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.

21.2 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.

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

21.4 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, 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).

21.5 The investment strategy is principally concerned with the security of Council investments. This is always a paramount concern for our investment strategy, and the risks within the financial system remain higher than usual. 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. We are also proposing to make use of money market funds, which are pooled investment vehicles investing in a range of very low risk deposits. The range of these deposits will extend beyond UK banks, but risk is reduced by the pooled nature of the fund.

22. Minimum Revenue Provision

22.1 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).

22.2 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.

22.3 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. We are required to set our own policy for unsupported borrowing.

22.4 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.

22.5 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.

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

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

23.1 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.

23.2 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) protection of recent investment in making the City clean and green, despite financial constraints;

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

24. Financial Implications

24.1 This report is exclusively concerned with financial issues.

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

25. Legal Implications (Peter Nicholls, Director of Legal Services)

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

25.2 Other legal implications are covered in the report:

(a) adequacy of reserves, as required by the Local Government Act, 2003 (sections 10 and 11);

(b) the Secretary of State's power to cap the budget (section 14);

(c) obligations under the equalities legislation (section 18);

(d) unsupported borrowing, under the Local Government Act, 2003 (section 19).

25.3 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.

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

25.5 EIAs must be completed in accordance with the report.

26. Other Implications

Other Implications	Yes/No	Paragraph References within Supporting Papers
Equal Opportunities	Yes	These are dealt with in section 18 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 commissioning statements.
Human Rights Act	Yes	There are human rights implications because of our obligations under Equalities Legislation Act – see section 18.
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.

27. Background Papers

27.1 Collection Fund Surpluses – report to Cabinet on 25 January 2010.
Council Tax – Taxbase report to Council on 28 January 2010.
Equality impact assessments deposited in Members' Services.

28. Report Author/Officer to Contact

Mark Noble
Chief Financial Officer
Extn: 297401
28 January 2010

Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)

LEICESTER CITY COUNCIL

Financial Strategy 2010/11 to 2012/13

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 2010/11 to 2012/13.

1.3 The key issue for 2010/11 to 2012/13 is managing the anticipated substantial deterioration in national public finances, and consequently in the Council's own resources. The strategy seeks to address this by:

(a) identifying a limited number of key priorities in which the Council wishes to make further financial investment notwithstanding the overall financial climate;

(b) identifying services for which the Council will seek to protect funding at or close to current levels;

(c) ensuring that the Council's finances are managed in a way which continues the improvement trajectory of our lowest performing services;

(d) identifying services which are regarded as lower priority in terms of their contribution to "One Leicester" in which, subject to public consultation, some dis-investment might be appropriate;

(e) strenuously maximising the efficiency of both front-line and back-office services; consolidating administration where possible; and working with local partners to eliminate duplication;

(f) maintaining a focus on funding services, not the buildings they are provided in, without any pre-conceptions about how these services are best delivered. This implies rigorously reviewing all our asset holdings. It also implies openness to considering alternatives to direct provision of services by the Council itself, where this is appropriate.

2. Aim

2.1 The aim of One Leicester is to shape Britain's sustainable city. This is developed in three key themes within that strategy and the corporate plan. This financial strategy helps deliver that aim, making the best possible use of limited resources.

2.2 The Council believes that the 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 2010 is projected by the Office of National Statistics to be 301,000, although we believe the true figure to be at least 15,000 higher, after allowing for perceived under-counts and short-term residents. The very latest information from ONS suggests even this may be an under-estimate.

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. Again, latest information now suggests this is also an under-estimate.

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 £260m. Apart, however, from specific incentive schemes, rates income is 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 funding outlook for decades.

4.2 2010/11 is the final year of the current 3 year funding settlement. We therefore know our formula grant entitlement for that year; notwithstanding the deteriorating public finances, the Government has reaffirmed its commitment to pay this level of grant.

4.3 We have no certainty over our grant levels for 2011/12 and 2012/13: these years fall into the period of the next national spending review, and spending plans for local government have not yet been made available. However:

(a) the next 3 year spending review is expected to lead to very substantial real term cuts in public spending as a consequence of huge increases in national debt;

(b) the effect on local government services will depend upon the extent to which other services receive protection. Apart from education, there is no suggestion that local government services might be protected.

4.4 Our current estimates of formula grant are:

	Grant £m	Increase %
2010/11	182.4	2.8%
2011/12	178.9	-2.0%
2012/13	175.4	-2.0%

4.5 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).

4.6 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 2010/11. The Council will ask the Government to rectify this in the next funding settlement.

4.7 The Government has powers to cap the budget of any local authority which it believes is spending excessively. It is believed that the Government will rely heavily on its capping powers to secure low tax rises in the next 3 years.

4.8 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.

4.9 The Council estimates that (with few exceptions) grants for specific purposes will reduce by 5%, in aggregate, in each of 2011/12 and 2012/13. Some fees and charges income is currently under pressure due to the recession.

Capital

4.10 Substantial amounts of capital resources are (to all intents and purposes) earmarked for education, schools and local transport. These resources are expected to reduce in 2011/12 and 2012/13 even more substantially than revenue grants.

4.11 Capital resources available to spend at our own discretion are dependent upon capital receipts. Normally, these amount to some £5m per annum, plus receipts from "right to buy" sales of council houses. In 2010/11, capital receipts are expected to be minimal. It is hoped that improvements in economic conditions will see receipts return to more normal levels in later years. The Council will seek to use one-off revenue underspends to top up capital spending in the meantime.

Overall

4.12 The overall financial position is such that the Council will be severely constrained in its ability to make financial commitments in support of the City's vision. 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. Subject to public and partner views, the Council will selectively dis-invest in services which do not contribute to the City's vision, or are regarded as out of date. Funds released will be applied to modernise services and to help us live within reduced resources.

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.

5.2 This section of the strategy has been significantly redrafted since the inception of "One Leicester", to reflect the deteriorating financial outlook. As a consequence, most policy commitments will be expected to be funded from savings within the service concerned; additional resource will be few and far between.

5.3 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.

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

5.5 The themes are also supported by 7 programmes of action, and the Council has established "priority boards", each chaired by a strategic director, to deliver each programme.

5.6 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. The key performance measures in the plan are shown at Annex D.

5.7 Confident people

5.7.1 Key financial priorities are:

(a) the continued development of community meetings at ward level. Opportunities will be sought to devolve resources from mainstream budgets to ward level, which will complement the Council's and partners' development of a neighbourhood management model, but there will continue to be a modest provision of uncommitted budgets to community meetings;

(b) additional funding will continue to be made available to meet the growing needs of older and vulnerable people, and to promote their independence. Should capital resources be available, the Council will continue to develop choice based provision for the elderly, including extra care;

(c) housing capital resources will continue to be targeted towards improving the standard of decency of homes in the City. The Council will continue to use wider development policies to increase the supply of social and affordable housing;

(d) the Council will seek to ensure appropriate levels of funding for youth provision, recognising that this is a key contributor to community cohesion;

(e) the Council will seek to protect area based grant resources directed towards improving community safety, particularly to reduce levels of crime;

(f) the Council will target its existing mainstream spending on marketing and promotions to more effectively "talk up Leicester."

5.8 New Prosperity

5.8.1 Key financial priorities are:

(a) continued financial support to the "Building Schools for the Future" programme, which is seen as a vital contributor to investment in our children's education;

(b) building a children's and youth hub - additional revenue resources will be made available to support the significant capital investment which the City has secured;

(c) to support co-ordinated economic development of the sub-region, through participation in Prospect Leicestershire, which is supported through mainstream revenue funding;

(d) should capital resources be available, the Council will continue to prioritise physical regeneration as a priority, and will prioritise the development of a new city centre bus station. Other future priorities will expand beyond the city centre which has now seen significant redevelopment. This priority will be dependent upon levering in substantial sources of external capital and is likely to be affected by the continued recession;

(e) we will work with our partners to secure the best use of city-wide resources to improve health and to address health inequalities which are known to be too high;

(f) we will work with our partners to secure best use of city-wide resources to improve adult skills; and will complement this with resources from the existing “Working Neighbourhoods Fund” which we plan to spend across the 3 years of this strategy;

(g) the Council will seek to minimise the impact of future funding constraint on budgets designed to improve educational outcomes and for budgets for safeguarding children.

5.9 Beautiful Place

5.9.1 The aim of One Leicester is to shape Britain’s sustainable city. The Council believes sustainability is best achieved by reviewing and adjusting its mainstream service provision and spending. To this end, we will:

(a) scrutinise revenue spending, with a view to understanding the impact our services have on the Council’s carbon footprint, and make consequential modifications;

(b) ensure planned capital schemes minimise their carbon footprint, and adopt appropriate environmental building standards.

5.9.2 Other financial priorities are:

(a) improving transport and reducing car usage, which is a key priority for use of local transport capital resources;

(b) seeking to maintain a sufficient level of resources to keep streets and open spaces clean.

5.10 Delivering Quality Services

5.10.1 The key financial priority is to deliver a substantial service transformation programme, ensuring a high standard of service at the minimum possible cost. This will involve making best use of IT development, and joint service planning with our local partners.

5.10.2 In order to live within its resources, the Council will look critically at the services it provides which make a lesser contribution to its priorities, with a view to saving money from these activities. Determination of which services are classified in this way will result from rigorous analysis by Priority Boards, and the views of the people of Leicester.

5.10.3 The Council will significantly curtail its spending on agency staff and external consultants.

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;

(e) a continued emphasis on safeguarding.

6.2 These spending pressures will need to be assessed in the context of a likely continued squeeze in public spending, potentially lasting more than 10 years.

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 Each priority board is preparing a commissioning strategy. This strategy will determine which services need to be delivered, and how they should be delivered, in order to achieve the aims of One Leicester.

It will also identify how funding follows need. The strategies will also be accompanied by a budget plan, identifying how the strategy can be delivered within a restricted budget envelope.

7.4 Traditional service delivery approaches will be challenged as part of the Organisational Development and Improvement Programme. The ODI Programme is also intended to drive sizeable efficiencies out of the organisation, amounting to £8m per annum by 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
2010/11	278.1
2011/12	274.8
2012/13	280.0

8.2 The table above provides for:

(a) the Council's budgeted level of expenditure in 2010/11, inflated as appropriate in future years for expected pay, price and pension cost increases;

(b) expected additional costs of capital financing in 2011/12 and later years;

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

(d) planned spending changes included within the 2010/11 budget.

8.3 The table does not make allowance for any further spending pressures in individual services. These will be reviewed as part of detailed budget planning, 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) risks to grant income, particularly the risk that the state of the public finances will require even tighter settlements than currently envisaged;

(b) significant unexpected funding needs, which cannot be envisaged at this time;

(c) the impact of new responsibilities transferred to local government - a key one is the expected transfer of responsibility for further education provision for 16-19 year olds;

(d) changes in expected levels of inflation or pay, which is particularly difficult to estimate over 3 years. In particular, the strategy assumes that pay rises will be severely constrained;

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

(f) the impact of the recession on fees and charges;

(g) ability to deliver the efficiency savings built into the programme.

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 Council will be £1,186 in 2010/11, which is below the national average.

10.2 Future tax rises will be guided by levels of inflation, both current and projected for the year in question. Tax rises will also be guided by the need to protect and maintain essential services, and to deliver the Council's financial priorities described above. The relevant weighting given to each criteria will depend upon the overall health of the local economy.

10.3 In 2010/11, tax income amounts to £93.5m, and each 1% increase in tax increases the Council's budget by £0.9m pa.

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. The Council is committed to maintaining some level of budget for individual wards, notwithstanding the financial climate.

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.

11.3 The Council is developing a strategic approach, with partners, to neighbourhood management which this strategy will complement.

12. Value for Money

12.1 The Council is committed to providing services as efficiently and effectively as possible.

12.2 An Organisational Development and Improvement Plan will be approved close to the time of each annual budget. This will include 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 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 and Multi 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. Efficiencies will also arise through better control of our spending on external consultants and agency staff.

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 This section of the strategy explains how detailed budgets are prepared.

13.2 Each priority board is responsible for preparing a commissioning strategy. This addresses what services should be provided, and how they should be provided, to meet the aims of the sustainable community strategy and the Council's corporate plan. It also addresses services which will cease to be provided, or will be provided to a lesser extent than they have been in the past.

13.3 Each board will, in tandem with the commissioning strategy, prepare a budget plan identifying how services can be delivered within limited resources. Budgets will be set for each priority board.

13.4 Priority Boards' budget plans are converted into specific, cash limited budgets within which divisional directors providing services must operate.

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. Substantial reductions in these resources are anticipated from 2011/12.

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 Very limited capital receipts are anticipated in 2010/11. Whether receipts are available in 2011/12 and 2012/13 will depend upon prevailing economic conditions in the 9 months prior to the commencement of those years.

14.5 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; and investment in support of the Government’s “new build” programme;

(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.

14.6 Capital planning normally follows a 3 or 4 year planning horizon. Given current economic conditions, a one year programme will be established for 2010/11. A longer plan may subsequently be considered for 2011/12 onwards, if there is greater certainty about likely resources.

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 13 years, which should substantially reduce this backlog and improve educational outcomes;

(c) the estimated backlog of repairs to other operational properties (5 children and family homes, 8 Elderly Persons' Homes, 2 golf courses, 42 parks, 18 libraries, 6 museums, 13 central administrative buildings and 38 neighbourhood and community centres) is £70m. 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.

15.5 Meeting these needs will be dependent upon available resources - government resources are expected to be constrained for 10 years or more.

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 Determination of which capital schemes to support is based on the process described below. However, this process will not apply for the 2010/11 capital programme: the paucity of resources is such that no formal process is merited.

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.

17.5 In 2010/11, the corporately determined capital programme will chiefly consist of previously approved schemes, and rolling programmes of essential minor works.

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 local 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.

Mark Noble
Chief Finance Officer
28 January 2010

Spending Assumptions

	2010/11	2011/12	2012/13
Pay rises:			
- teachers	2.30%	1.0%	1.0%
- other staff	0.5%	0.0%	0.0%
*General Inflation	1.0%	1.5%	2.0%
Interest:			
- paid on long-term borrowing	5.0%	5.25%	5.25%
- earned on investment	0.8%	3.5%	4.5%
Superannuation contribution rates			
- teachers	14.1%	14.1%	14.1%
- other staff	16.64%	18.64%	19.64%

Annex B
to Appendix One

Divisional Planning Targets

	2010/11 £000s	2011/12 £000s	2012/13 £000s

[To follow]

Forecast Budgets:
Balance Sheet Items and Cashflows

Fixed Assets and Debt	Actual as at 1.4.09 £'000	Forecast at 31.3.10 £'000	Forecast at 31.3.11 £'000
Fixed Assets	2,187,633	2,220,130	2,187,078
Long-Term Borrowing	(276,758)	(264,758)	(284,758)
Capital Financing Requirement	480,405	500,636	515,417

Investments & Liabilities	Actual as at 1.4.09 £'000	Forecast at 31.3.10 £'000	Forecast at 31.3.11 £'000
Investments (excl. company investments)	69,200	90,000	70,230
Short Term Borrowing	(160)	(160)	(160)
Debtors (excl. Bad Debts Provision)	83,314	88,459	93,921
Creditors	(95,627)	(102,073)	(108,954)

Cash flow movements during the year	Actual as at 1.4.09 £'000	Forecast at 31.3.10 £'000	Forecast at 31.3.11 £'000
Increase/(Decrease) in net borrowing:	(28,877)	(32,800)	39,769
- High risk	-	(7,800)	64,769
- Low risk	-	(77,800)	(5,230)
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 1.4.09 £'000	Forecast at 31.3.10 £'000	Forecast at 31.3.11 £'000
Uncommitted General Fund Reserves	6,474	6,770	6,700
Earmarked Revenue Reserves	83,037	74,100	61,264
Earmarked Capital Reserves	4,966	3,500	2,500
Housing Revenue Account	4,502	2,387	2,322

Performance Measures from the Draft Corporate Plan

Investing in our children

1. Reduce the percentage of 16-18 year olds not in education, employment or training from 8.4% to 7% by 2011 and to 5% in 2013.

2. Reduce the rate of teenage conceptions per 1,000 from 50.1 to 29 by 2011 and 28.9 by 2013.

3. Halve the proportion of children in poverty from 38.5% by 2020.

4. Increase the percentage of young people achieving level 4(+) English and Maths KS2 from 66.7% to 80% in 2011 and 82% by 2013.

5. Increase the percentage of young people achieving 5+ A* GCSEs (including English and Maths) from 39.9% to 55% in 2011 and to 65% by 2013.

Planning for people not cars

6. Reduce journeys to work by car from 54.7% to 48% by 2013.

7. Increase the number of people using public transport from 38.5 million journeys to 44 million journeys by 2013.

8. Increase the percentage of employees covered by workplace travel plans from 13% to 55% by 2013.

Reducing our carbon footprint

9. Reduce CO_2 emissions from residential properties from 651,000 tonnes to 530,000 tonnes by 2013.

10. Reduce CO_2 emissions from businesses from 1,028,000 tonnes to 837,000 tonnes by 2013.

11. Reduce CO_2 emissions from car use from 285,000 tonnes to 232,000 tonnes by 2013.

Creating thriving and safe communities

12. Reduce recorded crime from 69 per 1,000 population to 54 per 1,000 by 2013.

13. Increase numbers of people in control of their social care services through self-directed support from 741 to 1,957 by 2013.

14. Deliver 992 new affordable homes by 2013.

15. Increase the numbers of people who believe people from different backgrounds get on well together in their local area from 76.2% to 84% by 2013.

Improving wellbeing and health

16. Reduce the all-age all-cause mortality rate per 100,000 population – males from 850 to 665 by 2011 and to 663 by 2013; females from 598 to 484 by 2011 and to 482 by 2013.

Talking up Leicester

17. Increase the % of people satisfied with their area from 71.7% to 84% by 2013.

Investing in skills and enterprise

18. Increase the proportion of population (aged 19-64 for males and 19-59 for females) qualified to at least level 2 or higher from 57.6% to 61.9% in 2011 and to 72.2% by 2013.

19. Increase the number of VAT Registered businesses in the area showing employment growth to 1% above the regional average by 2011.

20. Reduce percentage of working age people on out of work benefit from 16.2% to 15.3% by 2011 and to 14.3% by 2013.

One excellent Council

21. Reach top level (excellent) within the Organisation Assessment of the Council by 2012 and maintain that position.

22. Increase fair treatment by local services from 66% to 78% by 2013.

23. Increase workforce representation in top 5% earners from BME communities from 15.38% to 20% by 2013.

24. Reduce staff sickness from 12 days in 2008 to 8 days in 2012 and to maintain that position.

25. Value for money: total net value of ongoing cash releasing value for money gains of £37.4m by 2011.

Changes Between 2009/10 and 2010/11

	£m	£m	£m
Net Budget 2009/10			**269.3**
Plus spend supported by use of Reserves			1.5
Budgeted Spend 2009/10			**270.8**
Technical Changes:-			
Inflation			
- Pay	(0.7)		
- Other	0.3	(0.4)	
Landfill Tax / Rents		0.8	
Change in Corporate Budgets		0.5	
			0.9
Real Changes:-			
Net Budget Growth 2010/11:			
Adult Care Growth		3.6	
Children's Services Growth		0.8	
Investment in Communities		0.5	
Aids & Adaptations		0.2	
Other Net Budget Growth		0.5	
Budget 2008/09 - Full Year Effects		(0.2)	
Budget 2009/10 - Full Year Effects		(2.1)	
Planned Efficiencies		(2.0)	
Support to Capital Programme		2.0	
Transformation Reserve		2.0	
Housing Benefit Improvement Plan		0.5	
Building Schools for the Future		0.6	
			6.4
Budget Spend 2010/11			**278.1**
Less Contribution from Reserves			(1.7)
Net Budget 2010/11			**276.4**

Earmarked Revenue Reserves

	Year-end balance 31 March 2009	Forecast balance 31 March 2010
	£'000	£'000
Statutory / other ringfenced reserves		
Schools' Balances*	20,610	9,244
Insurance Fund	5,732	3,600
Dedicated Schools Grant (carry forward)	4,650	3,698
Supporting People Funds	1,829	1,452
Schools Buy Back	954	183
Schools Catering - Job Evaluation	506	506
On Street Parking Reserve	390	0
	-----------	-----------
TOTAL STATUTORY / OTHER RINGFENCED RESERVES	**34,671**	**18,683**
Other Earmarked reserves		
BSF - Capital Financing Costs	14,564	19,268
Job Evaluation Reserve	9,945	13,195
Area Based Grant - carry forward	6,553	11,778
CYPS Departmental Reserve	2,014	0
Equal Pay Reserve	1,827	1,727
Raising Achievement Plan (formerly TLL)	1,773	1,696
Transforming the Learning Environment	1,579	1,579
ODI Programme - transformation monies	1,415	1,615
Housing Capital Reserve (Housing Maintenance)	1,144	1,144
VAT Rebate - City Gallery	1,000	0
Special Olympics	1,000	0
Minor Reserves	718	718
IT Development Reserve	638	638
Capital Financing Reserve	595	595
Resource Management System	571	0
Ward Community Meetings	552	399
LABGI 08/09 - Economic Regeneration	642	0
Corporate PC Replacement	300	0
Butterwick House	408	300
Property & CMF	193	193
HR Improvement Plan - My View Project	182	0
Cost of Elections	150	150
Bridges Project (Improving Information Sharing and Management)	146	146
Highways / Traffic Reserve	139	0
Community Cohesion	131	96
NNDR Revaluation	97	90
VAT / Taxation Reserve	90	90
	---------	---------
TOTAL OTHER EARMARKED RESERVES	**48,366**	**55,417**
	=======	=======
TOTAL EARMARKED REVENUE RESERVES	**83,037**	**74,100**

*These are the aggregate of schools' projections for 31/03/10.

Consultation Responses

Consultation responses are attached as follows:

- Performance and Value for Money Select Committee review of Talk Up Leicester commissioning statement - minute of 20 January;
- Summary of People's Panels comments, December 2009.

Talk up Leicester Priority Board
Minutes of Meeting of Performance and Value for Money Select Committee
20 January 2010

Richard Watson, Director of Cultural Services presented the Talking Up Leicester Priority Board Draft Commissioning Statement.

Richard stated that the commissioning statement should be recognised as work in progress and the priority board for Talking Up Leicester were aware that further work needed to be done to develop an action plan. The Committee was informed that the budgets incorporated into the commissioning statement included those from the Arts and Museums Service within Cultural Services and Communications and Marketing budgets held centrally and divisionally.

It was queried why there was a growth item for the running costs of the new city gallery. Richard stated that it was the intention that the costs for the new city gallery would be met within the existing budget and there would be no additional costs incurred.

With regard to the review of Creativity Works, Alison Greenhill, Interim Chief Accountant stated that this area had been reviewed a number of times in the last few years however previous reviews had been incomplete. A review of Creativity Works was currently taking place, led by the Organisational and Development Improvement Team. This would include the development of a business case which would consider various options including outsourcing, joint service provision and business redesign.

Concern was raised at the reduction in grant funds for participatory arts and festivals. Of particular concern was the proposal to use funds from Ward Committees for the same purpose. Members stated that there were only limited funds available from Ward Committees. The Cabinet Lead, Culture and Leisure stated that the grants funds currently had a limit per year and it was not the intention to cease funds altogether. He added that people would be encouraged to apply to the Ward Committee however it was ultimately the decision of the respective Ward Committee to approve the applications or not.

A Member of the Committee stated that he understood the need to make reductions and queried whether festivals and events had been looked at and whether there would be any reductions in currently funded events. Richard stated that all aspects had been looked at and currently funded events were not affected. However there would be a reduction in money for one off events.

It was queried what were the ongoing and annual costs of the proposed projected big screen. Richard stated that he did not have the figures with him, however there was provision in the current budget for the running costs of the project. He added that the screen was provided free of charge and would pass into ownership of the City Council after 2012.

A query was raised whether proposal number eight which stated increased income from arts and museums activities would result in extra charges. The Cabinet Lead, Culture and Leisure stated that there was currently no proposal to increase or decrease charges however it would be looked into whether some buildings could be hired out for events such as weddings. This would allow as much income to be generated as possible.

It was felt that that proposals one and eight contradicted each other. Sarah Levitt, Head of Arts and Museums stated that in terms of increased revenue, work would be done with staff to make sure they were more focused on income generation. She commented that a few years ago the museums in Leicester were rated bottom amongst its comparators for income generation however the situation was currently much better.

It was queried whether larger savings had been considered rather than the smaller savings that were presented. The Cabinet Lead, Culture and Leisure stated that proposals had been presented however they had been politically rejected as it had been a manifesto commitment to improve opening hours of museums.

Concern was raised that there was nothing mentioned in the commissioning statement in relation to older people.

It was queried what the possible implications would be of proposal seven which indicated the reduction from two to one operations manager posts. Sarah stated that there were a number of operations officers who worked under the manager and over the years the officers had taken on more responsibilities.

A Member queried the current situation with regard to Leicester Castle. Richard stated that discussions were currently being held with the County Council and a sustainable solution was needed in order to make the castle more sustainable in the longer term. He added that a paper needed to be produced outlining the options for consideration.

Concern was raised that not enough thought had been given to the budget next year as indications had been given that funding for local governments would be reduced.

Members reiterated that they realised the difficult situation however would like services to be preserved.

RESOLVED:

1) that the report and comments made by Members of the Committee be noted.

Appendix Four

People’s Panels Consultation Responses

1. Introduction

1.1 For the first time, local public services within Leicester agreed to jointly consult members of the public on their budget proposals. Consultation took place with residents in two focus groups in December 2009. This took place before detailed consultation proposals were published on 12 January, and members of the public were then able to share views on what action the Council should take in the expected period of financial constraint. The public was also invited to consider how we could better work together.

1.2 Leicester City Council, NHS Leicester City and Leicestershire Fire and Rescue Service were involved in carrying out the consultation.

1.3 Consultation took place by means of discussion with groups of residents chosen from the People’s Panel. This method was chosen deliberately, as opposed to wider surveys which the Council has used in the past. Our experience suggests that focus groups enable members of the public to consider issues more fully, and provide context to their views. Conversely, however, it is also possible for more persuasive members of panels to overly-influence the views of the group.

1.4 In carrying out the consultation, we did not wish to reopen the substantial consultation carried out when “One Leicester” was first deliberated and agreed.

1.5 Invitees were selected randomly from the People’s Panel database of city residents. As stated above, a focus group method was chosen to ensure that debate could take place and that the reasons *why* people held their views could be recorded, and ideas could be discussed and developed amongst the group. This means, however, that statistical conclusions cannot be drawn by the discussions (for example, we cannot say that x per cent of people in Leicester think something, just because x per cent of the focus group thought so).

1.6 Groups were split by age:

- Monday 14th January – People aged over 60
- Tuesday 15th January – People of working age

1.7 A separate meeting is being held to discuss the draft budget with young people.

1.8 Twenty one people attended the focus group of people aged over 60 years old. The majority of attendees were men, and attendees were mainly from a white British ethnic background. However attendees were also from Indian, White European and Black Caribbean backgrounds. Thirteen people attended the focus group of people of working age. The group was fairly evenly split between men and women. Half the attendees were from a white British background. The remaining attendees were from Pakistani, Indian, Irish, African and dual heritage (white and Asian) backgrounds.

1.9 Some of the views expressed may have been coloured by reportage in the local media at that time, which covered the Council's spending on consultants and the costs of major projects such as refurbishment of the former Post Office.

2. Consultation comments affecting the budget

2.1 Below is a summary of the key comments made by the panels which affect the budget, and how the budget responds to these.

2.2 **Anti-social behaviour** was discussed at one of the two groups as a specific theme. The public saw anti-social behaviour as a key issue, best delivered in partnership with other agencies, for which funding should be protected. Some members of the public believed, in connection with this, that the Council should invest heavily in **youth** provision. The Council's financial strategy states that it will seek to protect area-based grant resources directed towards improving community safety; and that the Council will seek to ensure appropriate levels of funding for youth provision. In respect of ABG, discussions are yet to take place with partners, but we will ensure these views are reflected. Indeed, Leicester Partnership will also need to consider its response to the "red flag" in this area when considering how the grant is to be spent in 2010/11. Within the mainstream budget, resources for this area of activity have been enhanced or protected. New money has been added to the Children's Services budget to develop integrated youth support services, rising to £210,000 per annum by 2012/13. £400,000 per annum has also been made available for the proposed "MyPlace" children's and youth hub in the former Haymarket Theatre. Proposed savings in respect of Community Safety have been deliberately deferred until 2012/13.

2.3 The panels were concerned about the Council's expenditure on **consultants**. Whilst recognising that there are times when the Council has no option but to use external consultants, it is accepted that this is an area of expenditure which requires greater control. The proposed budget includes a proposal to revise the Council's HR strategy, and to provide greater control over the use of both agency staff and external consultants.

2.4 The public challenged the Council's spending on **high profile capital projects**. Parallel to this was a view that the Council should be "concentrating on basics" in a time of recession. The funding of capital projects is complex, in that whilst some involve additional revenue cost, they also involve use of capital resources which cannot be used for revenue purposes. They often also involve substantial packages of external funding. In some cases, they support the local economy, thus helping to increase the prosperity of Leicester. Nevertheless, there was a strength of feeling behind these comments (although one group only felt such spending should be shelved for the duration of the recession) and it is proposed that the Council seeks to strengthen its communication arrangements regarding any future projects: the intention being that the full rationale, including costs and benefits, can be widely and publicly understood. The proposed budget for 2010/11 contains provision for one substantial new capital project – this is the "MyPlace" children's and youth hub, which is a £6.5 million investment all of which is externally funded. Extra running costs of £0.4 million are being met from the budget. This project, of course, helps address provision for youth which will reduce anti-social behaviour.

2.5 There was a public view that the Council should do its best to **promote efficiency**, reducing unnecessary management posts. This has been taken on board, and substantial management reductions are proposed in the budget. Overall, the budget delivers significant efficiency savings, including a sum rising to £8 million per annum from the organisational development and improvement programme.

2.6 There was a strong view amongst the public that more should be spent on **prevention** work, in respect of elderly service users/NHS patients. The budget makes substantial strides in this direction, refocusing Adult Care budgets on prevention and re-ablement, reducing the amount that is then required to be spent on treatment. It is recommended that the Council and PCT work closely over the next twelve months to see what additional benefit can be gained from pooling budgets more efficiently.

2.7 A number of other issues were raised by members of the public, often in relation to specific services, and which do not impact budget decisions. These will be directed to relevant officers for consideration.

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 PVFM Committee.

2. Proposed Indicators of Affordability

2.1 The ratio of financing costs to net revenue budget:

	2009/10 Estimate %	2010/11 Estimate %	2011/12 Estimate %	2012/13 Estimate %
General Fund	7.4	7.2	7.8	8.0
HRA	11.9	12.3	13.0	12.8

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

	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s	2012/13 Estimate £000s
Unsupported borrowing brought forward	46,898	59,257	66,043	71,593
New Unsupported borrowing	18,556	13,465	13,112	3,000
Less Unsupported borrowing repaid	(6,197)	(6,679)	(7,562)	(7,506)
Total Unsupported borrowing carried forward	59,257	66,043	71,593	67,087

2.3 The level of unsupported borrowing for the HRA:

	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s	2012/13 Estimate £000s
Unsupported borrowing brought forward	19,246	19,930	28,988	29,634
New Unsupported borrowing	1,558	9,995	1,982	2,135
Less Unsupported borrowing repaid	(874)	(937)	(1,336)	(1,415)
Total Unsupported borrowing carried forward	19,930	28,988	29,634	30,354

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:

	2009/10 Estimate £	2010/11 Estimate £	2011/12 Estimate £	2012/13 Estimate £
Band D council tax (1,186.22)	0.00	0.00	0.00	0.00
HRA rent	0.00	0.16*	0.65*	0.62*

* Based on 2010/11 average weekly rent of £57.71.

3. Indicators of Prudence

3.1 The forecast level of capital expenditure to be incurred for the period 2009/10 to 2011/12 (based upon the Council capital programme, and the proposed budget and estimates for future years) are:

Divisions	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
Learning Environment	36,180	21,277	17,698
Access Inclusion & Participation	1,789	2,688	1,950
Social Care & Safeguarding	1,285	2,742	1,526
Learning Services	3,002	1,571	100
Regeneration, Highways & Transportation	14,508	7,744	5,500
Transport Division	2,031	2,000	2,000
Cultural Services	9,216	9,940	1,000
Environmental Services	948	2,878	341
Planning & Economic Development	2,569	1,060	500
Older People	109	5,702	100
Community Care Service	80	159	100
Personalisation & Business Support	51	106	0
Safer & Stronger Communities	460	132	100
Housing Strategy & Options	4,741	3,993	3,902
Strategic Asset Management	4,642	4,897	5,600
Information & Support	7	0	0
Human Resources	10	10	10
Financial Services	439	0	0
Assurance & Democratic	128	0	0
Total General Fund	82,195	66,899	40,427
Housing Revenue Account	23,189	37,165	17,430
Total	105,384	104,064	57,857

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

	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s	2012/13 Estimate £000s
General Fund	287,909	288,132	291,811	283,064
HRA	212,727	227,285	227,931	228,651

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

	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s	2012/13 Estimate £000s
General fund capital financing requirement – supported borrowing	228,652	222,089	220,218	215,977
General fund capital financing requirement – unsupported borrowing	59,257	66,043	71,593	67,087
Total general fund capital financing requirement	287,909	288,132	291,811	283,064

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:

	2010/11 £m	2011/12 £m	2012/13 £m
Borrowing	455	456	457
Other forms of liability	35	34	33

3.6 The Council is preparing for the implementation of new accounting standards which will affect the way in which we account for Private Finance Initiative (PFI) schemes and leases. These changes could add up to £50 million to "other forms of liability". Because the "authorised limit" is a statutory limit it will need to reflect these liabilities. Accordingly the authorised limit will be increased by a further £50 million above the levels shown in the table above, but this increase will only be used in respect of these purely technical changes.

3.7 These changes also impact on the other prudential indicators included in this appendix. The impact of such changes is not reflected in these indicators and we won't know the full effect until we have closed the accounts for 2009/10. These changes will be reflected when we monitor performance against these limits during 2010/11.

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

2010/11	£390m
2011/12	£390m
2012/13	£400m

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 2010/11 to 2011/12, as follows:

	2010/11 £m	**2011/12 £m**	**2012/13 £m**
Fixed interest rate	440	440	440
Variable interest rate	160	160	160

4.2 It is recommended that the Council sets upper and lower limits for the remaining length of outstanding loans that are fixed rate as a percentage of the total of all such loans. Recommended upper limits are:

	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 within 25 years	100
25 years and within 50 years	80
Above 50 years	20

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 £50m for 2010/11 and subsequent years. In the present investment climate, such investments would only be made in Government backed securities.

Treasury Strategy 2010/11

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 23 December 2009, the Council's debt was £272 million, 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 2008/2009 at a value of £2,187 million.

1.3 The Council also holds a lot of externally invested cash, which stood at £86 million as at 23 December 2009. These investments represent working cash balances (the extent to which the Council receives income before it has to pay bills) and the Council's reserves. Cash balances, however, vary significantly during the course of the year.

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 together with a monthly briefing on investments.

1.5 This treasury management strategy details the expected activities of the treasury function in the financial year 2010/2011. The suggested strategy for 2010/2011 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 represents 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 23 December 2009	Amount
Fixed Rate Funding:	
Public Works Loan Board	£167m
Stock	£9m
Market Loans	£96m
Total Debt	£272m
Investments	£86m
Net Debt	£186m

3. Treasury Limits For 2010/2011

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 are the signs of recovery of the UK and the world economy. This recovery is the result of massive stimuli from governments around the world in conjunction with low short-term interest rates and "quantitative easing". The main issue facing the world economy is achieving a self-sustaining recovery when these exceptional measures are withdrawn.

4.3 Because of the recession, the Bank of England has cut short-term interest rates to a record low of 0.5%. Arlingclose see rates starting to rise again in late 2010 and increasing to 4% by March 2012.

4.4 The outlook for long-term interest rates is more uncertain but these have not been as volatile as short term rates. 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 4.50%. Arlingclose forecast that long-term rates will reach a peak of around 4.75% to 5% in early 2011.

4.5 There is a lot of uncertainty and a number of scenarios are considered in section 8 of this strategy.

4.6 The UK government, in common with the governments of all major economies, is substantially increasing its level of borrowing which may well increase long-term interest rates (the market's perception of the Government's financial plans will be an important factor).

4.7 Under its programme of "Quantitative Easing" (QE) the Bank of England has bought existing government debt equivalent in value to the amount of new borrowing by the Government over the same period. This policy reduced long-term interest rates, but it is unclear what increases in such rates will be seen as QE is reversed.

4.8 There are signs of economic recovery but the view of many commentators is that the recovery is likely to be sluggish, and some express fears of a return to recession in 2010 or 2011 (a "double dip"). In such a situation, government debt is likely to increase above existing planned levels due to reduced tax revenues and increased expenditure on benefits.

4.9 The pressures faced by some countries in the Eurozone, particularly Greece, are particularly acute and concerns over possible defaults may have the knock on effect of increasing long-term interest rates in the UK.

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 2010/2011 requires consideration of the Council's capital financing needs for 2010/2011 and 2011/2012. 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 £35 million in 2010/2011 and £39 million in 2011/2012. The bulk of this could, if we so chose, be met from existing cash balances.

5.3 If we borrowed in 2010/11 this would be in advance of need and in the short-term the proceeds of the loans would be invested. In 2010/11 the rate of interest on any new loans that are borrowed is expected to be significantly 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. Sometimes 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 £96 million and may reschedule these if opportunities present.

6.6 At present it seems likely that any rescheduling in 2010/11 would be done as a risk reduction measure (see 8.6 below) but, otherwise, favourable opportunities for cost reductions are unlikely to present in 2010/2011

7. Investments

7.1 This report outlines the investment strategy. Further details are given in appendix 7, which sets the criteria that we apply to ensure that we only invest with borrowers of high credit worthiness. It also deals with measures to manage other key issues, for example ensuring access to liquid funds.

7.2 In December 2009 the Council had investments of £86M. In the absence of new borrowing, these funds will be drawn down in 2010/2011 and 2011/2012 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. Public expenditure is likely to be severely constrained in coming years and this may particularly impact on the level of new grants and hence on the level of grants held in advance of spend.

7.4 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. The world's financial systems seem more secure than 12 months ago but risks remain, and we shall continue to be more cautious than usual.

7.5 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, as long as they continue to have a minimum long-term credit rating of AA-.
- Money market funds

7.6 We shall continue to take a cautious approach. We shall report on this matter to the Performance and Value for Money Select Committee via six-monthly review reports and monthly briefing reports.

8. Sensitivity of This Strategy

8.1 This strategy is based on the view that the economic outlook for 2010/2011 and later years carries a number of significant risks.

8.2 Both long term and short-term interest rates are expected to rise and the main risk is that they rise faster and/or sooner than expected. Any borrowing decision made during 2010/11 will be a careful balancing act - at present long-term interest rates are significantly higher than short-term rates but long-term borrowing offers certainty. The key considerations are the medium term outlook for long-term and short-term interest rates (and the difference between the two) and the degree of uncertainty surrounding those projections.

8.3 This report has noted how the level of investments reflects cash received from earmarked grants etc. In addition this cash has been used an alternative to borrowing and, as a result, our borrowing is £200 million less than it would otherwise have been. Potentially a tightening of grant regimes could both eliminate interest earning balances (leading to a loss of investment income) and cause us to borrow new loans (on which interest would be payable).

8.4 This risk is mitigated by the expectation that any changes are likely to be progressive. Furthermore there would no loss of interest to the General Fund where interest on the grant is earmarked to the same purpose as the grant

8.5 The position will be monitored and if there were a need to borrow then we would seek to do this in the most cost effective way. The risk is considered to be low in 2010/11 but rises in later years. Even if the risk did not materialise in 2010/11 it's possible that we would act in 2010/11 to mitigate the risk in later years.

8.6 The Council has £96 million of market loans at favourable interest rates on which the lender has the right to periodically propose an interest rate increase. We then have the option to refuse and to repay the loans, but would then have to borrow new loans at the prevailing interest rates. In a "reasonable but not extreme" worst scenario the impact to the General Fund would be of the order of £350,000 but would be unlikely to impact on 2010/11 nor to impact substantially on 2011/12. During 2010/11 we shall explore options to limit these risks.

8.7 We currently monitor the interest earned on short-term investments and that paid on variable/short term loans (short term rates and variable rates are closely linked). In particular we monitor the net interest payment and how it would change if interest rates were to vary.

8.8 We try to avoid a situation where an unexpected change in short term rates has an unacceptable revenue cost, and we take into account other costs which are affected by interest rate changes. In particular we consider the complex operations of the current system of government subsidy for council housing. At present a 1% change in short term interest rates has a £1m revenue impact on the General Fund (with very little revenue impact on the Housing Revenue Account itself).

8.9 However recent consultations on possible changes to the funding of council housing could, as a side-effect, change this and the effect described above would cease. If so, the revenue costs of the Council would become more sensitive to changes in short term rates – in particular an increase in short-term rates would cost us more. One possible action to reduce this sensitivity would be an increase in long-term borrowing. Such changes could not be implemented in 2010/11 although it's conceivable that we might need to take action in 2010/11 to pre-empt changes in later years.

8.10 The attitude of the government towards the transfer of local authority housing stock to social housing landlords remains ambivalent and a general election must take place by June. 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.

8.11 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 £19,000.

9.2 Arlingclose's performance during the market turmoil of early 2009 has been good.

10. Leasing

10.1 The Council is likely to acquire equipment, principally vehicles, to the value of approximately £2-3 million 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 unsupported borrowing. At present the difference between these forms of funding is marginal, and, generally, unsupported 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.

11. Accounting Changes

11.1 This strategy has been prepared at a time when the Council is preparing for the implementation of new accounting standards. One effect of these will be that certain transactions will be treated, in effect, as loans to the Council. Previously we simply budgeted for the rentals (and other similar payments) but in future we shall have to record such "loans" on the balance sheet.

11.2 This will increase the liabilities of the Council, but the important thing to note is that this is simply a paper exercise. The costs of these transactions are budgeted for, and the bulk of such costs are government funded.

12. Revised Treasury Code

12.1 We are reviewing the Council's Treasury Policy statement in the light of revised guidance from CIPFA. Once redrafted it will be put to the Council for approval.

Annual Investment Strategy 2010/11

1. Introduction

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

1.2 The Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the remainder of the current financial year and in 2010/2011. It also identifies other measures to ensure the prudent management of investments.

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);
ii. Deposits for periods up to one year with other local authorities;
iii. Money Market Funds;
iv. 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

v. Deposits for periods in excess of one year with UK local authorities or which is explicitly guaranteed by the UK Government;
vi. Bonds issued by multilateral development banks.

2.5 The Council will impose upper limits on the total amount of money, which shall be invested with each of these types of investments (in aggregate, not per institution) and these are: -

i. £50 million;
ii. Unlimited;
iii. £50 million;
iv. Unlimited;
v. Unlimited;
vi. £30 million.

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

i. Deposits may be for fixed terms or may be repayable at the option of the borrower and/or the lender 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 CFO will maintain a list of approved counterparties, selected in line with the following criteria.

3.2 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 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-.
iii. For money market funds, and other commercial secured deposit facilities, a rating for the fund of AAA and a volatility rating of V1+

iv. For bonds issued by multilateral development banks a long-term rating of AAA.

No credit rating is required for investments issued by or subject to an explicit guarantee from the UK government.

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

i. For money market funds and commercially secured deposit facilities - £10 million. 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;
iii. For deposits with UK local authorities £10 million;
iv. For deposits in banks and other institutions not guaranteed by the UK Government - £10 million;
v. For bonds issued by multilateral development banks £10 million.

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 the institution is based.

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

3.5 Investments are also permitted on the basis of equivalent ratings issued by Moody's Investors Services or Standard and Poor's. In the absence of strong reasons to the contrary, decisions will be based on the lowest rating.

3.6 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.

3.7 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 practicable (the next working day or sooner);

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.

3.8 The criteria specified above control the credit exposure to individual investments. We have procedures in place to monitor the country regulating the banks in which we invest, but we are currently only directly investing in UK based and regulated banks. It's expected that, when conditions normalise, we shall invest in banks that are regulated elsewhere and, at that stage, we shall set limits to the exposure to any one country. Investments in money market funds will create an exposure to non-UK banks but this will only be monitored lightly because money market funds invest in a well diversified pool of investments.

3.9 Market conditions are progressively normalising after the turbulence seen in 2008 and early 2009. However, we are currently continuing to be cautious and the following more sensitive investment criteria are being applied to short term investments 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.

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% and the Council will maintain liquidity by having a minimum of £30m of deposits maturing within 2 months (subject to the availability of funds to invest). Occasional and temporary deviations from these limits will be permitted on a planned basis where there are good reasons.

4.2 The Council is required to specify the maximum amount which can be prudently committed to longer-term investments (i.e. those with a maturity exceeding a year). On the current level of investments an appropriate limit would be £25m but a higher limit of £50m is being proposed in order to allow for the possibility that we borrow new long-term fixed rate loans in order to prefund future years' borrowing requirements.

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, and a monthly note is prepared for Select Committee members and the Cabinet lead for Finance.

Budget Lines

Change & Programme Management
Financial Services
Human Resources
Information & Support
Assurance & Democratic Services
Strategic Asset Management

Environmental Services
Cultural Services
Regeneration, Highways & Transport
Planning & Economic Development
Resources (former R&C)

Older People's Services
Community Care Services (Adults)
Safer & Stronger Communities
Personalisation & Business Support

Housing Strategy & Options

Social Care & Safeguarding
Community Care Services
Learning Environment
Learning Services
Access, Inclusion & Participation
Planning & Commissioning

Forecast Budget Position 2010/11 to 2012/13

[To follow]