RESOURCES AND EQUAL OPPORTUNITIES SCRUTINY COMMITTEE — 15 FEBRUARY 2006
CABINET — 20 FEBRUARY 2006
COUNCIL — 22 FEBRUARY 2006

GENERAL FUND REVENUE BUDGET STRATEGY 2006/07 TO 2008/09

Report of the Chief Finance Officer

1. Purpose

1.1 The purpose of this report is to request Cabinet to approve a 3 year corporate budget strategy, 3 year departmental revenue strategies for each department, and a general fund budget for 2006/07; and to recommend these to the Council.

2. Summary

2.1 The proposed budget strategy is set in the context of significant change, both in the provision of City Council services and in the national funding framework within which local authorities operate.

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

(a) the reorganisation of existing departments, principally Education and Social Care & Health, and the creation of new departments of Children's and Adults' Services;

(b) a substantial efficiency drive, which includes management restructuring in all departments (whilst this is a local political priority, it also flows from the Government's public sector efficiency expectations);

(c) a review of the pay and grading of most of the Council's non-teaching staff.

2.3 Externally, the most significant changes are:

(a) a 2 year finance settlement, providing a degree of certainty over resource levels for 2006/07 and 2007/08;

(b) a revised approach to the funding of local government, which starts to move away from a formulaic approach to one in which individual authorities' grant entitlement is more closely tied to historic funding levels;

(c) the removal of funding for schools from the main grant settlement.

2.4 Further external changes loom large when looking ahead to 2008/09, when we expect the settlement to provide for 3 years. 2008/09 will be informed by the Lyons Review of the role and function of local government, and may include changes to the sources of revenue available to local authorities. We do not know whether or not council tax revaluation will take place in that year.

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

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

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

2.6 The corporate budget strategy is based upon the strategy approved in 2004, but considerable new emphasis has been placed on:

(a) achievement of low tax increases;

(b) delivery of efficiency savings.

2.7 Draft budget proposals were submitted to scrutiny committees for consideration during January and February, although those proposals were described as a work in progress. The budget proposed in this report has been revised following further guidance from Cabinet members, and reflects comments received. It also reflects a revised level of resources arising from favourable changes between the draft and final revenue grant settlements.

2.8 The budget proposes spending of £232.1m in 2006/07, which results in a tax of £1,033.91 (an increase of 2.6%).

3. Recommendations

3.1 The Cabinet is asked:

(a) to consider the provisional corporate budget strategy for 2006/07 to 2008/09, the draft departmental revenue strategies prepared by each director, and the draft overall budget for 2006/07 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 22 February and the Council's normal procedures, to authorise corporate directors to take any action necessary to deliver their departmental revenue strategies for 2007/08 to 2008/09;

(d) to delegate authority to the Director of Regeneration and Culture, in consultation with the Cabinet lead, to vary the detailed proposals for management savings set out in her departmental revenue strategy; provided such changes achieve equal savings and do not impact upon front-line service delivery;

(e) to delegate to the Director of Adult Services, in consultation with the Cabinet lead, authority to determine a programme of spending for the new monies provided for crime and disorder;

(f) to delegate to the directors of Adults' and Children's services authority to spend £0.4m set-aside for initial costs of the new departments;

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

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

- flexibilities and permissions provided in finance procedure rules;

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

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

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

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

(l) to consider how it wishes to review delivery of the budget and our response to the Lyons Review (see para 16);

(m) to commission a review of the Council's approach to subsidised bus services.

3.2 The Resources and Equal Opportunities Scrutiny Committee is asked to make comments to the Cabinet to assist Cabinet's deliberations.

4. <u>Financial Implications</u>

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. <u>Legal Implications</u> (Peter Nicholls, Head of Legal Services)

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

5.2 Other legal implications are covered in the report:

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

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

(c) obligations under the Race Relations (Amendment) Act, 2000 (para 14).

(d) prudential borrowing, under the Local Government Act, 2003 (para 15);

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

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

6. <u>Other Implications</u>

6.1 These are included in the supporting information.

7. Decision Status

Key Decision	No
Reason	Part of policy and budget framework
Appeared in Forward Plan	Yes
Executive or Council Decision	Council

8. Officer to Contact

Mark Noble
Chief Financial Officer
9 February 2006

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Report of the Chief Finance Officer

SUPPORTING INFORMATION

1. Background and Process

1.1 This is the Council's tenth budget as a unitary authority, and has been prepared in consultation with the Liberal Democrat/Conservative led administration which took office in May 2005.

1.2 The budget has been prepared on the basis of the existing departmental structure, notwithstanding the proposed significant re-organisation which will create Children's and Adults' Services Departments. Subsequent disaggregation will be required to transfer budget provisions made from old to new departments. This will be carried out as part of the overall Integrated Services Project.

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

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

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

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

1.5 The corporate budget strategy is attached as Appendix 1 for members' approval. It is based upon the corporate budget strategy approved by Council on the recommendation of the previous Liberal

Democrat/Conservative administration in February 2004, but now reflects:

(a) the key policy aim of making efficiency savings, set by the present administration when it returned to office;

(b) the aim of the administration to set council tax increases which do not exceed inflation.

1.6 Spending priorities within the corporate budget strategy flow directly from the Council's corporate plan as described in the strategy. Previous budgets have therefore seen resources redirected to the strategic objectives of that plan. This is impacting on the performance of the Council. For example the Council's overall rating under the Comprehensive Performance Assessment (CPA) has improved to the top rating of four stars under the new tougher regime. In terms of the 2 strategic corporate plan objectives, educational standards & skills and the environment, the CPA service block ratings are now both at level 3 out of 4. The environment score was previously 2.

1.7 In more detail, performance highlights for the 2 strategic corporate plan objectives (2003/04 to 2004/05) are:

(a) Education and skills:

- 44% to 47%, 5 GCSEs @ grade C or above;
- 0% to 5.4%, number of looked after children leaving care aged 16+ who have achieved at least 5 GCSE grades A* to C;
- 63.2% to 64.3% of pupils achieving level 4 or above in the KS2 maths test;
- 64.9% to 67.8% of pupils achieving level 4 or above in the KS2 English test;

(b) Environment:

- 13% to 5% of relevant land and highways that is assessed as having combined deposits of litter detritus across 4 categories of cleanliness (low % is good).

1.8 The recent Mori survey shows that overall satisfaction with the Council is on a gradual upward trend. Satisfaction has improved specifically in the following services to which funds have been redirected:

✓ Street lighting
✓ Pavement maintenance
✓ Parks and open spaces
✓ Cemeteries & crematorium
✓ Secondary schools
✓ Public toilets

1.9 Draft departmental revenue strategies have been circulated to Cabinet members separately to this report. They have been prepared with the benefit of the Council's new approach to service planning which has enabled the budget strategies to be informed by service plans.

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

(a) the revenue budget needs to provide for the running costs of any new capital schemes, although major schemes will not have a material revenue impact until after 2006/07; provision has been made in the 3 year projections for the Council's contribution to the "Building Schools for the Future" programme, which will commence in 2008/09;

(b) capital spending can be met by borrowing money, government grants, the proceeds of asset sales, or revenue contributions. The budget includes provision for the costs of borrowing approved in the 3 year capital programme.

1.11 The budget has been set in the context of substantial changes to government funding for local authorities, which are described in more detail later in this report. However, the key issues are:

(a) the overall funding position for local authorities in the next 2 years is tight, and it is expected that (as the overall public finances are not as healthy as they were) the position in 2008/09 will be even tighter;

(b) the government has, for the first time, provided multi-year grant information. Initially, grant figures have been provided for 2 years, with the intention of moving to 3 year settlements from 2008/09. This means resource estimates for 2007/08 are much more robust than is usually the case for the second year of the 3 year strategy (paradoxically, forecasts for 2008/09 are even more volatile than previously);

(c) substantial changes have been made to the funding formula, which would (had nothing else changed) have benefited the Council. The formula changes have, however, produced considerable turbulence across the country, and the government has "damped" the impact by guaranteeing every authority a minimum grant increase. This has been paid for by (substantial) scaling back of grant authorities would otherwise have received. It is anticipated that substantial damping will be a feature of all future settlements, with the formula consequently having reduced significance;

(d) schools are no longer being funded through mainstream grant funding, and will instead be funded by a "dedicated schools' grant". The Council has been disadvantaged by this transfer, and will lose some £3m over time. Half of this loss will be reimbursed, and passed directly to schools by the DfES over the next 2 years. The budget includes proposals to neutralise this enforced distributional change. The position beyond 2007/08 is uncertain (ie we do not know whether or not schools will receive a further £1.5m, or whether these resources will be lost to the City as a whole);

(e) the increase in grant funding to schools (over 7% per pupil in each of the next 2 years) substantially exceeds grant increases for the rest of the Council (less than 3%);

(f) the government has introduced a new duty to provide free bus travel for older people after 9.30 am (within the boundaries of district councils). This supersedes the previous duty to provide half fare travel. Additional funds have been made available nationally (£350m) for this purpose, which have been distributed to local authorities by means of a formula. The government has adjusted the rules described above, to ensure this money is not subject to scaling.

1.12 The proposed budget includes the following:

(a) a council tax increase slightly below the annual uprating in the state retirement pension;

(b) substantial proposed efficiency savings and management restructurings, although the financial benefit of these will (mostly) not be felt until 2007/08;

(c) maintenance of the enhanced level of environmental spending first agreed in 2004/05, which is a corporate spending priority, together with a further £0.3m in 2006/07 to complement the redevelopment of the city centre;

(d) additional funding for educational improvement, to provide for an effective client function to complement the already substantial commitment to Building Schools for the Future;

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

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

2.1 The table below presents the budget in summary. Only the position for 2006/07 will be formally adopted as the Council's budget for next year. Future years' figures are estimates, and will change (particularly 2008/09):

	2006/07 £m	2007/08 £m	2008/09 £m
Expenditure			
Total of draft departmental revenue strategies	205.6	197.1	196.7
Other departmental budgets	4.0	4.0	4.0
*Historic capital financing	17.1	21.5	22.9
Corporate budgets	(2.8)	(2.2)	(2.5)
Energy costs provision	2.1	2.5	2.5
Job evaluation	1.5	3.1	3.2
**Additional highways maintenance to 2007/08		1.5	
***Building Schools for the Future:			
- ringfenced capital costs	2.9	4.1	5.2
- client team costs	0.4	0.4	0.4
- Council contribution to future costs			0.8
New Corporate Budgets:			
- new departments' set up costs	0.4		
- crime and disorder	0.4	0.4	0.4
Business Improvement Programme:			
- savings		(3.1)	(4.1)
- restructuring costs	0.5		
Future Year Changes:			
- inflation		6.9	14.0
- planning requirement		1.5	3.0
- pensions			1.1
- loss of rent		0.3	0.6
TOTAL EXPENDITURE	232.1	238.0	248.2
Resources			
Government Grant	151.7	157.3	161.2
Council Tax	78.0	80.5	82.6
Collection fund surplus:	1.5		
Use of reserves	0.9	0.2	
	232.1	238.0	243.8
Band D Tax in 2006/07	£1,033.91		
Tax increase in 2006/07 and then assumed	2.6%	2.6%	2.6%
Gap in 2008/09			4.4

*This represents the cost of past capital borrowing, previously approved borrowing, and borrowing paid for by government grant.
**The budget already includes additional provision up to 2006/07.
***Buildings Schools for the Future is further discussed in para 6 below.

2.2 Key items of expenditure are discussed further 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 2005/06.

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 2005/06 for a band D property was as follows:

	£
City Council	1007.32
Police	126.04
Fire	43.11
Total tax	1,176.47

3.3 The actual amounts people are paying in 2005/06, 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 2006/07 is £1,033.91. The police and fire authorities are due to set their taxes on 15 and 16 February respectively. I will advise Cabinet orally of the taxes set, at your meeting.

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 2005/06 and 2006/07.

Technical and Inflationary Changes

4.2 The starting position is the budget for 2005/06, 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 2.25%.

4.3 The effect of the above was reported to Cabinet in September 2005.

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

(a) a provision for the increasing costs of energy, including the impact of contract renewals in 2006/07. Provision of £2.1m has been made, rising to £2.5m in 2007/08 (rising energy costs will also affect the now separate schools' budget and the Housing Revenue Account);

(b) the impact of the 2005/06 budget, insofar as this included growth and savings in 2006/07 over and above the effect in 2005/06. This can happen either because decisions made were not due to come into effect until 2006, or because the financial impact of a decision which has already taken effect is greater in a full year than it was in 2005/06. **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: £3.0m per annum was built into last year's budget plans, with effect from 2006/07, but because implementation of the expected new scheme has been delayed, provision in 2006/07 has been reduced to £1.5m (the full amount is still provided from 2007/08 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 and spending planned in the capital programme. These cost estimates have been revised in the light of latest interest rate assumptions;

(e) the expected sums the Council will receive under the local authority business growth incentive scheme, in the light of experience to date. This scheme provides for authorities to retain part of the proceeds of growth in business rates, and estimated income was committed in the 2005/06 budget to fund a regeneration package (which was itself used to part fund the costs of prudential borrowing for the Performing Arts Centre and for a major scheme of city centre improvements). No LABGI income was received in 2005/06, despite growth in the number of properties liable to pay business rates. This is because of an increase in the number of empty properties during the year, which has more than offset the growth. Present assumptions are for a much reduced £229,000 of income in 2006/07, rising to £587,000 by 2007/08;

(f) the use in 2006/07 of efficiency savings built into the present year's budget in excess of the amount needed.

Government Imposed Changes

4.5 As a consequence of the Local Government Finance Settlement, the budget has been adjusted to reflect changes in national funding arrangements. The most significant of these is the removal of funding for schools, which (as described above) is now funded by the dedicated schools' grant. Also significant is the addition of funding to the budget of the Regeneration and Culture Department, reflecting new concessionary fares obligations. Changes have also been made to reflect new electoral administration grant arrangements, funding to implement the Waste (Electrical and Electronic Equipment) Directive, transfer of responsibility for water-course maintenance to the Environment Agency, new arrangements for teachers' pay grant, and the absorption within mainstream funding of certain Social Services grants.

Growth and Reductions

4.6 Finally, the budget has been adjusted for proposed growth and reductions. Some of these are reflected in departmental revenue strategies, and some are retained corporately. The former are fully described in those documents.

4.7 The departmental revenue strategies reflect:

(a) net growth of some £2m per year in Social Care & Health, to provide for continuing demand led pressures, with other departments making net savings;

(b) some areas of service growth, particularly in street cleansing, the festivals strategy and funding for the roll out of LIFT;

(c) changes to the budget of the Lifelong Learning Division following the overspend in 2004/05, to reflect the present level of commitments; together with some savings in that service;

(d) significant management restructuring and efficiency savings;

(e) some areas of service reduction to balance the budget.

4.8 Members are asked to note that no money is provided for the costs of any concessionary travel scheme, over and above the legal requirement, other than for the disabled (ie it provides for free travel after 9.30 am within the city).

4.9 Members are also asked to note that a saving to be achieved between the Adults' and Children's Services Departments (management and commissioning savings) has been "parked" for the time being in the Education budget.

4.10 The following items are retained corporately:

(a) all Council expenditure in support of BSF (see para 6 below);

(b) a provision of £0.4m for the 2 new departments of Children's and Adults' services, to enable basic infrastructure to be funded before the new departments are fully operational;

(c) a provision of £0.4m for initiatives to combat crime and disorder.

Business Improvement Programme

4.11 In addition to the above, planning projections for 2007/08 and 2008/09 assume the Council will achieve savings of £3.1m rising to £4.1m from the Business Improvement Programme. This is a major programme backed by the Cabinet, and supported by implementation resources of £0.9m which have been set-aside in 2005/06. The Business Improvement Programme is also a key plank of the Council's response to the Government's public sector efficiency ("Gershon") agenda. Key areas of the Business Improvement Programme where savings are expected are in procurement of goods and services, the review of support services, and the review of property. There is risk attached to these projections (see para 10 below) but the risk does not affect the 2006/07 budget. £0.5m has been provided in 2006/07 to meet any restructuring costs arising from the Business Improvement Programme.

Other Issues

4.12 The Council and its partners are currently discussing a local area agreement with Government Office. This will result in the pooling or aligning of various funding streams with the objective of delivering agreed local targets. The precise nature of these arrangements is not known at the time of writing this report.

5. Resources

Government Grant

5.1 By far the biggest source of funding for local authorities is government grant. This presently provides some 80% of the money needed to fund the net budget, with only 20% provided from council tax (consequently a 1% increase in spending has always meant a 5% increase in council tax – the "gearing effect"). The transfer of funding for schools out of the main grant system has, however, changed this equation and grant only provides two thirds of our net budget. This change has not, of course, increased the amount of income we receive from council tax.

5.2 The Council's grant settlement for the next 2 years is £151.7m for 2006/07 and £157.3m for 2007/08. On a like for like basis, this represents an increase of 2.8% in 2006/07 (on the Government's published comparators).

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

5.4 The Government has, however, made what may prove to be a major step away from this principle by their use of damping. Because the formula has changed this year, the results of applying it would have produced major swings in entitlement up and down the country (especially when coupled with changes to education funding, which have had a distributional impact). The Government has therefore guaranteed every authority a minimum "floor" grant increase (2% in the case of unitary authorities such as Leicester). However, to fund this guarantee, every authority entitled to grant in excess of the floor has had the increase scaled back substantially (by 85% in the case of unitary authorities in 2006/07). Whilst floor guarantees are not a new feature of the funding system, damping on this scale certainly is. Such is the scale of the damping that it will be a very long time before some authorities approach their formula based "entitlement" – it is possible that the Government will explicitly move away from the principle of equalisation when the first 3 year funding settlement is produced for 2008/09. This would be regrettable.

5.5 The cost to the Council of scaling is £6.2m in 2006/07, and £4.8m in 2007/08.

5.6 The Council made a number of representations on the draft settlement, supported by city MPs. It is unusual for significant change to be made between the draft and final settlements, but the Government did correct an anomaly whereby scaling was particularly disadvantageous to BSF authorities. This has helped the overall budget position by £0.5m in 2006/07 and around £2.0m in 2007/08. Funds have also been made available outside the system in order to help pay for BSF (see para 6 below). Other representations made by the Council (for example, the use of incorrect population figures) produced no change.

5.7 One particular aspect of scaling is the effect this has on resources available for capital. In the past, the Government has used 2 means of providing money to local authorities' capital programmes:

(a) direct capital grant;

(b) "supported capital expenditure allocations" – by which authorities borrow money, but the Government pays the principal and interest on the debt.

5.8 Previously, it has been immaterial to the Council which of the above routes the Government has wished to use in any particular case. Under the new arrangements, however, money provided to pay for supported capital expenditure will be scaled back, leaving the capital expenditure only partially supported. Provision has been made in the budget for the costs of borrowing arising from the December capital settlement, but the Council will need to reconsider its strategy for bidding for capital funds in future, except where direct capital grant is sought.

Council Tax

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

(a) council tax income. The budget proposals in this report would mean a tax increase of 2.6%, and tax income of £78.1m in 2006/07;

(b) a surplus of £1.5m in 2006/07, arising from previous year's council tax collection performance. This surplus was reported to the Cabinet on 9 January.

6. Building Schools for the Future

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

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

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

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

6.5 Furthermore, funding for BSF has been affected by the new scaling rules, and has been reduced (effectively, money for BSF has been given to other authorities who would otherwise have had less than the guaranteed floor increase in grant). The Government has recognised the problem this creates, and has promised additional funding to ensure costs can be met until 2007/08. Presumably, assurances will be given about 2008/09 and later years. We have yet to see what this means for the City in practice.

6.6 Provision has also been made in the budget for:

(a) the costs of a Council client team, to work with the Local Education Partnership on the development and delivery of BSF. These funds are being retained corporately, and will be returned to corporate resources should BSF not proceed. The precise amount required is still subject to review as part of the BSF project;

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

7. Joint Financial Plans

7.1 The Council has a number of joint financial plans with partners and other stakeholders.

7.2 The Local Area Agreement will include a number of joint planning initiatives. This is not concluded at the time of writing this report.

7.3 The City Council has pooled budgets with the NHS, the County Council and Rutland Council for community equipment and some aspects of Learning Disability Services. The City Council is working with the NHS to develop integrated services and pooled budgets for the rest of Learning Disabilities and for Adult Mental Health. These developments are underpinned by a Learning Disabilities Integrated Plan with the NHS.

7.4 Adult services provision within Lifelong Learning is wholly funded by grant from the Learning & Skills Council. The amount of grant payable is dependent upon agreeing and delivering a 3 year development plan.

7.5 The City Council has a number of Service Level Agreements (SLAs) with the County Council both to receive and provide services. These require an annual negotiation of costs and service levels. Examples of services received include those for travel concessions and subsidy to bus services. An example of a service provided is that for traffic signalling.

8. Reserves

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

(a) an unforeseen overspend;

(b) a contractual claim;

(c) an uninsured loss.

8.2 A number of authorities have also made sizeable payments in settlement of equal pay claims.

8.3 The table below shows the latest estimates of reserves on 1 April 2006. 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 2005/06 (up or down).

	£000s
Reserves held on 1.4.05	7,625
Less used for 2005/06 budget	(1,759)
Uncommitted reserves on 1.4.05	5,866
Plus anticipated savings* in 2005/06	2,559
Less approved support to the Business Improvement Programme	(894)
	7,531

*Principally arising from interest on high cash balances, as reported through budget monitoring reports.

8.4 Since local government re-organisation in 1997, I have recommended that the Council maintains £5m as a prudent minimum working balance of reserves. In the 2005/06 budget report, I advised members I would wish to review my recommended minimum level in the light of risks facing the Council when preparing the 2006/07 budget. In doing so, I was conscious of the fact that £5m was reducing as a percentage of the Council's budget (and puts us in the bottom one fifth of unitary and metropolitan authorities for reserve holdings in 2005/06); but also that risks facing the Council are increasing.

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

8.6 My view is therefore that the Council should aim to increase its reserve holdings to £7m by the end of the 3 year strategy. I will review this advice during the course of the next 3 years as risks change (and hopefully are dealt with).

8.7 The proposed budget uses £1.1m of reserves over 2 years, leaving uncommitted balances of £6.4m.

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

9. Earmarked Reserves

9.1 Appendix 3 shows the Council's earmarked reserves as they stood on 31 March 2005, and as they are presently estimated to stand at 31 March 2006. Whilst these consist of revenue money, under the Council's finance procedure rules they are set-aside for specific purposes: it is not regarded as good practice to use these reserves to fund the generality of

Council expenditure (not only would this be just a one-off contribution, it would provide perverse incentives to departments to try to spend up any monies they have before the end of each financial year). Furthermore, of the Council's total earmarked reserves the following can (by law) only be spent on specific restricted purposes:

(a) schools' balances;

(b) other funds in the schools' block;

(c) "supporting people" monies;

(d) on-street parking monies.

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

10. Risk Assessment

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

10.2 In my view, each of the departmental budgets in 2006/07 is achievable, and this is also the view of the respective corporate directors. Inevitably, some individual reduction proposals will not achieve the full expected savings, and issues will surface during the course of the year, which will unexpectedly cost money. However, the flexibility given to directors to manage within their overall "bottom line" should prevent an overspending by any department.

Key Risks

10.3 Of the 2 most significant risks in the 3 year budget strategy the first is the risk to the achievement of savings in the Children's and Adults' Services Departments at a time of structural change (indeed, structural change of this scale creates some risk for budget management even without financial restraints). However, the risks are mitigated:

(a) the budgets have been built on the basis of the old departments, and proposed savings specifically itemised;

(b) budgets for the new departments will be built by the transfer of budgets from the old departments of Education and Social Care & Health. Control is maintained by quantifying the cost of every function moving from an old to a new department (or to an existing department such as Regeneration and Culture) and ensuring the budget transfer is agreed and balanced. This arrangement is part of the formal project management arrangements for the Integrated

Service Programme, and is a better discipline that simply calculating the costs of the new departments from scratch;

(c) savings from the review of overall management and commissioning arrangements within the 2 departments are not assumed to arise (apart from £0.1m) until 2007/08, which gives the 2 new directors time to take stock and develop their new departments before savings are required.

10.4 The second most significant risk is failure to achieve the sizeable sums anticipated from efficiency reviews and management restructurings. The significant ones are shown in the table below:

	2006/07 £m	**2007/08** £m	**2008/09** £m
Business Improvement Programme		3.1	4.1
Savings in Regeneration & Culture	0.3	1.3	1.3
Management and Commissioning in the new departments	0.1	1.0	1.0
RAD/Chief Executive's	0.1	0.2	0.3
Total	0.5	5.6	6.7

10.5 The risk posed by these savings to the achievement of the 2006/07 budget is small, as the bulk of the savings are anticipated in 2007/08. To achieve these savings will, however, require significant commitment from both senior officers and elected members to drive the necessary reviews and ensure that they are delivered. Failure to do so will require radical revisiting of the 2007/08 budget. That said:

(a) plans for the Business Improvement Programme are well advanced, particularly in respect of procurement and the support services review. Business cases for the first priority workstreams of the support services review will be presented to Cabinet in April;

(b) savings anticipated in Regeneration and Culture have been reviewed since draft proposals were published, and revised proposals anticipate lower savings. The areas of review are described in the departmental revenue strategy;

(c) the expected sum from the new departments is modest in comparison with the size of those departments;

(d) the greatest risk (in my view) is of delay to achievement, rather than non-achievement, of BIP savings; and putting in place transitional funding in 2007/08 would not be as difficult as revisiting the whole approach;

(e) planning provision of £1.5m has been made in the 2007/08 budget projections, which provides some contingency against unexpected events. It is normal practice to include a planning contingency of £1m in the second year of the 3 year budget strategy (rising to £2m in the third year), and this provision has been increased.

(f) a sum of £1.1m has been set-aside from one-off monies to meet restructuring costs arising from the BIP and regeneration reviews.

10.6 In my view, it is not unreasonable for members to take these risks.

Other Risks

10.7 Other risks are as follows:

(a) the Social Care & Health budget. Pressures on Social Care & Health have been experienced by authorities nationally, and until a few years ago the Social Care & Health Department routinely overspent its budget. This situation has now stabilised. Whilst the budget of this department will continue to require careful management, I do not believe it poses the risk it once did;

(b) the Education and Lifelong Learning budget, which needs to be very closely monitored during the year. Despite changes made to processes since the overspending in the Lifelong Learning Division in 2004/05, there is room for further improvement in arrangements for the management of this division's budget. These improvements are being made, but it will take time before a culture of effective financial management is properly entrenched. Generally within the department, there are competing pressures on departmental management time, which include Building Schools for the Future and the departmental restructure; areas of volatility such as special educational needs; and a major change to the adult learning service consequent to LSC funding changes. I believe the Education budget needs to be closely watched;

(c) estimates of the cost of the new job evaluation scheme. This project is now making very good progress, and is being managed according to the Council's "Prince" project management methodology. There is, at present, no reason to believe the cost will exceed the provision made but any change affecting the pay of the entire workforce is clearly an area of risk and sensitive to changes from the assumptions made;

(d) the final cost of the acquisitions/work required to meet the Council's city centre accommodation needs – whilst money has been set-aside since 2004/05 to pay for the borrowing required to meet the cost of this work, the cost of this scheme is 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 in January 2005 (to the extent that these cannot be met from the capital programme);

(f) continuing pressures on transport budgets.

10.8 Departmental revenue strategies provide further information about specific risks facing departments.

Inflation

10.9 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. The cost of pay awards is (unusually) known in advance. The provision made for energy costs is more volatile, however, and actual costs will depend upon tendered prices if the costs exceed the provision made, departments will have to absorb any excess.

Capital Finance and Interest

10.10 These budgets principally cover:

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

(b) interest earned on cash balances.

10.11 Of these budgets, interest earned on cash balances is volatile. These balances include reserves, but also income and grants received in advance of need. In recent years, underlying cash balances have increased substantially from an average of about £60m in 2003. I have always budgeted prudently for these balances, on the basis that they will, at some time, start to decline. The budget for 2005/06 assumed balances of £85m and the budget for 2006/07 assumes £95m.

10.12 There are pressures in the capital finance budget, most particularly the risk of not achieving LAGBI income.

Departmental Estimates

10.13 Corporate directors, supported by their Heads of Finance, believe that the financial estimates in their departments' revenue strategies are robust (subject to the risks described).

2008/09

10.14 Members are asked particularly to note the outlook for 2008/09. The proposed budget suggests a gap of £4.4m between expenditure and resources in that year, based on an assumed 2.6% pa council tax increase. This projection is, however, particularly volatile:

(a) there are no national figures for grant funding in 2008/09, and these will not be available until the conclusion of the next national spending review. I anticipate that increases in spending for local authorities will be smaller than has been the case in previous years. For the time being, we have assumed a 2.5% grant increase over 2007/08;

(b) there may be substantial change in the system for allocating resources to local authorities, and to the sources of finance available to local authorities. The Lyons review will be reporting on the role and function of local government in time to shape the next national spending review, and alternatives to council tax could be discussed (or, more probably, potential supplements to council tax). There is no guarantee that the system for allocating grant to local government for the period 2008/09 to 2010/11 will mirror present arrangements, and I particularly envisage a diminishing role for the formula basis of calculating grant entitlement. There is, furthermore, the outstanding question of council tax revaluation which was supposed to have taken place in 2007/08 and was postponed. Whilst Leicester taxpayers ought (we believe) to benefit from a revaluation (because property prices have gone up by less than they have in areas such as London and the South East), revaluation would create considerable turbulence in tax and grant levels which the Government may wish to dampen (assuming revaluation happens at all);

(c) it is believed that civil servants are presently working on the next round of public sector efficiency requirements ("Gershon mark II") which will inform the next national spending review.

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

11. Sensitivity

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

Assumption	Impact
0.1% on pay*	£287,000
0.1% on prices	£240,000
0.1% on income	£161,000
0.1% on interest rates	£48,000

*Pay awards for 2006/07 are already known.

11.2 Any changes to overall inflation during 2006/07 (up or down) will be absorbed within departmental budgets in the normal manner.

12. Capping

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

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

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

12.4 The government has signalled that it will not hesitate to use its capping powers again in both 2006/07 and 2007/08, and has stated that it expects average tax increases to be below 5%. In my view, a tax rise slightly below 5% would also be a risk.

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

13. Consultation

13.1 Consultation has taken 4 forms:

(a) public consultation on the corporate budget strategy;

(b) consultation with scrutiny committees;

(c) consultation with trade unions;

(d) consultation with the business community.

Consultation with the Public

13.2 During the Autumn of 2003, the Council undertook 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. The present proposed strategy is an update of that strategy, and a comprehensive public consultation exercise has not therefore been carried out. The strategy has however been made available to the public through the Internet and comments were invited, although none have been received at the time of writing this report.

13.3 2 meetings of volunteers from the Citizens' Panel have also taken place, to consider and advise on options open to the Council when setting its budget.

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

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

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

13.7 Other services mentioned included:

(a) waste recycling, which they considered to be a high priority;

(b) care for the housebound elderly;

(c) libraries: concern was expressed about reduction to services, though they were supportive of the drive for e-services;

(d) adult education: the group felt there had been an excessive rise recently in the price of adult education which stopped many people from using the service;

(e) the architectural environment of the city: new developments needed to be more sympathetic with existing buildings;

(f) housing: the group felt there was a need for more houses instead of flats in the city, and that there was a gap in housing for families. They also felt that there are too many flats which are not affordable to young people.

13.8 In terms of council tax levels, the group understood that the Council was indicating that any increase is likely to be close to the level of inflation. Views differed as to how inflation should be measured.

13.9 The group was asked in what areas of spend the Council should identify savings, given that members sought a low tax rise. Views were split between savings from new ways of working, and savings from services with falling public demand. The group also felt that the Council should explore other models for generating income.

<u>Consultation with Scrutiny</u>

13.10 At the time of writing this report, the draft budget proposals had been considered, and comments made, by the following scrutiny committees:

(a) Housing (12 January);

(b) REOPPS (12 January);

(c) Social Services (18 January);

(d) Strategic Planning and Regeneration (25 January);

(e) Education (31 January);

(f) REOPPS (2 February).

13.11 Complete minutes of the above scrutiny committees (other than Education) are attached at Appendix 4. Also attached are the minutes of the Aylestone Area Committee held on 18 January. The following committees are yet to meet, and comments will be circulated separately to members (together with the Education minutes):

(a) Arts, Leisure and Environment (8 February);

(b) Highways and Transportation (16 February).

13.12 Members are asked to note that proposals have been amended since consideration by scrutiny committees. The key differences are given below:

(a) significant amendments to the detail of the Education and Lifelong Learning proposals, and removal of some elements of proposed growth;

(b) the expectation of a £1m saving in 2007/08 from a review of management and commissioning within the Adults' and Children's Services Departments;

(c) withdrawal of the proposed reduction to school crossing patrols;

(d) significant reduction in the expected savings from reviewing management in Regeneration and Culture;

(e) further specific savings proposals of £0.5m in Regeneration and Culture, and amendments to proposed growth;

(f) withdrawal of a proposed cut to the Leicester Shire Economic Partnership, and proposed new spending on inward investment.

13.13 Further meetings of SPAR and REOPPS Scrutiny Committees are being held on 15 February, to consider the present, revised proposals. Comments will be circulated to Cabinet members before your meeting.

<u>Consultation with Trade Unions</u>

13.14 The formal response from the trade unions had not been received at the time of writing, although trade union representatives have expressed a number of concerns about some proposals. Trade union comments will be circulated to members as soon as they are available.

<u>Consultation with Business Community</u>

13.15 Representatives from the business community were advised of proposals reflected in the draft departmental revenue strategies. A letter has been received from the Chamber of Commerce expressing concern at proposed reductions to institutions that underpin Leicester's future economic regeneration, specifically the Leicester Shire Economic

Partnership and the Leicester Regeneration Company. The Chamber believes that the support given to both organisations is fundamental to enable them to leverage capital investment, regional and national policy support and to engage major investors into buying into Leicester; and that withdrawal of support would deprive Leicester of major strategic impetus for the long-term. The proposal to reduce funding to the LSEP has now been withdrawn.

Other

13.16 A considerable volume of letters has been received from schools and parents about the proposed reduction to school crossing patrols. This proposed reduction has now been withdrawn.

14. Budget and Race Equalities

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

14.2 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.

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

15. Prudential Borrowing

15.1 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.

15.2 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.

15.3 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.

15.4 Indicators relating to the Housing Revenue Account were agreed by the Council on 24 January as part of the HRA budget report.

15.5 The proposed budget includes corporate provision for the costs of prudential borrowing in respect of city centre accommodation, city centre improvements and the Performing Arts Centre. These provisions are not new – they were first included in the budget in 2004/05 and 2005/06. Other prudential borrowing, principally "spend to save" expenditure, has been approved over the course of the last 2 years and is reflected in departmental budgets. No corporate provision is made for any additional prudential borrowing other than that already included in the capital programme.

15.6 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.

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

	Outstanding Debt £m	Approximate Turnover £m	Debt as % of Turnover £m
General Fund			
2006/07	43.1	667.3	6.5%
2007/08	61.9	684.0	9.1%
2008/09	59.2	699.0	8.5%
HRA			
2006/07	23.0	64.5	35.7%
2007/08	23.8	66.5	35.8%
2008/09	22.8	68.1	33.5%

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

	General Fund £m	HRA £m
2006/07	3.7	1.9
2007/08	6.4	2.3
2008/09	8.1	2.3

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

16. Budget Review

16.1 Members are asked to ensure they have appropriate arrangements in place during 2006/07 for the following:

(a) ensuring appropriate oversight of the delivery of savings from the various reviews, and the Integrated Services Programme (such arrangements already exist, and could be extended to include the Regeneration & Culture review);

(b) consider the authority's response to the Lyons review, with a particular view to influencing the funding framework from 2008/09;

(c) reviewing budget arrangements for 2007/08 and 2008/09. In particular, members are reminded that enhanced funding for highways maintenance will cease after 2007/08, and this needs to be further considered. Officers in Regeneration & Culture are in the process of preparing an asset management plan for the city's road network, which will influence these considerations.

17. Procedural Matters

17.1 When the Council approves the budget for 2006/07, it needs to make various statutory calculations. These include:

(a) the total budget;

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

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

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

17.3 Finance procedure rules give certain discretions to Cabinet to authorise limits and powers in the management of budgets. An updated "schedule of determinations" is attached at Appendix 6 for your approval. This reflects minor changes to the present determinations, which clarify the position of trading organisations with budgeted surpluses.

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

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

17.6 The Council is also required, as part of setting the budget, to determine the level of discretion given to Cabinet to make in-year changes. In previous years, the Cabinet has had delegated authority to move sums of up to £1m, and the recommendations to this report assume you would wish Council to maintain this level of discretion.

18. Treasury Strategy

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

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

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

18.4 In summary, the strategy envisages the following:

(a) new long-term loans taken in 2005/06 are sufficient to meet the Council's borrowing requirement for 2006/07. No further borrowing is proposed unless low interest rates make it attractive to pre-fund part or all of the 2007/08 borrowing requirement;

(b) the cash raised from loans taken in 2005/06 will be invested and drawn down to meet capital expenditure during 2006/07;

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

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

19. Financial and Legal Implications

19.1 These are included in the cover report.

20. Other Implications

Other Implications	Yes/No	Paragraph References within Supporting Papers
Equal Opportunities	Yes	These are dealt with in departmental revenue strategies. The Council's obligations under the Race Relations (Amendment) Act are dealt with in para 14 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	£0.4m of growth in 2006/07 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 14.
Elderly People/People on Low Income	Yes	Consultation responses in 2004 indicated that the elderly are the group most particularly concerned about high council tax increases. Elderly people will be entitled to free bus travel after 9.30 am in 2006/07, but other aspects of the present scheme may change dependent upon Council decisions.

21. Background Papers

21.1 Base Budget Preparation – report to Cabinet on 26 September 2005.
Council Tax – Taxbase report to Council on 9 January 2006.
Collection Fund surpluses report to Cabinet on 9 January 2006.
Letter from Leicestershire Chamber of Commerce dated 30 January 2006.
Letters received in relation to school crossing patrols.

22. Report Author/Officer to Contact

Mark Noble
Chief Financial Officer
9 February 2006

Draft Budget Strategy 2006/07 to 2008/09

1. Introduction

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

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

1.3 The strategy for 2006/07 to 2008/09 is set in a context of national spending restraint, which will require savings to be made in order to achieve local priorities within a balanced budget. The delivery of efficiencies is an integral part of this strategy, but will not (it is believed) be sufficient in the absence of additional government funding.

2. Key Aim

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

3. Resources

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

	Grant £m	% increase
2006/07	151.7	2.8%
2007/08	157.3	3.7%
2008/09	161.2	2.5%

3.2 The table above reflects published figures for 2006/07 and 2007/08, and assumptions for 2008/09.

3.3 Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's budget requirement (⅔). The only source of local taxation available to the City is council tax, which makes up the other ⅓. Because of these ratios, the Council is subject to a "gearing effect" whereby relatively small percentage changes in grant or spending need can result in much greater increases in council tax (a 1% spending increase without any additional Government support would result in a 3% increase in council tax). Changes in schools' funding in 2006/07 has reduced the proportion of grant funding, but not, of course, the yield from a 1% increase in council tax (£0.75m).

3.4 The Government has powers to cap the budget of any local authority which it believes is spending excessively. Since 2004/05, these powers have been used to put pressure on local authorities to set moderate tax increases. The Government expects tax rises in 2006/07 and 2007/08 to be less than 5%.

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, together with grant allocations. No figures have been produced for 2008/09;

(b) changes in the way specific grant is paid to local authorities. Such changes have distributional impacts, in that the City will not necessarily receive an addition to its general fund equal to the amount of any specific grant it loses (and the impacts can be significant);

(c) functional changes requiring grant adjustment, which can also have distributional impact.

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

5. Taxation

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

6. Strategic Spending Priorities

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

6.2 The 2 priorities are:

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

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

7. Other Spending Issues

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

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

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

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

(b) improve business efficiency;

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

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

(a) its management structures;

(b) its back office functions;

(c) procurement of goods and services;

(d) its occupation of property.

7.5 The Council will, furthermore:

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

(b) aim to consolidate services where these are extensive but of insufficient quality, and provide enhanced services from fewer locations where appropriate. In particular, the Council will work to co-locate nearby facilities to save money;

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

(d) take opportunities in the creation of adults' and children's services departments to identify and eliminate areas of duplication, without risk to public services.

8. Spending Requirements

8.1 The table below shows the forecast spending requirements of the City Council over the next 3 years (as it stood prior to this budget strategy):

	£m
2006/07	232.1
2007/08	238.0
2008/09	248.3

8.2 The table above provides for:

(a) the Council's budgeted level of expenditure in 2006/07, inflated as appropriate in future years;

(b) expected additional costs of capital financing in 2007/08 and later years;

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

(d) planned spending changes in 2007/08 and 2008/09 in departments, which the Council has already approved;

(e) assumed savings from the Business Improvement Programme.

8.3 The table does not make allowance for any new spending pressures in individual departments, which arise in 2007/08 or later years. Council policy is that these pressures (which can be significant) must be contained within departmental budgets.

9. Risks to the Forecasts

9.1 Risks to the forecast of spending requirements are:

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

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

(c) 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 The forecasts are, furthermore, based on existing budgets at a time when the Council is about to undergo substantial structural change to create Adults' and Children's Services departments.

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

10. Capital Expenditure

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

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

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

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

(a) "spend to save" projects;

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

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

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

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

11. Planning

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

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

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

12. Reserves and one-off risks

12.1 The Council risk assesses its need to hold reserves, which may be needed for sudden, unexpected spending pressures. The Council's policy has been to hold £5m of general fund and £1.5m of housing reserves at all times. These figures have, however, reduced as a proportion of the Council's gross budget.

12.2 Key risks facing the Council which require reserves are:

(a) sudden, unexpected events;

(b) uninsured claims against the Council;

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

(d) unanticipated departmental overspends.

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

(a) routine budget and project management;

(b) keeping of effective records;

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

12.4 Nonetheless, it is believed that the Council now faces greater risk than it did 5 years ago, and the Council will therefore aim to:

(a) increase general fund reserves from £5m to £7m by 2008/09;

(b) maintain housing reserves at £1.5m.

13. Other Specific Policies

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

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

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

Spending Assumptions

	2006/07	2007/08	2008/09
Pay Rises			
- Teachers	3.0%	3.25%	3.25%
- Other staff	2.95%	3.0%	3.0%
General Inflation	2.25%	2.5%	2.5%
Interest Rates			
- On new debt	N/A	5.0%	5.0%
- On invested cash	4.5%	4.5%	4.5%
Superannuation contribution rates			
- Teachers	13.5%	13.5%	13.5%
- Other Staff	15.0%	15.0%	16.2%

Departmental Planning Targets

	2006/07 £000	2007/08 £000	2008/09 £000
Dept'l Planning Totals (DRS)			
Chief Executives	2,395.8	2,355.8	2,345.8
Education and Lifelong Learning	30,571.1	27,735.1	27,735.1
Housing	6,692.4	6,507.4	6,365.4
Regeneration & Culture	55,826.1	53,364.1	52,609.1
Resources, Access & Diversity	15,516.9	15,105.9	15,105.9
Social Care & Health	94,567.4	93,747.4	94,247.4
Total DRS	**205,569.7**	**198,815.7**	**198,408.7**
Less Full Year Effect of 2005/06 Budget		(1,691.0)	(1,691.0)
Total	**205,569.7**	**197,124.7**	**196,717.7**

Note:
The Education & Lifelong Learning Budget reflects a credit balance for the schools block of £1,451.7k, which is the element of Dedicated Schools Grant required for non-controllable spend on the schools block

Annex C to
Appendix 1

Forecast Budgets, Balance Sheets And Cash Flows

Financial Indicator:	**Actual as at April 1st, 2005 £'000**	**Forecast at March 31st, 2006 £'000**	**Forecast at March 31st, 2007 £'000**
Balance Sheet Items			
Reserves: General fund Earmarked Revenue reserves Earmarked Capital reserves Housing Revenue Account	 7,625 36,313 10,679 4,495	 7,531 28,107 10,200 4,012	 6,648 27,214 3,631 2,878
Debtors (excl Bad Debt Provision)	66,402	62,500	60,500
Creditors	74,001	67,300	67,300
Long-term borrowing	235,758	323,895	323,895
Cashflow movements during year			
Increase/ (Decrease) in all borrowing	(12,065)	74,304	(1,657)

Changes between 2005/06 and 2006/07

	£m	£m	£m	
Net Budget 2005/06			**380.0**	
Plus spend supported by use of Reserves			1.8	
Budgeted Spend 2005/06			**381.8**	
Adjustment for Dedicated Schools Grant			(159.6)	
Adjusted Spend 2005/06			**222.2**	
Technical Changes:-				
Inflation				
- Pay	4.4			
- Other	1.5	5.9		
Pensions				
Landfill Tax / Rents		0.2		
Funding Changes		1.6		
Increase in Planned Borrowing Costs		1.8		
Rephasing Job Evaluation		0.5		
Energy Cost Increases		2.1		
Other		(0.4)		
			11.7	
Real Changes:-				
Social Services Ongoing Growth		2.5		
Budget 2004/05 – Full Year Effects		(0.6)		
Budget 2005/06 – Full Year Effects		(2.1)		
Fall out of one-off growth in 2005/06		(8.6)		
2006/07 Budget Savings		(0.9)		
Concessionary Travel		2.3		
Shadow Departments		0.4		
Provision for Change Management		1.5		
Building Schools for the Future		3.3		
Crime & Disorder		0.4		
			(1.8)	
Budgeted Spend 2006/07			**232.1**	
Less Contribution from Reserves			(0.9)	
Net Budget 2006/07			**231.2**	
Increase in Net Budget				4.9%

Appendix 3

Earmarked Revenue Reserves

	Year end Balance 2004/05 £'000	Forecast as at 31 March 2006 £'000
STATUTORY RING-FENCED RESERVES		
Schools Balances (Note 1)	(11,010)	(6,000)
Standards Fund Match Funding (Note 2)	(605)	(600)
LMS Contingency Fund (Note 3)	(1,690)	(1,690)
Secondary Review (Note 3)	(1,451)	(750)
Behaviour Support Plan (Note 3)	(175)	0
Supporting people grant (Note 4)	(1,553)	(1,600)
On Street Parking (Note 5)	(200)	(100)
Property insurance Reserve (Note 6)	(369)	0
TOTAL STATUTORY RESERVES	**(17,053)**	**(10,740)**
INSURANCE RESERVES	**(10,497)**	**(10,557)**
OTHER RESERVES		
Education:		
Departmental Reserve	(2,103)	(1,012)
PRC Reserve	(142)	(142)
Resources, Access & Diversity:		
IT Development Reserve	(600)	(498)
FSMT	(60)	(60)
Accountancy	(190)	(237)
VAT/TAX Reserve	(18)	(18)
Legal System Development	(85)	(85)
Audit Automation Reserve	(10)	(10)
Department Investment Reserve	(263)	(263)
Cost of Elections	(123)	(123)
Cashiers	(28)	(28)
Schools Buy-Back	(137)	(56)
Women into Management initiative	(33)	(24)
Central Maintenance Fund (CMF)	(236)	(448)
CMF Property Rationalisation	(123)	(58)
Housing:		
Tenant Support: Building Reserve.	(399)	(200)
Leicester Night Shelter	(539)	0
Housing Maintenance	(531)	(531)
Chief Executive's Office:		
Policy Initiatives Corporate Strategy	(12)	(3)
Lawrence Inquiry Corporate Equality	(1)	0
Regeneration and Culture:		

<u>**Appendix 3**</u>

	Year end Balance 2004/05 £'000	Forecast as at 31 March 2006 £'000
Commuted sums for maintenance	(23)	(21)
Asset Replacement Fund	(42)	0
Schools Buy-Back Fund	(203)	(20)
Community Cohesion Fund	(664)	0
Development Plans	(45)	(45)
Social Care & Health		
Milford Trust Fund	(109)	(109)
Butterwick House	(300)	(300)
Children's Services	(275)	(275)
Corporate reserves:		
Support Service Review	(400)	(325)
Wellington House Lease	(134)	0
Transfer to Job Evaluation Reserve	(744)	(1,744)
Payback Fund	(193)	(178)
TOTAL OTHER RESERVES	**(8,763)**	**(6,811)**
TOTAL - All Earmarked reserves	**(36,313)**	**(28,107)**

Note 1: Schools balances have always been difficult to forecast. The balances are ring-fenced by law to the Schools themselves, and they do not report their planned use of reserves during the year with any accuracy. The final transfers to/from reserves are dependent on the schools' outturn positions

Note 2: 'Funding runs for 17 months from April to the following August. A balance is carried forward at the year end to meet expenditure which occurs in the final 5 months

Note 3: These reserves have all been created from funds reserved to the Schools block

Note 4: Unspent balances against the Supporting People grant are ring-fenced and may not be used for other purposes

Note 5: 'In accordance with the Road traffic regulation act 1984 this fund can only be used for transport related objectives. Uses include the cost of On Street parking enforcement, supporting the local bus services, 'introduction of residents' parking, contributing to the cost of the Council taking over parking enforcement duties in the City and funding some of the staff operational costs in the Transport Development section

Note 6: This figure represents sums received from external insurers to fund the costs of specific building works

Appendix 4

EXTRACT

Leicester City Council

Minutes of the Meeting of the
HOUSING SCRUTINY COMMITTEE

Held: 12 JANUARY 2006 at 5.30pm

P R E S E N T :

Councillor Smith - Chair
Councillor Allen- Conservative Spokesperson
Councillor Bhatti- Labour Spokesperson

Councillor Keeling
Councillor Tessier
Councillor Joshi
Councillor Westley (for Cllr Lloyd-Harris)

Co-opted Member

Mr. George Narraway - Leicester Federation of Tenants' Associations

Also In Attendance

Councillor Metcalfe – Cabinet Link Member for Housing

* * *   * *   * * *

66. DRAFT REVENUE STRATEGY FOR THE HOUSING DEPARTMENT

The Corporate Director of Housing and the Chief Finance Officer submitted a report which gave details of the draft revenue strategy for the department which Cabinet had requested that Scrutiny comment upon. It was emphasised that the Strategy was still a draft and could be described as 'work in progress'.

It was stated that budgets were expected to remain under pressure for the duration of the three-year Strategy. It was also stated that pressures caused by not being able to meet all of the savings targets identified in the last financial year, the inability to make the Housing Options saving as it had not proved possible to identify and commission a suitable building and increased staff costs due to grading increases meant that the department needed to identify £384,000 of savings in addition to savings required by the three year budget strategy. In addition the department was affected by government cuts in monies for 'Supporting People' and Neighbourhood Renewal funding where the lack of mainstream funding meant that where grant was cut there must be cuts in service.

The Corporate Director of Housing also advised the Committee that the figures shown under Housing Efficiency Reviews on pages 18, 25 and 35 for reductions in Renewal and Grants should be amended down from £113,000 to £96,000.

Details were given of each of the proposed reduction items and of their likely impacts on service. An Equality Impact Assessment under the requirements of the Race Relations (Amendment) Act 2000 had been undertaken and the results were given.

In accordance with Scrutiny Procedure Rule 7b Dave Mitchell (UNISON) was invited to address the Committee.

Mr Mitchell stated that he had been briefed on the document and that there was nothing included in the Strategy of which he had been unaware. However he expressed concern that the moves envisaged under the review of Centrally Located Administrative Buildings had not been carried out due in spite of the work completed within the Housing department which was creating a budget pressure for the department and meant that staff had to work in inadequate conditions. He also referred to the success of the home working project and suggested that it was important to keep the situation regarding asylum seekers under review and that he believed that any cuts in future years would seriously affect front line services

Members expressed serious concerns regarding the non-completion of the moves envisaged under the review of Centrally Located Administrative Buildings and the budget pressures and accommodation difficulties this was presenting to the department. In response it was confirmed that the Housing department had completed all the works necessary to complete their moves but delays were occurring in relation to other components of the process due to the complexity of the review. It was also stated that rigorous checks were made of asylum seekers and much work had been done to address incorrect rumours of preferential treatment for asylum seekers in the community.

Members referred to the home working project and the gains in productivity that had been achieved and the potential reduction in costs this could bring.

RESOLVED:

(1) That the revised draft Revenue Strategy be noted; and

(2) That the concerns of the Committee relating to the non-completion of the moves envisaged under the review of Centrally Located Administrative Buildings (CLABs) and the budget pressures and accommodation difficulties this was presenting to the department be referred to Cabinet and the Resources and Equal Opportunities Scrutiny Committee.

Leicester City Council

Appendix 4

MINUTE
EXTRACT

Minutes of the Meeting of the
RESOURCES AND EQUAL OPPORTUNITIES SCRUTINY COMMITTEE

Held: THURSDAY, 12 JANUARY 2006 at 5.00pm

P R E S E N T :

Councillor Willmott - Chair
Councillor Renold – Liberal Democrat Spokesperson
Councillor Porter – Conservative Spokesperson

Councillor Hunt
Councillor Kitterick

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72. DECLARATIONS OF INTEREST

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

There were no declarations.

78. DEPARTMENTAL REVENUE STRATEGIES

The Chief Finance Officer submitted a report seeking the views of the scrutiny Committee on a draft corporate revenue strategy from 2006/7 to 2008/09 and summaries of the present departmental budget proposals. The Committee's views were also sought on the detailed draft revenue strategy for the Resources and Chief Executive's Departments.

The Chair thanked Officers for putting together the budget reports in time for the meeting.

A Member queried what the required Council Tax increase would be if all the budget proposals were carried out as detailed in the report and how many more savings would be required to achieve a 2.5% council tax increase. The Chief Finance Officer commented that the budget was currently work in progress. However if the budget remained exactly as per the current proposals and no additional savings were achieved a council tax increase of 4.75% would be required. Further savings of £1.715 million would be required to achieve a council tax increase of 2.5%.

78. DEPARTMENTAL REVENUE STRATEGIES

A query was raised about whether there was a strategy for the proposed three million pounds worth of management reductions in the Regeneration and Culture Department. The Chief Finance Officer stated that a report would go to Cabinet prior to the budget being approved by Council.

Concern was expressed about the lack of detail on the budget proposals and it was felt that members could not know whether the proposals were politically acceptable.

Members felt that it needed to be ensured that Officers were clear that they could deliver savings when services were being reviewed. Concern was expressed about the deliverability of some savings.

On the Resources, Access and Diversity and Chief Executive's Departmental Revenue Strategies the Committee made the following comments.

It was noted that there were mostly modest savings being proposed in the RAD DRS, but it was noted that there was a high level outstanding savings from the previous year. It was therefore queried whether there had been a failure to achieve previous savings and whether it would be possible to make sufficient savings this year. The Town Clerk commented that the outstanding savings were previously agreed to be made in the current year and represented no failure to make savings. These savings were previously budgeted separately as part of various service reviews but have now been included in the RAD budget.

With regard to the merger of the Resources, Access and Diversity (RAD) Department and Chief Executive's Department, a concern was expressed that savings from this were in the budget and it had not been formally announced. It was also felt that there was potential for further savings and these should be proposed from the start. The Town Clerk commented that the merger had been announced to staff following discussion with Cabinet Lead Members. The savings he expected from the merger were as detailed in the report, but he expected further savings to be achieved from the Business Improvement Programme.

A comparison was made between the RAD department and Regeneration and Culture Department (R&C) with regard to the management savings that were being proposed. It was noted that bigger reductions were being proposed in the R&C Department. The Town Clerk commented that there were costs associated with redundancy and he was hoping to absorb these costs and reduce management over a sensible time-frame by planning his management reductions over a 2-3 year period.

One Member of the Committee expressed the view that he felt that moving Councillors and supporting services to the Town Hall was a good idea and it should be progressed as soon as possible. The Town Clerk requested that members provide guidance on how to proceed with this matter as soon as possible.

78. DEPARTMENTAL REVENUE STRATEGIES

RESOLVED:

(1) that the Committee notes that the council tax increase would be 4.75% to balance the budget based on the figures presented and that this was nearly double inflation what was proposed in the budget strategy;

(2) that the Committee notes that to achieve a 2.5% council tax increase would require a further £1.715 million of savings;

(3) that the Cabinet should ensure they have sufficient information to satisfy themselves about the deliverability and political acceptability of the proposals;

(4) that Cabinet needs to ensure that efficiency savings are genuine and that they would not affect frontline services;

(5) that specific undertakings should be sought from officers that savings in the budget can be achieved;

(6) that the Committee rejects out of hand the proposed reductions to school crossing patrols;

(7) that this Committee is to consider the views of all the other scrutiny committees prior to the budget being approved; and

(8) that the Committee requested to see a comparison of senior management savings across all departments of the Council for the three year period of the budget.

Leicester City Council

Appendix 4

Extract from the Minutes of the Meeting of the
SOCIAL SERVICES SCRUTINY COMMITTEE

Held: WEDNESDAY, 18 JANUARY 2006 at 5.00pm

P R E S E N T :

Councillor J. Blackmore - Chair
Councillor Mrs. Chambers (Conservative Spokesperson)

Councillor Dempster Councillor Nurse

Also in Attendance

Councillor Gill – Cabinet Member for Social Care and Health

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37. DECLARATIONS OF INTEREST

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

Councillor J. Blackmore declared a non-prejudicial interest as a member of the Leicester City West Primary Care Trust in respect of Minute 46 (Local Improvement Finance Trust (LIFT) and Joint Service Centres).

38. MINUTES OF PREVIOUS MEETING

RESOLVED:
that the Minutes of the meeting held on 2 November 2005, having been circulated, be agreed as a correct record.

39. PETITIONS

The Town Clerk reported that no petitions had been received in accordance with the Council's procedures.

40. QUESTIONS, REPRESENTATIONS, STATEMENTS OF CASE

The Town Clerk reported that no questions, representations or statements of case had been submitted in accordance with the Council's procedures.

44. DRAFT REVENUE STRATEGY FOR THE SOCIAL CARE AND HEALTH DEPARTMENT

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

The Interim Corporate Director of Social Care and Health gave a presentation on the Social Care and Health Budget 2006/07 – 2008/09 that set out the budget timetable and identified the sectors within the department where the money had been spent in 2005/06. To put the Budget into context the current performance of the department was highlighted against the anticipated national and local issues during 2006/07 that would impact on the budget, including the formation of the two new departments, as well as the themes identified for the department to focus on during the coming year.

The Committee were informed of the breakdown of the anticipated £7.8m additional funding proposed against the proposed reductions and additional income of £6.3m that resulted in a total of £1.5m of savings to be identified. Details of the charges for services were detailed, including those charges that were to be unchanged, those that were to be removed as well as the charges to be increased.

In concluding, the Interim Corporate Director reported how the proposed £128m gross 2006/07 budget would be spent and stated that there would be very limited scope to further reduce services without very serious implications for vulnerable people. The budget proposals outlined in the report would enable existing services to be maintained, with developments in some areas.

With the sanction of the Committee a representative from UNISON addressed the meeting and stated that the Trades Unions had concerns regarding the proposed plans for Mayfield Family Centre and of the proposed re-location of services from that Centre. The City Council was facing increasing pressures to undertake more for less money, the recent Gershon review savings were likely to result in a reduction of support services, but the City Council had little control over some of the proposals as Government had imposed them. The one area of income that the City Council was able to exercise control was the setting of Council Tax and the expectations were to keep increases at or below inflation. Rather than create an additional financial pressure on the City Council the Trades Unions were generally of the opinion that an above inflation increase of Council Tax be implemented, with a full and detailed explanation being given to City residents outlining the full extent of services the City Council was able to offer for the tax levied.

The Committee considered the Budget proposals in great detail and sought clarification on a number of issues relating to items identified within the revenue section of the budget and of proposals relating to the re-location of services from Mayfield House to Barnes Heath House. Members were informed that the proposals identified had been researched thoroughly and that, regarding Mayfield House, full consultations were to take place with Trades Unions and

44. DRAFT REVENUE STRATEGY FOR THE SOCIAL CARE AND HEALTH DEPARTMENT

staff to ensure that sufficient capacity for disabled children was provided across the City whilst making better use of the existing facilities available.

The Committee questioned why the budget had been put forward as one department, when the two new departments, Children's Services and Adult Services, were due to come into being as from 1 April 2006. Officers reported that work was still progressing on creating the two departments although the allocation of functions was now almost complete. A decision had been taken to complete the budget for the existing Social Care and Health Department, although there was a provision of £400,000 in the City Council budget to cover the initial cost of change to set up the two new departments.

RESOLVED:

1) that the Scrutiny Committee welcomes the growth items contained within the Draft Revenue Strategy for the Social Care and Health Department,

2) that Cabinet be informed of the Committee's concern at the potential impact on front line services resulting from the proposals in the Social Care and Health department budget,

3) that the Committee is concerned that the three year Budget Strategy does not take into account the re-configuration of the Social Care and Health Department into two new departments with effect from 1 April 2006,

4) that the Committee is concerned that the reductions identified within the resources section are to be included within the Business Improvement Programme, and therefore not part of this Budget Strategy,

5) that the Committee is concerned that the two new departments may contain services that will not be fully funded,

6) that the Committee notes the concerns expressed by the Trade Union representative,

7) that the Committee is concerned that further savings might be required outside of the Budget Strategy presented, and also outside of the Scrutiny process,

8) that the Committee expresses a view that the proposed increases to the hourly charge from £6 to £8, and the maximum weekly charge from £175 to £200, for Home Care services is excessive.

9) that the Committee requests that the proposals relating to the Mayfield Family Centre are removed from the budget

44. DRAFT REVENUE STRATEGY FOR THE SOCIAL CARE AND HEALTH DEPARTMENT

Strategy, until the further consultations and work necessary relating to the proposals have been carried out,

10) that a further report be brought back to the Committee on the 2007/08 efficiency/restructuring savings relating to Lunch Clubs and Day Services, prior to the proposals being implemented.

11) that budget proposals in respect of – Discontinuance of Laundry Service and – Increased Income from Home Care Service, be reviewed.

50. CLOSE OF MEETING

The Chair declared the meeting closed at 8.36pm.

Leicester City Council

Appendix 4

MINUTE EXTRACT

Minutes of the Meeting of the
STRATEGIC PLANNING AND REGENERATION SCRUTINY COMMITTEE

Held: WEDNESDAY, 25 JANUARY 2006 at 5.30pm

P R E S E N T :

Councillor A. Vincent- Chair
Councillor Porter–Conservative Spokesperson

Councillor Henry	Councillor Dempster (for Councillor Thomas)
Councillor Renold	Councillor Willmott (for Cllr. Kitterick)
Councillor Waddington	

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78. DECLARATIONS OF INTEREST

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

Councillor Willmott declared a personal interest in Report A 'Draft Revenue Strategy for the Regeneration and Culture Department' as a board member of the East Midlands Development Agency. He also declared a personal interest in Report 'B', 'Employment Land Study' as a site near to his home address was raised during the discussion.

Councillor A. Vincent declared a personal interest in Report B1, 'New Business Quarter', as a member of the Development Control Committee, which was yet to give final consideration to a site which was named in the report.

82. THE REVENUE BUDGET STRATEGY OF REGENERATION AND CULTURE 2006/07 - 2008/9

The Corporate Director of Regeneration and Culture and the Chief Finance Officer submitted a joint report seeking the views of the Committee on the draft revenue strategy for the Regeneration and Culture Department.

The Corporate Director presented the report outlining the main features of the budget strategy.

The Chair welcomed Gary Garner, Branch Secretary from Unison. Gary addressed the meeting and made the following points:-

- He queried why such drastic efficiency targets were being made this year – was this just because of the promise to keep the Council tax low?

- He felt that informed decisions, with full details of the implications, should be made when making cuts.
- He felt the management reduction proposals were an insult to loyal staff.
- The recent four star grading was due to the hard work of frontline staff and it was difficult to see how this could be maintained with the proposed cuts.
- Morale of staff across the Council was low due to the proposed cuts.
- He feared that another situation like the lifelong learning review would occur with the current proposals.
- He had written to the Chief Executive expressing concerns about the procedure of the Regeneration and Culture review.
- He felt that the budget was pre-empting management reductions on which the decision were yet to be taken.
- Overall he felt that the aim of a low council tax would lead to a loss of frontline services.

Members gave consideration to the proposals to make management reductions totalling £3.7 million. It was felt that the report gave no indications about the implications to services of these reductions. There were also concerns about the financial detail behind the figures and the fact that the details in the report were still a ‘work in progress’. It was queried where these cuts would be made. It was further felt that such reductions would reduce the Council’s capacity to regenerate the city and to address the various other problems which the city faces. There was no detail on the negative aspects arising from these reductions. Members probed in detail the figures in the report and the process that the review would take. The Corporate Director of Regeneration and Culture explained that it would be difficult to provide detail at this stage because consultation with staff was ongoing. Once the first stage had been undertaken and Service Director’s were in post, then they would be given a brief for the savings required for their divisions and possible areas they could be made. The Corporate Director indicated that there could be an affect to frontline services but rather than reductions to services they would be delivered differently, ie from different locations or by bringing together teams which are based on separate sites.

Concern was expressed about the increase to crematorium charges. The Corporate Director commented that while she would prefer to keep charges lower the service was facing increased costs such as land. The service currently offers income related discounts, and will continue to do so.

A member of the Committee commented that he welcomed the savings proposals. He did however comment that services of value and quality should still be delivered. He also commented that the savings shouldn’t be used as an excuse for reductions in services, which Councillors weren’t made aware of, unintended consequences, should be avoided. The Corporate Director said that it wasn’t possible to predict all unintended consequences, but where issues came up they would be discussed with Cabinet Lead Members as early as possible. The proposals were intended to retain existing frontline services but it was noted that growth in service delivery couldn’t be accommodated. Members requested that it be ensured that where unintended consequences arise, that ward members are informed as soon as possible.

There was disagreement in the Committee about whether the previously proposed reductions to the festivals programme would have gone ahead.

Members asked questions on the following issues. The percentage increase in crematorium charges; the cost of the discount to Braunstone residents at Braunstone Leisure Centre; additional income to be generated by increased pre planning enquiry charges; the possibility of additional / Sunday markets for crafts and antiques; the costs associated with agency staff; the potential sale of underused museum exhibits; costs associated with festivals and events; the sale of the Haymarket car park, profits associated with the Bursom ball mill waste facility; increases to parking fees and the savings associated with co-locating staff. The Corporate Director responded to these queries with the exception of the percentage increase in crematorium charges and additional income generated by pre planning enquiry charges; she undertook to inform the committee about these details.

Members of the Committee then considered in further detail the proposed reductions in management in the department. It was generally agreed that more detail would be required on the budget lines 24-27 on management reductions. Members of the Committee were keen to avoid the difficulties which previous savings reviews such as the transport review, had faced. Members disagreed on the reasons for these difficulties. Some felt it was a failure of management others felt that Councillors avoided taking difficult decisions. The Corporate Director explained that there were difficulties in providing more detail as staff reviews were governed by a protocol, but she thought that it may be possible to present more detail to members at the February 15 meeting.

RESOLVED:

> that the Committee requests a report providing greater detail on budget lines 24,25,26& 27 relating to management reductions, the report should seek to provide indications of the possible effects of these reductions.

Leicester City Council

Appendix 4

MINUTE EXTRACT

Minutes of the Meeting of the
RESOURCES AND EQUAL OPPORTUNITIES SCRUTINY COMMITTEE

Held: THURSDAY, 2 FEBRUARY 2006 at 5.00pm

P R E S E N T :

Councillor Willmott - Chair
Councillor Renold – Liberal Democrat Spokesperson
Councillor Porter – Conservative Spokesperson

Councillor Hunt
Councillor Karim
Councillor Kitterick
Councillor Thomas (for Cllr. J. Blackmore)

*** ** ***

86. DECLARATIONS OF INTEREST

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

There were no declarations.

91. CITY COUNCIL BUDGET

The Chief Finance Officer submitted a report which contained a draft version of the Council Budget Strategy and each departmental Draft Revenue Strategy. Comments of the Scrutiny Committees which had already considered their Draft Revenue Strategies were also circulated to the Committee.

The Chief Finance Officer noted representations had been made to the Government on the funding settlement. There had been a response to the concerns expressed about Building Schools for the Future funding and the "Capital Financing Adjustment". He did however note that the method of measuring population, about which we complained, would remain. Overall he noted that the there was approximately £500,000 more funding available in 2006/7 and £2million in 2007/07.

Members of the Committee identified a number of areas contained within the proposed budget which they felt were lacking in detail. Matters such as increased contributions to Area Committees, bridging the funding gap to ensure a 2.5% council tax increase and detail on rationalising of community settings in the Education and Lifelong Learning Departmental Revenue Strategy. Concern was also expressed about a lack of detail regarding the proposed management reductions in the Regeneration and Culture Department and the potential closure of the Mayfield Centre in the Social Care and Health Department. The Chief Finance Officer stated that he expected the final Cabinet version of the budget to have more detail and he said that the committee could comment further on the final version if they so desired.

Members expressed concerns about the perceived lack of external funding opportunities that were utilised by the Council. Examples such as potential funding for community libraries from the Learning and Skills Council were given. The Head of Financial Strategy commented that it wasn't currently possible to compare the Council's performance against other authorities. A group of officers were currently working together, looking to maximise external funding opportunities.

A member of the Committee noted the importance of officers being certain that they could deliver on proposed savings and that members shouldn't be made to face any unintended consequences.

Members of the Committee raised further concerns about the fact that they hadn't been given the final version of the budget to scrutinise prior to Cabinet. It was thought that there were potentially additional savings which would emerge later, and these hadn't faced scrutiny. A query was raised about the outcome of a department being unable to deliver on its savings. It was also noted that Officers had stated that they didn't know the implications to frontline services of certain savings when asked at other scrutiny committees. The Chief Finance Officer commented that he needed to be sure that there were no gaps in the budget when it was considered by Cabinet and Council. He said that he needed to be sure that savings were all specified for the current year and were achievable. Corporate Directors were expected to manage their budgets and not overspend. They also had to advise Cabinet on the deliverability of savings.

Committee Members then made reference to previous budgets where there had been uncertainty and where Councillors had voted on budgets without knowing the outcome of their decision. The result of this had been that budget decisions were reversed. It was therefore decided that the Committee would need to meet again to consider the final version of the budget prior to consideration by Cabinet. The Committee also agreed to move a formal resolution about the budgetary process.

RESOLVED:

(1) that the Committee protests to Cabinet and the Chief Executive about the Committee not being given full information and therefore not being able to scrutinise the budget properly; that Cabinet should start the budget process earlier; and that the process for the current year represented an abuse of the corporate timetable; and

(2) that the Committee hold a further meeting to consider the budget prior to its consideration by Cabinet.

Appendix 4

MINUTE EXTRACT

Aylestone, Eyres Monsell and Freemen Area Committee

RECORD OF MEETING

Held on Wednesday, 18 January 2006 at Aylestone Leisure Centre, Knighton Lane East

Present

Councillor Mark Farmer (Chair)

Councillor Nigel Porter, Aylestone;
Councillor Dean Ramsdale, Eyres Monsell;

*** ** ***

81. Declaration of interests

There were no declarations by Councillors.

89. City Council Budget Proposals

The Chair outlined for the meeting, the key points of the City Council's budget proposals for the forthcoming year. The main points of this were that the Council was planning to make significant efficiency savings, it was operating in an environment of budgetary restraint and a low Council tax rise was planned. It was also noted that further funding was planned for Area Committees.

Residents raised concerns about the proposals to cut woodwork classes at the Linwood Centre. Many felt that these classes, although they didn't lead to qualifications, would give people confidence to go on and achieve on courses which did lead to qualifications. It was noted that there were difficulties with health and safety, particularly with dust extraction and it would cost £9000 to remedy the situation. Concern was also expressed that the kiln had been closed down, also for health and safety reasons. It was agreed to put this forward as a public question. Members of the Committee indicated that they would support getting these classes reinstated.

Residents raised concerns about proposals for charging for early years groups. It was felt that the increase to £3.50 was too sudden and would be counter productive as it would put people off attending these groups. It was felt that a lower rise would have been preferable, as it would still allow more people to attend. The Chair in response pointed out that the Learning and Skills Council would pay the fees of those that couldn't afford them. He also stated that a common price across the city would make it fairer as prices currently varied considerably.

Residents pointed out a recent course called 'Cooking on Budget' which cost £75 for 10 weeks and pupils still needed to purchase their ingredients. They felt that this was too expensive.

Recommended Prudential Indicators

1. Introduction

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

2. Proposed Indicators of Affordability

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

	2005/06 % Estimate	2006/07 % Estimate	2007/08 % Estimate	2008/09 % Estimate
General Fund	3.84	7.89	10.66	12.70
HRA	16.59	18.18	18.68	18.62

The figures show a big increase in the general fund for 2006/07 because schools spending is no longer in the net revenue budget.

2. 2 The level of “unsupported” borrowing for the general fund:

	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
Unsupported borrowing brought forward	5,846	13,289	43,093	62,908
New Unsupported borrowing	8,207	32,979	26,463	2,000
Less Unsupported borrowing repaid	(764)	(3,175)	(7,648)	(4,687)
Total Unsupported borrowing carried forward	13,289	43,093	61,908	59,221

2.3 The level of “unsupported” borrowing for the HRA:

	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
Unsupported borrowing brought forward	6,000	17,760	23,040	23,830
New Unsupported borrowing	12,000	6,000	1,750	0
Less Unsupported borrowing repaid	(240)	(720)	(960)	(1,030)
Total Unsupported borrowing carried forward	17,760	23,040	23,830	22,800

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:

	2005/06 Estimate £	2006/07 Estimate £	2007/08 Estimate £	2008/09 Estimate £
Band D council tax (£1,033.91)	0.00	0.00	0.00	0.00
HRA rent (£47.02 2005/06, £49.56 2006/07)	0.28	0.14 *	0.51 *	0.57 *

* Based on 2006/07 average weekly rent of £49.56.

3. Indicators of Prudence

3.1 The forecast level of capital expenditure in 2005/06 and estimates of capital expenditure to be incurred for the period 2006/07 to 2008/09 (based upon the Council capital programme, and the proposed budget and estimates for future years) are:

	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
Education	23,777	29,400	51,400	66,600
Housing	12,800	9,732	8,970	9,346
Transport	11,073	11,800	17,000	17,000
Regeneration	15,670	18,000	28,000	4,000
Other	14,865	20,500	15,000	5,700
Total General Fund	78,185	89,432	120,370	102,646
HRA	35,068	27,598	21,610	19,484
Total	113,253	117,030	141,980	122,130

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

	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate	2008/09 £000 Estimate
General Fund	214,534	263,113	321,660	369,888
HRA	189,186	200,173	206,670	211,347

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

	2005/2006 £000 Estimate	2006/2007 £000 Estimate	2007/2008 £000 Estimate	2008/2009 £000 Estimate
General Fund Capital Financing Requirement - Supported Borrowing	201,245	220,020	259,752	310,667
General Fund Capital Financing Requirement – Unsupported Borrowing	13,289	43,093	61,908	59,221
Total General Fund Capital Financing Requirement	214,534	263,113	321,660	369,888

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

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

	2006/07	2007/08	2008/09
	£m	£m	£m
Borrowing	500	560	615
Other forms of liability	40	40	40

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

2006/07 £420 million
2007/08 £475 million
2008/09 £525 million.

4. Indicators of Sustainability

4.1 It is recommended that the Council sets an upper limit on its fixed and variable interest rate exposures for the period 2006/07 to 2008/09, as a percentage of the total debt net of investments, as follows:

	2006/07	2007/08	2008/09
	%	%	%
Fixed interest rate	120	120	120
Variable interest rate	45	45	45

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

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

4.3 The upper limit for principal sums invested for more than 364 days is £30 million for 2006/07 and subsequent years.

Schedule of Determinations

1. Orders for work, goods and services

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

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

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

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

2. Debt Write Off

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

3. Stocks and Stores

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

4. Inventories

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

5. Revenue Budgets

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

TABLE 1 : List of Trading Organisations

Department	**Service**
Housing	
	Housing Maintenance

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

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

TABLE 2: Surpluses which may be retained.

Department	**Sum permitted to be retained in full £'000**	**% of additional surpluses to be retained %**
Housing	N/a	100
Regeneration and Culture	N/a	50
Resources, Access and Diversity		50
- ICT & Customer access	150	
- Legal Services	100	
- Property Services	70	
- Financial Services	20	

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.

Appendix 7

Controllable Budget Lines

Chief Executive's office

Chief Executive's Office

Education & Lifelong learning

Directorate
Standards and effectiveness
Pupil and Student support
Lifelong learning and Community development
Policy & Resources division
PRC contingency

Note:

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

Housing

Private Sector Housing & development
Housing Options
Hostel & Community Care
Tenancy Support
Supporting People Funding & Administration
Housing benefits & Local Taxation
Miscellaneous Service Provision
Policy, Management & Support

Resources, Access and Diversity

Management & Corporate
ICT & Customer Access
Legal Services

Financial Services
Corporate Services
HR & Equalities
Property Services

Regeneration & Culture

Community Protection & Wellbeing
Cultural Services
Environment
Highways & Transportation
Regeneration
Resources

Social Care & Health

Adult & older people services
Children and Family services
Resources & Directorate
Youth Offending Service

Appendix 8

Treasury Strategy

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 27 January 2006, the Council's debt was £339 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 2004/2005 at a value of £1,600 million.

1.3 The Council also holds a lot of externally invested cash, which stood at £96 million as at 27 January 2006. These investments represent working cash balances (the extent to which the Council receives income before it has to pay bills) and the Council's reserves. The level of investments also reflects the proceeds of new loans taken in 2005/2006 to fund capital expenditure in 2006/2007.

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

1.5 This treasury management strategy details the expected activities of the treasury function in the financial year 2006/2007. The suggested strategy for 2006/2007 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. When loans are due to be repaid and how much it is likely to cost to refinance them at that time.

2. Current Portfolio Position

2.1 The Council's current debt and investment position is shown in the table below. Members are asked to note that the figures shown represent a snapshot at a single moment in time. The table excludes £41M of debt managed by the County Council on behalf of the City Council.

Treasury Position As At 27 January 2006	**Amount**	**Average Interest Rate %***
Fixed Rate Funding		
Public Works Loan Board	£219m	6.2
Stock	£9m	7.0
Market Loans	£96m	4.4
Variable Rate Funding/Temporary Loans		
Temporary Loans	£15m	4.4
Total Debt	£339m	5.6
Investments:		
Managed Directly In House	£93m	4.6
Total Investments	£93m	4.6

* Estimate for 2005/06

2.2 The £93M of investments includes net working capital: i.e. the cash flow benefit that derives from income receipts flowing in faster than payments are made, reserves and funds (e.g. the insurance fund). However, they also include the proceeds of loans raised in 2005/2006 in order to finance capital expenditure in 2006/2007 and 2007/2008. These loans were borrowed in order to take advantage of very low long-term interest rates, including some loans at an interest rate of 3.7%, the lowest rates seen since 1952.

3. Treasury Limits For 2006/2007

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

4. Prospects for Interest Rates

4.1 The Council appointed Sector Treasury Services as a treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Given that the Council has already borrowed all it needs for 2006/07, I have not provided a detailed commentary this year.

4.2 Overall it is expected that short-term rates have peaked at 4.75% and will fall in 2006.

4.3 The Council's primary source of long-term loans is the Public Works Loans Board (PWLB); a government body that lends money to local authorities at rates below normal levels. Longer term-term rates are currently around 3.8%, a rate not seen since 1952. This is unusually low and long-term rates are expected to gradually revert to more normal levels of around 4.5% to 4.75% during 2006.

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 2006/2007 requires consideration of the Council's capital financing needs for 2006/2007 and 2007/2008. 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 £64 million in 2006/2007 and £63 million in 2007/2008. New loans have been taken in 2005/2006 that meet the borrowing requirement for 2006/2007 and, also, part of the borrowing requirement for 2007/2008.

5.3 This being the case the main decision to consider in 2006/2007 will be whether to undertake further borrowing in order to prefund the unmet 2007/2008 borrowing requirement.

5.4 On the basis of the interest rates forecast described above it is not considered likely that we will borrow to meet the 2007/2008 borrowing requirements. However, the markets will be watched closely.

6. **Debt Rescheduling & Premature Repayment of Debt**

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

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 All rescheduling and premature repayment of debt will be reported to the Scrutiny committee, at the meeting following the rescheduling.

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

7. Investments

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

7.2 In February the Council had £96M of investments, a significant proportion of which represents the proceeds of loans taken in 2005/2006 to meet the 2006/2007 borrowing requirement. Accordingly these funds will be drawn down in 2006/2007 to fund capital expenditure in that year. This would reduce the investments down to a level of around £30M by the end of 2006/07. Approximately £10-£15M is considered likely to be required at any given moment and should be held on short-term deposit, and so the funds available for longer forms of investment will be limited.

7.3 It is proposed that our investment strategy will be to “lock into” attractive interest rates, when presented, for periods up to 15 months, provided this does not compromise the availability of cash to meet the 2006/2007 borrowing requirement.

8. Sensitivity of This Strategy

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

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

8.3 The interest rate assumptions upon which this strategy is based are stated above. Given the limitations inherent in any forecast it is appropriate to consider the action to be taken if these forecasts do not come to pass. Small changes in long term or short term rates will not require a major rethink of this strategy but may make long term borrowing attractive, in which case such decisions will be taken. Such a decision would mean borrowing our 2007/2008 requirements in advance. Additionally such changes may create opportunities for debt rescheduling. If, however, such changes were the result of a significant economic or political development it would probably be appropriate to revise the Council's Treasury Strategy.

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

9. Treasury Management Consultants

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

10. Leasing

10.1 The Council is likely to acquire equipment, principally vehicles, to the value of approximately £2-3 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 prudential borrowing. At present the difference between the two forms of funding is marginal, and, generally, prudential borrowing is more cost effective.

ANNUAL INVESTMENT STRATEGY 2006-2007

1. Introduction

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

1.2 The Investment Strategy states which investments the Council may use for the prudent management of its treasury balances during the financial year 2006/2007.

2. Investment Objectives & Authorised Investments

2.1 All investments will be in sterling.

2.2 The overriding policy objective for the Council is the prudent investment of its balances. The Council's investment priorities are
(a) the **security** of capital and
(b) **liquidity** of its investments.

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

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

2.5 The list of authorised investments is as follows:-

Short Term Investments

i. Term deposits for periods up to one year with credit rated deposit takers (banks and building societies) plus local authorities, UK nationalised industry, and UK statutory corporations.
ii. Forward deposits with credit rated banks and building societies for a period less than one year (i.e. an agreement to place funds on deposit from an agreed future date, provided that the termination date of the investment does not exceed 364 days from the date the agreement is made)
iii. Money market funds, or equivalent credit rated schemes whereby deposits are secured.

Longer Term Investments

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

vi. Deposits with unrated deposit takers (banks and building societies) but with unconditional financial guarantees from the UK government or credit rated parent institutions

3. **Security of Capital : The use of Credit Ratings**

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

Short Term Investments

i. For term deposits and callable deposits for periods of 1 year or less, a long-term rating of A, a short term rating of F1 and either an individual support rating of C plus a support rating of 3 or an individual support rating of D plus a support rating of 1

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

iii. For all of the above the maximum sum to be deposited with a counterparty is £13 million, except that this limit may temporarily be raised to £15 million for operational reasons (if market conditions made it difficult to invest the Council's cash balances). Where funds are deposited with both a parent organisation and one or more subsidiary organisation then they shall be treated as being one single counterparty for the purposes of these limits.

Longer Term Investments

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

v. For supranational bonds a long term rating of AAA.

vi. Deposits with unrated deposit takers (banks and building societies) with unconditional financial guarantees from the UK government or credit rated parent institutions; the parent guaranteeing the deposit is required to have the same credit rating as specified in (i) for deposits. No credit rating is required for deposits guaranteed by the UK government.

vii. For all of the above the maximum sum to be deposited with any counterparty is £7 million. Where funds are deposited with both a parent organisation and one or more subsidiary organisation then they shall be treated as being one single counterparty for the purposes of these limits.

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

3.3 Credit ratings will be monitored:

- All credit ratings for investments being actively used will be monitored monthly.

- If a body is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that body will cease.

- If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered and put to the CFO for approval.

4. **Investment balances / Liquidity of investments**

4.1 The minimum percentage of its overall investments that the Council will hold in short-term investments is 60%.

4.2 A maximum of £30m can be prudently committed to longer term investments (i.e. those with a maturity exceeding a year). This will be kept under review, as the use of investments to finance capital expenditure will reduce the level of investments.

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

5. **Investments defined as capital expenditure**

5.1 This Council will not use any investment which will be deemed as capital expenditure, other than investments in supra-national bodies.

6. **Investment Reports**

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

Forecast Budget Position 2006/07 – 2008/09

	2006/07 £000	2007/08 £000	2008/09 £000
Dept'l Planning Totals (DRS)			
Chief Executives	2,395.8	2,355.8	2,345.8
Education and Lifelong Learning	30,571.1	27,735.1	27,735.1
Housing	6,692.4	6,507.4	6,365.4
Regeneration & Culture	55,826.1	53,364.1	52,609.1
Resources, Access & Diversity	15,516.9	15,105.9	15,105.9
Social Care & Health	94,567.4	93,747.4	94,247.4
Less Full Year Effect of 05/06 Budget		(1,691.0)	(1,691.0)
Total DRS	**205,569.7**	**197,124.7**	**196,717.7**
Plus Other Dept'l Spending (Non DRS)			
Central Maintenance Fund	6445.7	6445.7	6445.7
Housing Benefits	487.8	487.8	487.8
Investment Portfolio	(2,943.1)	(2,943.1)	(2,943.1)
Highways Maintenance - funding extension	0.0	1,500.0	0.0
Building Schools for the Future	3,322.0	4,523.0	6,498.0
Corporate Budgets, Levies and Recharges	(2,815.2)	(2,203.8)	(2,455.2)
Capital Financing	17,165.0	21,471.0	22,906.0
Crime & Disorder	370.0	370.0	370.0
Energy Cost Increase	2,131.0	2,468.0	2,468.0
New Departments' Set Up Costs	400.0	0.0	0.0
Job Evaluation	1,500.0	3,095.0	3,188.0
Change Management Provision	500.0	0.0	0.0
Future Changes			
Inflation		6,789.5	13,687.8
Landfill Tax		159.0	321.0
Loss of Rent		300.0	600.0
Pensions			1,070.0
Planning Requirement		1,500.0	3,000.0
Less Business Improvement Programme		(3,100.0)	(4,100.0)
Total Forecast Spend	**232,132.9**	**237,986.8**	**248,261.7**
Less Use of Reserves	(882.9)	(193.8)	0
Total Forecast Net Budget	**231,250.0**	**237,793.0**	**248,261.7**
Forecast Resources	**231,250.0**	**237,793.0**	**243,851.0**
Surplus / (Gap)	0	0	(4,410.7)