



**CABINET
COUNCIL**

**14 FEBRUARY 2005
23 FEBRUARY 2005**

REVENUE BUDGET STRATEGY 2005/06 TO 2007/08

Report of the Chief Finance Officer

1. Purpose

- 1.1 The purpose of this report is to request Cabinet to approve a provisional 3 year corporate budget strategy, 3 year departmental revenue strategies for each department, and a general fund budget for 2005/06; and to recommend these to the Council.

2. Summary

- 2.1 The background to the budget for 2005/06 is unusual in 2 respects:

- (a) work commenced during the period of the Liberal/Conservative joint administration, but subsequently changed direction when the Council appointed a Labour Cabinet on 25 November 2004;
- (b) resources available for the budget in 2005/06 are unusually high, but a significant amount of these monies are one-off. Consequently, budget predictions for 2006/07 and 2007/08 suggest that difficult decisions are required in respect of later years.

- 2.2 The budget is being proposed by corporate directors, as guided by their cabinet lead members; within a framework established by the Chief Finance Officer, guided by the Council leadership. If approved, the budget will form the Cabinet's recommended budget to the Council.

- 2.3 Key elements of the proposed budget are:

- (a) the City element of council tax will increase by 4.3%;
- (b) the whole of the increase in the schools "formula spending share" will be given to the schools service, giving growth (over and above inflation) of £4.0m in 2005/06, estimated to rise to £14.8m by 2007/08;
- (c) net growth is proposed for the Social Care & Health Department, amounting to £2m in 2005/06, rising to £5m by 2007/08;

- (d) one-off sums of £1.1m to raise standards of educational achievement at key stage 2 and £3.4m to support the Council's capital programme are proposed;
 - (e) £2m has been made available to support implementation of "Building Schools for the Future" from monies awarded by the Government.
- 2.4 Also proposed is a regeneration package, under which rates income arising from business growth (some of which the Council is now allowed to keep) will be ringfenced to pay for investment which complements city centre regeneration.
- 2.5 The budget makes available £8m to bridge the funding gap on the Performing Arts Centre: £3m comes from one-off monies, and £5m from within the regeneration package.
- 2.6 The budget will result in a need for further savings to be achieved by 2006/07 and 2007/08, and it is therefore recommended that a member budget group be formed in the Spring to review the long-term outlook.

3. Recommendations

- 3.1 The Cabinet is asked to consider whether it wishes to approve the provisional corporate budget strategy for 2005/06 to 2007/08, the draft departmental revenue strategies prepared by each director, and the overall budget for 2005/06, and if it does:
- (a) to ask the Chief Finance Officer to prepare a formal budget and council tax resolution, and consequent prudential indicators, for Council approval;
 - (b) subject to the approval of the budget by Council on 23 February and the Council's normal procedures, authorise corporate directors to take any action necessary to deliver their departmental revenue strategies for 2006/07 and 2007/08;
 - (c) recommend to 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 determined by Council for a single purpose;
 - flexibilities and permissions provided in finance procedure rules;
 - (d) agree the maximum amount it wishes Council to determine when agreeing the level of discretion granted to the Cabinet (noting that a separate maximum amount has already been agreed in respect of the Performing Arts Centre);
 - (e) agree a revised schedule of determinations to the Council's finance procedure rules as shown at Appendix 6;

- (f) increase the 2004/05 capital programme by £63,000, to fund a programme of improvements to New Walk Museum; to be funded by means of a revenue contribution from underspendings on the current year's corporate budgets;
- (g) delegate to the Chief Executive, in consultation with the Cabinet member with responsibility for crime and disorder, authority to determine and spend the monies set-aside in the budget to combat crime and disorder;
- (h) set up a group of members to make the City's case for improved funding from central government when the formulae for grant support are reviewed in the coming months, to produce proposals for balancing the budget in 2007/08 and beyond, and to oversee the Council's approach to the delivery of efficiency savings;
- (i) agree as part of the above review (or at a future date) to consider the amount of budget growth required for highways maintenance in 2007/08;
- (j) 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.

4. Financial Implications

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

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

- 5.1 The Council is required by law to set its budget by 10 March.

- 5.2 Other legal implications are covered in the report:

- para 8.1 Adequacy of reserves: Local Government Act, 2003;
- para 9 the Secretary of State's power to cap the budget;
- para 12 Prudential Borrowing: Local Government Act, 2003;
- para 11 Obligations under the Race Relations (Amendment) Act, 2000.

6. Other Implications

- 6.1 These are included in the supporting information.

7. Report Author/Officer to Contact

Mark Noble
Chief Finance Officer
2 February 2005

DECISION STATUS

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

REVENUE BUDGET STRATEGY 2005/06 TO 2007/08

Report of the Chief Finance Officer

SUPPORTING INFORMATION

1. Background and Process

- 1.1 This is the Council's ninth budget as a unitary authority. The process by which it has been prepared and its final shape have been strongly influenced by 2 factors:
- (a) a change in the Council's political administration which took place on 25 November 2004;
 - (b) an unusual financial background, in which the Council has significant levels of one-off monies in 2005/06, but a funding gap to be managed over the longer-term.
- 1.2 The Council has an established medium-term planning system for the preparation of its budget. This has the following features:
- (a) the preparation of an overall corporate budget strategy, flowing from the corporate plan, identifying key budget priorities and policies;
 - (b) the setting of departmental planning targets, within which directors are asked to prepare departmental revenue strategies. Departmental revenue strategies are substantial documents which identify all key financial issues affecting departments; and propose 3 year budget plans, which address the requirements of the corporate budget strategy and departments' own priorities within the planning targets set.
- 1.3 Both the corporate budget strategy and departmental revenue strategies adopt a 3 year time frame.
- 1.4 The overall corporate budget strategy was approved in February 2004, on the recommendation of the previous administration. The new

administration will wish to review the strategy in the Spring, but in the meantime it has been rolled forward and updated without change to the underlying policies. The revised strategy is attached for Cabinet approval at Appendix 3.

- 1.5 Departmental revenue strategies have been circulated to Cabinet members with this report.
- 1.6 Preparation of the budget takes time, and preparation of the 2005/06 budget commenced under the previous administration. The new administration has needed time to take stock, and consequently the period of consultation on detailed proposals has been shorter than usual. Furthermore, given the disparity between the position in 2005/06 and 2007/08, it would be difficult for an incoming administration to be able to make proposals to balance the budget over 3 years in the time they have had available. There remains a gap of £4.0m in 2007/08. It is recommended that, should the budget be approved, a member-led review of the medium-term position takes place during the Spring of this year.
- 1.7 Approval to the budget is being sought in advance of the capital programme which the Council will be asked to approve in March. Decisions taken in respect of the revenue budget will, however, have an impact on the capital programme:
 - (a) the revenue budget needs to provide for the running costs of any new capital schemes, although major schemes will not have a material impact until after 2005/06;
 - (b) capital spending can be met by borrowing money, government grant, the proceeds of asset sales, or revenue contributions. The cost of borrowing is paid for by Government grant, up to a predetermined maximum amount. The Council is permitted to borrow more than this, provided the cost is prudent, affordable and sustainable (so called “prudential borrowing”) and the Council’s capital strategy identifies when such borrowing can be considered. Both the cost of borrowing and any revenue contributions need to be reflected in the revenue budget.
- 1.8 The proposed budget includes the following:
 - (a) revenue growth to enable additional monies to be borrowed to provide essential works to city centre offices;
 - (b) support for the additional costs of the Performing Arts Centre, which were agreed by the Council in January 2005;
 - (c) support for a regeneration package;
 - (d) a one-off revenue contribution to enhance the overall capital programme;
 - (e) provision for the future running costs of a new leisure centre.

- 1.9 If these proposals are supported, it will provide an estimated £19m for other capital schemes from 2005/06 to 2007/08, decisions on which can be taken in March.
- 1.10 It is emphasised that approval to the revenue budget does not convey approval to commence any schemes funded by prudential borrowing. Such approval will be given as part of the capital programme (separate approvals have, of course, already been given in respect of the Performing Arts Centre).

2. **Budget in Summary**

- 2.1 The table below presents the budget in summary. Only the position for 2005/06 will be formally adopted as the Council's budget for next year. Future years' figures are estimates, and will change (possibly substantially):

	2005/06 £m	2006/07 £m	2007/08 £m
<u>Expenditure</u>			
Total of draft departmental revenue strategies	357.7	359.7	364.7
Other departmental budgets	3.8	3.8	3.8
*Historic capital financing	14.6	17.1	19.4
Levies and corporate budgets	0.1	1.9	2.0
Efficiency savings		(2.2)	(2.7)
New Corporate Budgets:			
- provision for Performing Arts Centre	3.0		
- contribution to capital programme	3.4		
- new prudential borrowing	0.3	1.3	2.0
- crime and disorder	0.1	0.2	0.3
Future Year Charges:			
- inflation		12.3	24.6
- planning requirement		1.0	2.0
- loss of rent		0.3	0.6
	383.0	395.3	416.7
<u>Resources</u>			
Government Grant	303.1	313.3	328.3
Council Tax	76.6	80.4	84.4
Collection fund surplus:			
- empty properties	0.8		
- other	0.9		
Use of reserves	1.6		
	383.0	393.7	412.7
Band D Tax	£1025.00		
Tax rise	4.3%		
Gap to be resolved based on 5% tax rise		1.6	4.0

*This represents the cost of past capital borrowing, previously approved borrowing, and borrowing paid for by government grant.

- 2.2 A fuller breakdown of the overall budget is provided at Appendix 1. Key items of expenditure are discussed in paragraph 4 below.
- 2.3 The use of reserves proposed will not reduce reserves to levels below the recommended minimum balance, due to an anticipated underspending in 2004/05.

3. Police and Fire Authority

- 3.1 The tax levied by the City Council constitutes only part of the tax Leicester citizens have to pay (albeit the major part). Separate taxes are raised by the Police Authority and the Fire Authority. These are added to the Council's tax, to constitute the total tax charged.
- 3.2 The total tax bill in 2004/05 for a band D property was as follows:

	£
City Council	982.75
Police	120.11
Fire	41.08
Total tax	1,143.94

- 3.3 The actual amounts people are paying in 2004/05, however, depends upon the valuation band their property is in and their entitlement to any discounts, exemptions or benefit. 80% of properties in the City are in band A or band B.
- 3.4 The City's proposed tax for 2005/06 is £1,025.00. The police and fire authorities have not yet set their taxes, but I will advise Cabinet orally if we have this information in time for your meeting.
- 3.5 Whilst the Police Authority has set considerable tax increases in recent years (between 10% and 26% in each of the last 4 years) I believe it is unlikely that we will see rises of this magnitude in 2005/06.

4. Expenditure

- 4.1 The purpose of this section of the report is to briefly describe the expenditure proposals in the budget. Appendix 2 to this report shows a precise analysis of how the Council's expenditure has changed between 2004/05 and 2005/06.
- 4.2 The starting position is the budget for 2004/05, which has been updated for:
 - (a) pay inflation of 2.95% (a figure which is firm, as 3 year pay settlements have been agreed);
 - (b) inflation on other costs and income, of 2%.

- 4.3 The effect of the above was reported to Cabinet in September 2004.
- 4.4 The budget has also been adjusted for the following:
- (a) increased costs of £1.2m in respect of employers' contributions to the cost of pensions. This follows the actuary's triennial valuation of the pension fund, and employers' contributions will amount to 15% of pay in 2005/06. However, the impact of the revaluation was not as severe as expected, and the Council is not obliged to make any further contribution increases before the next revaluation which will take effect in 2008/09;
 - (b) the impact of the 2004/05 budget, insofar as this included growth and savings in 2005/06 over and above the effect in 2004/05. This can happen either because decisions made were not due to come into effect until 2005, or because the financial impact of a decision which has already taken effect is greater in a full year than it was in 2004/05. Some significant reductions were made to budgets in 2004/05, and departmental budgets are £3.6m lower in 2005/06 than they were in 2004/05 because of these effects. **Members are asked to note that these are itemised in last year's, not this year's, departmental revenue strategies;**
 - (c) an exception to (b) above has been made in respect of the provision made for job evaluation: £2.8m per annum was built into last year's budget plans, with effect from 2005/06, but because implementation of the expected new scheme has been delayed, provision in 2005/06 has been reduced to £1m (the full amount is still provided from 2006/07 onwards). The ongoing cost of job evaluation is an area of risk, which is further discussed below;
 - (d) the cost of interest and debt repayment on past years' capital spending; capital spending which was planned in 2004/05 using prudential borrowing; and the effect of the 2005/06 capital programme insofar as this is supported by government grant. (In other words, we automatically provide for the full cost of all capital borrowing, other than decisions to use prudential borrowing which have not yet been made);
 - (e) the effect of efficiency savings agreed in 2004/05, and which have subsequently been reflected in departments' budgets (see para 4.10 below);
 - (f) a provision of £0.3m, rising to £0.6m for the cost of acquiring additional office accommodation, as approved by Cabinet on 18 October 2004;
 - (g) revised estimates for property income and housing benefit expenditure.

- 4.5 As a consequence of the Local Government Finance Settlement, the budget has been adjusted to reflect various functional changes. These include the changed basis of funding the Magistrates' Court service, and changes in the way some social services expenditure is funded.
- 4.6 Finally, the budget has been adjusted for proposed growth and reductions. Some of these are reflected in the attached departmental revenue strategies, and some will be retained corporately.
- 4.7 Departmental revenue strategies reflect:
- (a) growth of £4m for schools, rising to £14.8m by 2007/08;
 - (b) net growth of £2m for Social Care & Health, rising to £5m in 2007/08;
 - (c) net growth of £6.4m in other departments (which falls to £0.1m by 2007/08). In practice, this growth utilises the one-off money available this year as discussed above. Key elements within departmental revenue strategies are:
 - a provision of £2m to pay for the continued implementation of "Building Schools for the Future" in 2005/06 which has been funded by government grant (see para 5.6 below);
 - a one-off provision of £1.1m to improve standards of educational achievement reached at key stage 2;
 - £3.5m over 2 years for highways maintenance. The highways network is in need of substantial investment, and the Council agreed on 25 November to allow 100% of sums notionally allocated for highways in the capital settlement to be used for the service (a change to previous policy). Whilst the £3.5m funding ceases in 2006/07, if the recommendations of this report are supported the subsequent needs of the service will be reviewed at a later date. Issues associated with highways maintenance are discussed further in the Regeneration & Culture departmental revenue strategy.
- 4.8 The following provisions are retained corporately:
- (a) £1m, rising to £3.0m, to fund the introduction of a new job evaluation scheme;
 - (b) a provision of £0.3m rising to £2.0m to pay the cost of interest and principal on approximately £20m of prudential borrowing to resolve the Council's office accommodation needs. Substantial expenditure is required to renew or replace centrally located offices, and it is proposed to use prudential borrowing to pay for this (this is in line with the accepted uses of prudential borrowing in the Council's capital strategy, and this action would prevent a substantial proportion of the Council's capital programme being

taken up for this purpose). At present, this provision remains a provisional figure pending final decisions on the exact scheme: these will be made as part of the Council's capital programme deliberations;

- (c) a one-off provision of £3m to meet part of the costs of the Performing Arts Centre, decisions on which were made by the Council on 27 January 2005;
- (d) a one-off provision of £3.4m to support the capital programme;
- (e) a provision of £0.1m for measures to combat crime and disorder.

4.9 In addition to the above, the budget includes a regeneration package, to be funded from income the Council expects to receive from business rates (a new government scheme will allow local authorities to keep a proportion of any growth in rates payable due to an increase in the number of businesses in the area). Whilst the scheme has still not been finalised and robust estimates cannot be made, it is believed that it is prudent to assume that the Council will receive additional income of £0.5m per year, each year over the next 3 years (based on previous years' growth trends). This would enable the Council to pay for prudential borrowing of £11m to fund a scheme of city centre enhancements (further description of these enhancements was included in a report to Cabinet on 8 November 2004) which will complement city centre regeneration, and £5m to meet additional costs arising from the Performing Arts Centre (this, together with the £3m referred to in paragraph 4.8 above, will enable the full cost of the scheme to be funded). Further details of the regeneration package will be put together, and specific approvals to spend the money will be sought when the capital programme is prepared. There remains an element of risk that the business rate income will be less than forecast, but this is not believed to be high.

4.10 The budget for 2004/05 included an expectation that efficiency savings of £0.5m would be achieved by 2005/06 (rising to £3.5m by 2006/07) from reviews of transport, procurement and property. The following sums have been deducted from departments' budgets from 2005/06 onwards as a consequence of this decision and subsequent reports to Cabinet during 2004:

	£000s
Transport Review	1,030
Procurement:	
- stationery savings	42
- vehicle and equipment hire	75
- reduction in off-contract purchasing	165
Total	1,312

4.11 The above figures do not represent the totality of savings achieved in the above reviews – some has been left with departments thus

enabling savings to be shared. Furthermore, deductions have not yet been made in respect of achievable savings identified in IT procurement costs – this work is ongoing, and a small officer group is working on a standard PC specification and contract.

- 4.12 In respect of future years, a further £2.2m is now required to achieve the original £3.5m target. The proposed budget increases the target for 2007/08 by a further £0.5m, leaving £2.7m to be found with effect from that year. In addition to the original reviews, savings will also be sought from the implementation of a new HR/Payroll system, and a review of support services (subject to decisions made by Cabinet in respect of a separate report on your agenda).
- 4.13 As will be noted, more money has been deducted from departmental budgets in 2005/06 than was originally required. Subject to achievement of the expected savings from the transport review, which is a risk (see paragraph 8 below), the excess will be used as a first contribution to the savings target required in 2006/07.
- 4.14 The Council will, in due course, need to consider its response to the Gershon review of public sector efficiency which reported to the Chancellor of the Exchequer in July 2004, and which expects every local authority to achieve 2.5% savings in its budget each year. At the time of preparing this budget, guidance on this is still awaited. It is believed, however, that the Council's proactive stance towards achieving efficiency savings will leave us well placed to implement the Gershon review.
- 4.15 During preparation of the budget, Cabinet members considered a proposal to spend £63,000 to improve existing facilities at New Walk Museum. The purpose of this expenditure is:
- (a) to extend the oak flooring in the first floor exhibition/display space;
 - (b) to improve the café;
 - (c) to refurbish the former Lord Mayor's and Council rooms.
- 4.16 On 24 January, the Leader of the Council announced that (due to pressing need for the improvements) members would wish to make an earlier start to work at the museum. This report therefore recommends that a sum of £63,000 is made available from current year's underspends to finance the scheme.

5. Resources

- 5.1 By far the biggest source of funding for local authorities is government grant, which yields some 80% of money needed to fund the net budget. Grant is calculated with reference to a government formula (the "formula spending share", or FSS) which measures our assumed need to spend with reference to population, client group (such as school pupils), and other factors such as deprivation that cause some

authorities to spend more than others. The overall FSS for the Council was £377.4m, an increase of £21.5m on 2004/05 when calculated on a like for like basis. This has resulted in grant payment of £303.1m, an increase of £16.8m (5.9%) on 2004/05. Leicester's increase of 5.9% is above the national average of 5.6%.

- 5.2 The Council has also received £0.4m as a consequence of retrospective changes to 2003/04 grant. These changes were made to correct errors arising from the 2001 census.
- 5.3 Whilst the Council experienced very low funding increases when compared to similar authorities in the years following unitary status (an average grant increase since 1996/97 would have led to the Council receiving over £20m more grant in 2004/05 than it actually did), settlements in recent years have been better.
- 5.4 Officers have made estimates of future grant entitlement, based on projections using the government's own formula. For this purpose it has been assumed that the government will expect council tax to increase by 5% each year, and set grant accordingly. It is noted, however, that the government's formula will change in 2006/07 – for the purpose of our estimates we have assumed that Leicester will be neither advantaged nor disadvantaged from the change.
- 5.5 The vast majority of our funding comes from central government as a fixed amount, with a relatively small amount from council tax. This means that if the Council wishes to increase spending this has a disproportionate effect on the level of council tax. For every 1% by which the Council increases its spending, council tax has to rise by approximately 5%. It also means that estimates of future tax increases are extremely volatile (particularly when facing a formula review).
- 5.6 The Council's FSS for 2005/06 is £6m more than was anticipated when planning the budget earlier in the year. This has arisen principally from:
 - (a) additional monies provided to local authorities by the government - £340m was announced in December, over and above government spending plans announced last year. This money will be one-off only;
 - (b) a sum of £2m which has been received, for one year only, apparently to help the Council with the costs of implementing Building Schools for the Future. At the time of writing, no formal notification of this money has been received, and the nature by which it has been granted originally led officers to believe it was an error;
 - (c) additional monies which became available to the Government as a consequence of changing the way PFI grant is paid to local authorities.

5.7 The Council also benefits, in 2005/06 only, from last year's decision to charge council tax on empty unfurnished properties (in future years, this income will indirectly pass to the government as our grant will be reduced). This has produced £0.8m in 2005/06, which (when combined with the ordinary surpluses received on council tax collection), has provided £1.7m to support the budget in 2005/06.

6. Reserves

6.1 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 overspending;
- (b) a contractual claim;
- (c) an uninsured loss.

6.2 My recommendation is that £5m is a prudent minimum level.

6.3 The table below shows the latest estimate of reserves, and the impact the budget will have. Members are asked to note that it is not possible to precisely predict year-end reserves, and further change is probable between now and the end of 2004/05 (up or down).

	£m	£m
Reserves on 31.3.04		4.6
Contribution in 04/05 budget		0.3
Estimated underspend in 04/05		3.1
		8.0
<u>Less</u> use of reserves:		
- support services review (Cabinet 8.11.04)	0.4	
- Performing Arts Centre Design fees (Cabinet 11.1.05)	0.5	
New Walk Museum Improvements (see para 4.16)	0.1	(1.0)
Estimated balance on 31.3.05		7.0
Proposed use of reserves in 05/06		(1.6)
Estimated Balance 31.3.06		5.4

6.4 At £5m, reserves would equate to 1.3% of the Council's proposed budget, which is towards the lower end of the amounts held by metropolitan and unitary authorities.

6.5 The recommended £5m minimum level of reserves has been arrived at after considering the risks facing the authority, which are further described below. Members are asked to note that £5m has been my recommended minimum balance since 1997, and has gradually reduced since then as a percentage of the Council's overall budget. This is not a concern, as the Council's track record of budget management suggests that £5m has always been adequate – we have always been able to deal with issues as they have arisen. Nonetheless, I will wish to review my advice to members in 12 months

time – the risks facing the Council are (I believe) likely to increase, particularly if the Council takes a decision to implement Building Schools for the Future. Other emerging risks are dealt with in the risk assessment below.

- 6.6 The Council's treasury management strategy reflects the recommended minimum working balance of reserves.

7. Earmarked Reserves

- 7.1 Appendix 4 shows the Council's earmarked reserves as they stood on 31 March 2004, and as they are presently estimated to stand at 31 March 2005 and 2006. Whilst these consist of revenue money, under the Council's finance procedure rules they are set-aside for specific purposes: it is not regarded as good practice to use these reserves to fund the generality of Council expenditure (not only would this be just a one-off contribution, it would provide perverse incentives to departments to try to spend up any monies they have before the end of each financial year). Furthermore, of the Council's total earmarked reserves the following can (by law) only be spent on specific restricted purposes:

- (a) schools' balances;
- (b) schools' devolved capital funds;
- (c) on-street parking.

- 7.2 DfES approval is expected imminently to a revised scheme of delegation to schools which will entitle the Council to clawback schools' reserves where the uncommitted balances exceed certain thresholds. Any such money, however, will remain in the schools expenditure block.

- 7.3 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. I have previously been concerned about the adequacy of this reserve, but following a review by actuaries I believe the balance is now about right. Nonetheless, the reserve needs to be carefully monitored, and success of the Council's risk management policy will be crucial in this regard – increases in the number of claims will create deficiencies in the fund in the future.

8. Risk Assessment

- 8.1 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 para 6 above) and the robustness of estimates (which is included in this risk assessment).

- 8.2 In my view, each of the departmental budgets in 2005/06 is achievable, and this is also the view of the respective corporate directors.

Inevitably, some individual reduction proposals will not achieve the full expected savings, and issues will surface during the course of the year, which will unexpectedly cost money. However, the flexibility given to directors to manage within their overall “bottom line” should prevent an overspending by any department. The key areas of risk are:

- (a) the Social Care & Health budget. Pressures on Social Care & Health have been experienced by authorities nationally, and until recently the Social Care & Health Department routinely overspent its budget. This situation has now stabilised, however. Whilst the budget of this department will continue to require careful management, I do not believe it poses the risk it once did;
- (b) pressures within the Education Department, particularly in relation to special needs;
- (c) failure to achieve the expected £1m savings from the transport review. Whilst the recommendations of the review have now been implemented, it has not yet been demonstrated that the savings are in fact being achieved: this will require further work. It is essential that formal specifications are developed between the departments using transport (Education and Social Care & Health) and the transport unit, and that an appropriate management information system is developed.

8.3 In my view, the estimates made for the cost of inflation are adequate. The level of general inflation is low, and departments traditionally absorb any variation between the estimate and actual cost. As the cost of pay awards is (unusually) known in advance, the only risk is of inflation exceeding the 2% provision.

8.4 Corporate directors, supported by their Heads of Finance, believe that the financial estimates in their departments’ revenue strategies are robust.

8.5 In respect of corporate budgets, the most volatile area is the capital finance budget. The key risk associated with this is of cash balances falling (changes to the assumed interest rates do not pose a significant risk). The Council has benefited in both 2003/04 and 2004/05 from holding increased levels of cash, which I believe arise principally from additional grants paid in advance (but also to a number of other factors). The budget now assumes that the level of cash held by the Council will be higher than has been assumed in previous years, and there is clearly the risk that cash balances will fall to levels traditionally seen. To mitigate this, cautious estimates have been made of the actual cash balances we expect to hold.

8.6 Looking ahead, I believe there are the following significant risks facing the Council:

- (a) a review of the formula by which government grant is distributed to local authorities, which will be complete in time for the

2006/07 budget. Given the Council's reliance on government grant, such changes have a disproportionately large impact – a 1% loss of grant would cost the Council £3m. Substantial changes to the way in which grant is distributed are also possible in view of the government's intention to move to 3 year funding settlements. The balance of risk, in my view, is that the Council will lose money rather than gain as a consequence of the formula review;

- (b) the cost of job evaluation – whilst money has been set-aside, experience elsewhere suggests this is notoriously difficult to predict and manage and this is going to require close management;
- (c) achieving the required sums from efficiency reviews – any failure to do so will, of course, result in additional pressures elsewhere;
- (d) the final cost of the acquisitions/work required to meet the Council's city centre accommodation needs – whilst money has been set-aside to pay for the borrowing required to meet the cost of this work, the cost of this scheme is only provisional at this stage and is fluid. As the money would be borrowed, the Council's long-term revenue position is not as sensitive to changes in the cost of this scheme as it would otherwise have been (ie the full cost of any excess will not be met from revenue in one year);
- (e) any additional costs of the Performing Arts Centre, over and above those anticipated when the Council approved the revised scheme on 27 January (to the extent that these cannot be met from the capital programme);
- (f) the effect of changes planned to the system of schools' finance in 2006/07, which could have an impact on the overall distribution of resources between authorities.

8.7 Members are also asked to note that a council tax revaluation is planned for 2007/08. This will result in some taxpayers moving between property bands and paying more or less tax as a consequence. If the revaluation is a simple one (ie all properties are simply revalued across the whole country) Leicester taxpayers will pay (in aggregate) less than they would otherwise have done. A simple revaluation would, however, result in big tax increases in some parts of the country (London and the South East) which the Government may not be willing to contemplate. All in all, revaluation will create a degree of turbulence, and will inevitably lead to pressures for lower tax increases from those who have moved up bands.

9. Capping

9.1 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.

- 9.2 The present capping rules were introduced in 1999, and give a wide range of discretion to the Secretary of State.
- 9.3 Whilst originally intended as a reserve power, the government changed its policy in 2004/05 when it started to use its powers to deliver low council tax increases. This arose from government concern at high levels of tax increases in 2003/04.
- 9.4 The government has signalled that it will not hesitate to use its capping powers again in 2005/06, and has stated that it expects average tax increases to be below 5%. In my view, a tax rise of 4.3% is highly unlikely to lead to the Council being capped.

10. Consultation

- 10.1 Consultation has taken 4 forms:
- (a) public consultation on the corporate budget strategy;
 - (b) consultation with scrutiny committees;
 - (c) consultation with trade unions;
 - (d) consultation with the business community.

Consultation with the Public

- 10.2 During the Autumn of 2003, the Council undertook an exercise to consult the public on the then draft corporate budget strategy. The conclusions of this exercise were reported to the Cabinet in January 2004. As the strategy has remained unchanged, no further public consultation has been undertaken this year.

Scrutiny Comments

- 10.3 At the time of writing, the following recommendations have been made by scrutiny committees:
- (a) (by REOPPS) that Cabinet do not increase the members' allowance to cover the connection of all members to broadband, as the current members' allowance package should be sufficient to cover the cost;
 - (b) (by REOPPS) that Cabinet do not include a growth item to increase the Lord Mayor's secretariat by £30,000 year on year;
 - (c) (by Housing) that the proposed budget for that department be supported.
- 10.4 At the time of writing, all scrutiny committees had met once, apart from Leisure and Environment. It is believed that the Education Scrutiny

Committee proposes to hold a further meeting, and Cabinet will be advised at your meeting of any further scrutiny comments.

Trade Unions

- 10.5 The trade unions have been consulted on the proposed budget, and their response will be sent to members in advance of your meeting. Key issues arising at a consultation meeting with the unions were:
- (a) concern about the impact of proposed reductions in the education service, with particular reference to the impact on primary level achievement;
 - (b) concerns over the growing cost of the Performing Arts Centre;
 - (c) a view that the proposed £1.1m funding to raise standards of achievement at key stage 2 should not be restricted specifically to certain aspects of year 6 teaching, but should be used to improve primary education in the round;
 - (d) lack of support for spending £60,000 on an action plan, which has been prepared following the staff survey.

Business Community

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

11. Budget and Race Equalities

- 11.1 The Council has a national track record for its efforts to promote race equality and community cohesion, and has recently been accredited at level 3 of the “generic equalities standard”, which requires us to assess the impact of key policies on race, gender and disability.
- 11.2 The Council has legal responsibilities in respect of race equality, which it needs to comply with when setting its budget. These are included in the Race Relations (Amendment) Act 2000. It is unlawful for the Council, in carrying out any of its functions, to do any act which constitutes discrimination. In carrying out its functions, the Council shall have due regard to the need:
- (a) to eliminate unlawful discrimination; and
 - (b) to promote equality of opportunity and good relations between persons of different racial groups.
- 11.3 Each corporate director has considered the impact of his/her budget on the Council’s obligations under the Act, and the results are included in the relevant departmental revenue strategy. In summary, there are no proposed budget reductions which are believed to have any significant adverse impact on specific racial groups.

12. Prudential Borrowing

- 12.1 The Local Government Act 2003 replaced the previous system by which the government controlled local authority capital expenditure. The introduction of the “prudential framework” in 2004/05 replaced detailed regulations with a self-governance system, based upon a code of practice.
- 12.2 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.
- 12.3 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.
- 12.4 Indicators relating to the HRA were agreed by the Council on 27 January as part of the HRA budget report.
- 12.5 The proposed budget includes provision for the costs of prudential borrowing in respect of city centre accommodation, city centre improvements and the Performing Arts Centre. This borrowing approaches £40m in total.
- 12.6 Attached at Appendix 5 are the prudential indicators which would result from the present proposed budget, and which show that the proposed additional borrowing is prudent, affordable and sustainable. The borrowing is, furthermore, consistent with the Council’s capital strategy. Ultimately, however, any prudential borrowing does represent future cost and members need to be satisfied that the rationale for it is justified.
- 12.7 Members are asked to note that approval of the prudential indicators at this stage does not affect any decision on the capital programme – we already know the totality of resources available to the capital programme, and these are reflected in the proposed prudential indicators. Furthermore, approval to the provision of monies for prudential borrowing does not authorise the commencement of any schemes – these will have to be fully justified as part of the capital programme (apart from the Performing Arts Centre, for which approval has already been given).

13. Budget Review

- 13.1 Members are asked to consider setting up a member review group to meet in the Spring, with a view to:
- (a) making our case to the government as to why the City needs increased funding, as part of the forthcoming review of the funding formula;

- (b) reviewing the budget for 2006/07 and 2007/08, to ensure that it can be balanced in those years;
 - (c) overseeing the Council's response to the Gershon review, and the delivery of efficiency savings.
- 13.2 Members have indicated that they would wish to consider the cost of subsidising bus routes as part of any such review, with a view to reducing the cost to the Council. Members will also wish to give particular attention to services which the Council delivers at higher than average cost.

14. Other Issues

- 14.1 Finance procedure rules give certain discretions to Cabinet, to authorise limits and powers in the management of budgets. An updated "schedule of determinations" is attached at Appendix 6 for your approval. This reflects changes to trading services managed by Regeneration and Culture, as agreed by Cabinet on 24 January 2005:
- 14.2 As part of the preparation of the budget, 2 workshops were held with groups of staff with the purpose of generating ideas for efficiency savings. Appendix 7 identifies actions which have been taken, or will be taken, consequent to these workshops. It is stressed that the purpose of the workshops was to generate ideas – staff on the workshops were not chosen to represent the views of the workforce as a whole (this is, of course, the role of the recognised trade unions).
- 14.3 The Social Care & Health Department have made a number of capital bids which, if unsuccessful, will need to be funded from their revenue budget (either in whole or in part). This is further described in the department's revenue strategy – the key item is a bid of £0.5m to scan existing paper records as part of the department's information systems modernisation. If not approved, the department will need to review its position and vire sums in-year.

15. Council Resolution

- 15.1 When the Council approves the budget for 2005/06, it needs to make various statutory calculations. These include:
- (a) the total budget;
 - (b) the tax arising from the budget for each of the 8 council tax valuation bands;
 - (c) the total tax for each valuation band, including tax charged by the Police and Fire authorities.
- 15.2 Following the decisions of Cabinet at your meeting, I will prepare the appropriate resolution for Council.

16. Financial and Legal Implications

16.1 These are included in the cover report.

17. Other Implications

Other Implications	Yes/No	<u>Paragraph References within Supporting Papers</u>
Equal Opportunities	Yes	These are dealt with in departmental revenue strategies. The Council's obligations under the Race Relations (Amendment) Act are dealt with in para 11 above.
Policy	Yes	The budget is part of the Council's overall budget and policy framework, and makes a substantial contribution to the delivery of Council policy.
Sustainable and Environmental	Yes	Any specific environmental implications are drawn out in the departmental revenue strategies.
Crime & Disorder	Yes	£0.1m of growth in 2005/06 is proposed for measures to combat crime and disorder.
Human Rights Act	Yes	There are human rights implications because of our obligations under the Race Relations (Amendment) Act – see para 11.
Elderly People/People on Low Income	Yes	Consultation responses in 2004 indicate that the elderly are the group most particularly concerned about high council tax increases.

18. Background Papers

18.1 Base Budget Preparation – report to Cabinet on 27 September 2004.
Council Tax – Taxbase report to Council on 27 January 2005.
Collection Fund surpluses report to Cabinet on 24 January 2005.

19. Report Author/Officer to Contact

Mark Noble
Chief Financial Officer
2 February 2005

Budget 2005/06 to 2007/08

Error! Not a valid link.

Changes between 2004/05 and 2005/06

Error!

Not

a

valid

link.

Draft Budget Strategy 2005/06 to 2007/08

1. Introduction

- 1.1 The Council's revenue budget strategy is one of 4 resource strategies which support the Council's key policy aims and objectives. It sets out the Council's over-riding financial policies for the next 3 years within which departmental medium-term planning and the Council's annual budget setting will operate. It is revised on an annual basis.
- 1.2 A separate capital strategy was approved in November 2004, which sets out the Council's priorities for capital investment. It is expected that, from 2006/07 onwards, the Council's annual budget and capital programme will be merged to create a single annual financial plan.

2. Key Aim

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

3. Resources

- 3.1 The table below shows an estimate of government grant payable to Leicester over the next 3 years in support of our general expenditure. These estimates are necessarily based on assumptions, and are therefore volatile:

	Grant £m	% increase
2004/05	284.2	
2005/06	303.1	*5.9%
2006/07	313.3	3.4%
2007/08	328.3	4.8%

*adjusted basis

- 3.2 Leicester's grant entitlement is expected to be adversely affected by forecast demographic changes. The trend in Leicester's population has been to decrease, or to increase more slowly, than that of other authorities, resulting in lower relative shares of national resources for the City. This applies both to the school population and the general population.
- 3.3 Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's budget requirement (80%). The only source of local taxation available to the City is council tax, which makes up the other 20%. 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 5% increase in council tax).

- 3.4 The Government has powers to cap the budget of any local authority which it believes is spending excessively. Since 2004/05, these have been used to put pressure on local authorities to set moderate tax increases.

4. Risks to the Forecast of Resources

- 4.1 The above resource forecasts are estimates and will be affected by:
- (a) changes in nationally available funding for local authorities - the Government has published spending plans as far ahead as 2007/08, although these can change;
 - (b) changes in the formula by which grant is allocated to local authorities – the next such change is in 2006/07, and means the estimates are particularly volatile;
 - (c) variations between actual data used to allocate grant in future years, and present estimates (particularly population);
 - (d) the effect of any functional changes;
 - (e) changes in the way specific grant is paid to local authorities - the Government is committed to reducing the level of grants paid to local authorities for specific purposes, and to increase the amount of general grant correspondingly. This will have distributional impacts, in that the City will not necessarily receive an addition to its general grant equal to the amount of any specific grant it loses (and the impacts can be significant);
 - (f) changes in the way schools are funded, to take effect in 2006/07;
 - (g) changes in the amount of council tax the Government expects Councils to raise (at present, it is assumed this will increase by 5% each year).

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

5. Taxation

- 5.1 The Council believes that the burden of local taxation on its citizens should be modest, and aims in principle to set council tax increases at or below the national average. However, achievement of this aim will be dependent upon adequate levels of funding from Central Government. This is a consequence of the “gearing effect” referred to above.

- 5.2 The council tax will increase by 4.3% in 2005/06, and (if tax rises in 2005/06 and 2006/07 increase by the assumed Government expectation of 5%), tax yields over the next 3 years will be:

	£m
2004/05	76.6
2005/06	80.4
2006/07	84.4

6. Strategic Spending Priorities

- 6.1 The Council's strategic spending priorities flow from the 2 strategic objectives in the corporate direction, and reflect the extent to which some form of financial commitment is being made to them.
- 6.2 The 2 priorities are:
- (a) raising educational standards - the Council will commit to increase funding to schools by an amount which matches the increase in its formula grant entitlement for schools; and will ensure the LEA is adequately resourced to support schools;
 - (b) improving the environment - the Council will make additional resources available, subject to affordability, to improve the cleanliness of the City and its neighbourhoods; and to improve its parks and open spaces.

7. Other Spending Issues

- 7.1 Supporting vulnerable children and adults is a key priority of the corporate direction, and is a statutory duty. Subject to affordability, it is a priority to ensure that this service area is adequately and fairly resourced.
- 7.2 The Council will address the need to maintain our heritage, buildings, and infrastructure (including roads), and not permit these to become a drain on future generations of taxpayers.
- 7.3 The Council will aim to consolidate services where these are extensive but of insufficient quality, and provide enhanced services from fewer locations where appropriate. In particular, the Council will work to co-locate nearby facilities to save money.
- 7.4 The Council will review the efficiency of what it does, with a view to reducing management and administration (but only where this is consistent with maintaining the standard of frontline services); and will aim to maximise alternative services of income which reduce its dependence on Government grant and council taxes.
- 7.5 The Council will review services which are "non-core", and services will not continue to be funded simply because they have been historically. In particular, the Council will review levels of support for:

- (a) services which are more properly the province of other public agencies, or which the generality of local authorities do not provide (or provide to a significantly lesser extent than we do);
- (b) services for which other sources of funding are available.

7.6 The Council will reduce expenditure on promotional activities.

8. Spending Requirements

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

	£m
2005/06	383.0
2006/07	395.3
2007/08	416.7

8.2 The table above provides for:

- (a) the Council's existing budgeted level of expenditure in 2005/06, inflated as appropriate in future years;
- (b) the estimated cost of funding to raise educational standards, arising from "passported" growth in schools money;
- (c) expected additional costs of capital financing;
- (d) growth funding of £1.5m per year, each year, for Social Care and Health;
- (e) the expected impact of the Council's new job evaluation scheme;
- (f) planned spending changes in 2006/07 and 2007/08 in departments.

8.4 The table also anticipates efficiency savings of £0.5m in 2005/06 rising to £3.5m by 2006/07.

8.5 The table does not make allowance for any specific spending pressures in individual departments. Council policy is that these pressures (which can be significant) must be contained within departmental budgets.

9. Risks to the Forecast

9.1 Risks to the forecast of spending requirements are:

- (a) significant unexpected funding need, which cannot be envisaged at this time;

- (b) the effects of the new job evaluation scheme on the pay bill, to the extent that it differs from assumptions made. Experience elsewhere suggests costs are difficult to predict;
- (c) inability to achieve the forecast efficiency savings;
- (d) loss of the Council's ability to reclaim VAT on "exempt" services in any year, through breach of the de minimis threshold for such VAT (which will cost £1.5m in that year).

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

10. Capital Expenditure

10.1 2004/05 was the last year of the Council's 3 year capital programme. It was also the first year of the new "prudential framework", under which local authorities are entitled to borrow money to incur capital expenditure without being subject to Government limits (provided such borrowing is prudent, affordable and sustainable). Borrowing for capital purposes will continue to be supported by Government revenue grant, but such support will not increase if the Council uses the prudential framework to increase investment.

10.2 During 2004, the Council reviewed its capital priorities and prepared a new capital strategy. The new capital strategy envisages use of the prudential framework for:

- (a) "spend to save" projects;
- (b) "once in a lifetime" schemes that generate considerable leverage;
- (c) as a last resort, for cost avoidance measures.

10.3 For the purpose of forecasting the costs of borrowing in this strategy, estimates have been made of the level of capital spending which will be supported by Government grant. No allowance has been made for any additional spending funded by unsupported borrowing, except where included in the 2005/06 budget strategy.

10.4 In respect of running costs arising from capital expenditure, the Council will identify savings to be made to meet the additional costs before approving any capital scheme.

10.5 Departments, as part of their departmental revenue strategies, are permitted to make use of the prudential framework to invest in their services; provided their strategies make provision for the future cost of servicing debt, at 7.5% of the amount borrowed.

11. Planning

- 11.1 Each service department is required to prepare a 3 year departmental revenue strategy which meets the corporate requirements of this strategy, and which plans services within a pre-determined spending assumption.
- 11.2 The Council is committed to the principle of planning the budget over a 3 year period, and will seek to give as much emphasis to ensuring the budget is robust over the medium-term as it is in the first year.
- 11.3 Planning figures for each department are attached as Annex B.
- 11.4 Departments are expected to ensure all growth pressures can be accommodated within these planning figures.

12. Specific Policies

- 12.1 The Council will aim to maintain a minimum working balance of £5m of general fund and £1.5m of housing reserves at all times.
- 12.2 The Council will set housing rents in line with the Government's rent restructuring policy.
- 12.3 The Council will evaluate its support to the voluntary sector on an equal basis to its own directly provided services; and will (where there is a choice) provide a service using the voluntary sector in preference to direct provision where there is enhanced value to the community in doing so. The Council will, however, only provide financial support to voluntary sector bodies where they are delivering core services which the Council would otherwise wish to provide by direct provision, unless there are exceptional reasons to do otherwise. It is recognised that this may result in some voluntary sector organisations that have been funded in the past ceasing to be funded by the Council in the future. The Council will consider supporting voluntary sector bodies not eligible for direct funding by means of advice and time limited pump priming. The Council will not "top slice" its grants to the voluntary sector in general to meet corporate savings requirements.
- 12.4 The Council has entered into a local public service agreement with the Government, which aims to improve the Council's performance in 12 key areas of service. Subject to it doing so, the Council will receive £7.5m, as a "performance reward grant", split equally between capital and revenue, and split equally between 2005/06 and 2006/07. In respect of the revenue "rewards" for achieving performance, the Council will allow the service or partner body achieving the requisite performance to retain the money. The only exception to this policy will be any reward achieved for improving the Council's cost and efficiency, which will be retained in the Council's corporate reserves. The policy of allowing services to retain rewards does not extend to the capital element of the grant.

Spending Assumptions

	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>
Pay Rises			
- Teachers	2.95%	3.25%	3.25%
- Other staff	2.95%	3.0%	3.0%
General Inflation	2.0%	2.5%	2.5%
Interest Rates			
- On new debt	5.3%	5.3%	5.3%
- On invested cash	4.75%	4.75%	4.75%
Superannuation Contribution Rates			
- Teachers	13.5%	13.5%	13.5%
- Other staff	15.0%	15.0%	15.0%

Departmental Planning Targets

Error! Not a valid link.

Earmarked Revenue Reserves

Error! Not a valid link.

Recommended Prudential Indicators

This appendix shows the way in which the prudential indicators will be presented to the Council for approval. The Authorised Limit cannot be exceeded, all other indicators are estimates.

Affordability

1. The actual ratio of financing costs to net revenue stream for 2003/04 and estimates for the current year and for the period 2005/06 to 2007/08 are:

	2003/04 %	2004/05 %	2005/06 %	2006/07 %	2007/08 %
	Actual	Estimate	Estimate	Estimate	Estimate
Non- HRA	3.22	3.17	3.80	4.72	5.36
HRA	24.62	15.34	17.03	18.99	20.28

2. The level of “unsupported” borrowing for the General Fund is as follows (this is a local indicator):

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Unsupported borrowing brought forward	3,798	8,612	35,437	55,018
New Unsupported borrowing	5,544	29,216	22,165	8,090
Less Unsupported borrowing repaid	(730)	(2,391)	(2,584)	(3,514)
Total Unsupported borrowing carried forward	8,612	35,437	55,018	59,594

3. The level of “unsupported” borrowing relating to the HRA is as follows (this is a local indicator):

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Unsupported borrowing brought forward	0	6,000	17,760	23,040
New Unsupported borrowing	6,000	12,000	6,000	6,000
Less Unsupported borrowing repaid	0	(240)	(720)	(960)
Total Unsupported borrowing carried forward	6,000	17,760	23,040	28,080

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:

Appendix 5

	2005/06 £ Estimate	2006/07 £ Estimate	2007/08 £ Estimate
Band D council tax (£1,025.00)	10.44	30.16	46.47
HRA rent (£47.02)	0.28	1.10	1.55

The total Band D Council Tax (City Council element) recommended in this budget report is £1,025.00 and the average weekly rent already approved is £47.02

Prudence

5. The actual capital expenditure incurred in 2003/04 and estimates of capital expenditure to be incurred in the current financial year and for the period 2005/06 to 2007/08 (based upon the Council Capital Programme, and the proposed budget and estimates for future years) are:

	2003/04 £000 Actual	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Education	13,955	17,201	18,424	18,201	54,471
Housing	6,933	8,784	12,437	8,179	8,183
Transport	9,255	10,992	14,826	14,377	12,724
Regeneration	5,484	10,427	18,366	24,040	19,290
Other	9,344	17,800	21,912	15,685	6,960
Total non- HRA	44,971	65,204	85,965	80,482	101,628
HRA	20,342	27,867	36,996	25,529	25,524
Total	65,313	93,071	122,961	106,011	127,152

6. The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from the capital spending. By contrast the Capital Financing Requirement reflects the authority's underlying need to borrow for capital purposes.

The actual capital financing requirement in 2004/05 and the estimates for the current financial year and for the period 2005/06 to 2007/08 (based upon the Council's Capital Programme and the proposed budget) are:

	2003/04 £000 Actual	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Non- HRA	170,989	190,332	227,808	256,090	268,231
HRA	160,211	172,020	188,987	199,767	210,307

Appendix 5

7. The Capital Financing requirement split between Unsupported and Supported borrowing for the current year and next 3 years is (this is a local indicator):

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
General Fund Capital Financing Requirement - Supported Borrowing	181,720	192,371	201,072	208,637
General Fund Capital Financing Requirement - Unsupported Borrowing	8,612	35,437	55,018	59,594
Total General Fund Capital Financing Requirement	190,332	227,808	256,090	268,231

8. CIPFA's Prudential Code for Capital Finance specifies the requirement that over the medium term net borrowing will only be for capital purposes, and that authorities should ensure that net borrowing does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years. The authority has met this requirement in 2003/04 and, based upon current capital commitments and proposals in this budget report, there are not anticipated to be any difficulties for the current or future years.
9. The following Authorised Limits for external debt, gross of investments, are recommended for the next 3 years. These limits separately identify borrowing from other long-term liabilities, such as finance leases.

The Authorised Limit is based on the Council's current commitments, and fully reflect the impact of proposals made in this budget setting report. The Authorised Limit is also consistent with the Council's approved treasury management policy statement and practices. The Council is also asked to delegate authority to the CFO, within the total Authorised Limit for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities. Any such changes will be reported to the Council meeting following the change.

The estimates are based upon an estimate of the most likely, prudent but not worst case scenario and has been based upon standard risk management policies.

The Authorised Limit contains headroom to enable self financing "spend to save" schemes to be undertaken, based upon a proven business case for investment being carried out and appropriate risk management strategies being in place. The Authorised Limit also includes sufficient headroom for the Council to enter other forms of credit arrangements, such as long term leases, subject to underlying revenue funding being in place to finance such arrangements, which according to general accounting practice must be shown as external borrowing.

Appendix 5

In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2005/06 will be the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2004/05 Estimate £000	2005/06 Estimate £000	2006/07 Estimate £000	2007/08 Estimate £000
Borrowing required for government supported borrowing	304,507	322,166	338,026	346,592
Other long term liabilities	43,233	41,432	39,773	38,182
Unsupported Borrowing				
- HRA	6,000	17,760	23,040	28,080
- General Fund	8,612	35,437	55,018	59,594
Cashflow/Refinancing headroom	116,105	70,653	55,000	55,000
Total Authorised Limit	478,457	487,448	510,857	527,448

10. The following Operational Boundary for external debt, gross of investments, are recommended for the next 3 years. These limits separately identify borrowing from other long-term liabilities, such as finance leases. The proposed Operational Boundary for external debt is based upon the same estimates as the Authorised Limit but reflects directly the CFO's estimate of the most likely, prudent but not worst case scenario, without additional headroom included within the Authorised Limit to allow for unusual cash movements and equates to the maximum external debt projected by this estimate.

The Council is also asked to delegate authority to the CFO, within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long-term liabilities.

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Borrowing required for government supported borrowing	304,507	322,166	338,026	346,592
Internal funds used in lieu of borrowing	-69,421	-67,536	-71,526	-67,515
Other long term liabilities	43,233	41,432	39,773	38,182
Unsupported Borrowing				
- HRA	6,000	17,760	23,040	28,080
- General Fund	8,612	35,437	55,018	59,594
Cashflow/Refinancing headroom	51,022	39,531	28,296	26,533
Total Operational Boundary	343,953	388,790	412,627	431,466

Sustainability

11. On 24 November 2003 the Council's cabinet adopted CIPFA's Code of Practice for Treasury Management in the Public Services.
12. It is recommended that the Council sets an upper limit on its fixed and variable interest rate exposures for the period 2005/06 to 2007/08, as a percentage of the total debt net of investments, as follows:

	2005/06	2006/07	2007/08
	%	%	%
Fixed interest rate	120	120	120
Variable interest rate	45	45	45

13. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowing as follows, which shows the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

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

14. The upper limit for principal sums invested for more than 364 days is £30 million for 2005/06 and subsequent years.

Finance Procedure Rules – Schedule of Determinations

1. Orders for work, goods and services
 - 1.1 The threshold above which officers are required to receive three quotes when ordering work, goods and services is £2,500.
 - 1.2 The threshold above which the full tendering procedure shall apply is £35,000, although this threshold is £100,000 in respect of a works contract where a Council approved select list is used.
2. Debt Write Off
 - 2.1 Debts may be written off by corporate directors up to an amount of £2,000.
3. Stocks and Stores
 - 3.1 Corporate directors may write off stock losses up to an amount of £2,000,
4. Inventories
 - 4.1 Corporate directors may write off deficiencies in inventories up to an amount of £2,000,
5. Revenue Budgets
 - 5.1 The following parts of the Council budget are trading organisations, and the rules applied to budgets for internal trading units shall apply to them rather than the normal rules applicable to general fund budgets. Each Department may retain a percentage of the net surplus of the aggregate position of its trading organisations, listed in table 1 below. The surpluses that may be retained are detailed in table 2 below.

TABLE 1 : List of Trading Organisations

<u>Department</u>	<u>Service</u>
Housing	
	Housing Maintenance
Regeneration & Culture	
	City Catering
	City Transport
	City Highways
Resources, Access and Diversity	
	Cashiers
	Creativity works
	Design and Maintenance
	Customer accounts
	IT services
	Job Shop
	Legal Services
	Payroll
	Post room
	Standby Register

5.2 The percentages of the departments' net surpluses which may be retained are shown below:

TABLE 2: Surpluses which may be retained.

<u>Department</u>	<u>Criteria (if applicable)</u>	<u>%</u>
Housing		100
Regeneration and Culture	Surplus up to £125k	45
	Surplus £125 > £175k	50
	Surplus > £175k	60
Resources, Access and Diversity		25

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

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

6. Capital

6.1 Service resources, which can be used to fund capital schemes under authority delegated to corporate directors are defined as follows:

- (a) Government grant;
- (b) contributions from third parties;
- (c) revenue contributions to capital spending made from within the Director's controllable budget.
- (d) such resources as the Cabinet may determine when approving the annual Capital Programme.

6.2 Any corporate director can approve additional capital schemes provided that the schemes are funded entirely from service resources as defined in 6.1 above. Any such additions shall be reported to Cabinet and the relevant Scrutiny Committee in the next capital monitoring report.

6.3 Any cost increase must be contained within the overall capital programme. The maximum amount by which corporate directors can approve a cost increase funded by corporate resources to any capital scheme or vire resources between capital schemes is £50,000 or 10%, whichever is the lower.

Actions arising from Staff Budget Workshops

1. Background

- 1.1 In the Autumn of 2004, 2 staff workshops were run with the purpose of seeking suggestions from staff to assist the budget process and identify perceived inefficient use of resources. Staff attending these workshops came from all departments and they were free to raise any issue they felt would be helpful.

2. What's Been Done

- 2.1 A number of suggestions have been/or are soon to be implemented. These include:
- (a) the EMAS manual is being reviewed and amended and made more user-friendly with the promise that further reviews will take place in order to improve procedures;
 - (b) the Council is increasingly acquiring vehicles of smaller capacity for use as pool cars;
 - (c) the overall feel and usability of the Intranet is being looked at presently and should be up and running during the Summer of 2005;
 - (d) a project has started to develop an on-line solution to reduce the number of forms/signatures required to give someone, including new starters, access to a computer system. It is hoped to have a prototype for user testing in early 2005;
 - (e) the level of training on budget management is being improved with the development of a Cost Centre Manager Training Programme, the first training sessions taking place in February 2005;
 - (f) the effectiveness of the system for reimbursing staff who have to drive to the city centre on business has been recognised as long-winded. The process is being streamlined as part of the HR/Payroll Improvement Project;
 - (g) proposals for improved translation and interpretation services will be announced soon, including ending the Auxiliary Interpretation and Translation service;
 - (h) a review of the way PCs are purchased is taking place, which will result in a standard specification for most of the Council's requirements, and a single contract which will produce savings;
 - (i) the support services review will address the apparent duplication of functions between some departments, and the reasons why some departments have their own IT sections and others do not. It will also set out to rationalise policies and procedures, and consider the appropriate balance of skills required between professionally qualified and administrative support staff.