

BUDGET REPORT OF THE CABINET

MEDIUM TERM FINANCIAL STRATEGY

Introduction

1. This report relates to the Cabinet's consideration of the 2006 Medium Term Financial Strategy (MTFS) which has the following four main elements:
 - 2006/07 revenue budget
 - 2006/07 to 2008/09 capital programme
 - 2007/08 and 2008/09 provisional revenue budget
 - Financial strategies and policies including the capital strategy, treasury management and annual investment strategy, financial performance indicators and reserves policy.

2. The Strategy will be updated and rolled forward each year at the budget setting time. This year the Strategy will also be reviewed in the summer following the publication of the comprehensive spending review (CSR).

3. Supporting this report are the following appendices (which are set out on pages B1 to B89 at the end of this Council Report booklet)

Summary Revenue Budget	Appendix A (Buff Paper)
Detailed Revenue Budget	Appendix B
Growth and Savings	Appendix C
Capital Programme	Appendix D (Green Paper)
Prudential Indicators	Appendix E
Capital Strategy	Appendix F
Risk Management Strategy	Appendix G
Reserves Policy	Appendix H
Reserves	Appendix I
Financial Management Performance Indicators	Appendix J
Council Tax and Precept	Appendix K
Three year revenue budget projection	Appendix L
Three year summarised budget pressures	Appendix M
Treasury Management Strategy and Annual Investment Strategy	Appendix N
Comments of the Scrutiny Commission and Scrutiny Committees	Appendix O

2006/07 Revenue Budget

4. The approach to the 2006/7 budget has been to maintain and where possible, enhance the investment in priority services whilst at the same time minimising the council tax increase. Given the poor government settlement this could only be achieved by continuing to make efficiency savings and targeted disinvestment from lower priority services.
5. The key features of the proposed budget are:
 - Unavoidable growth allowed for all services but mainly Waste Management and Social Services.
 - Provision for medium term corporate strategy priorities.
 - Cashable efficiency savings of 1½% for all Departments. Cashable efficiencies mean that the same quality and level will be provided but at a lower cost.
 - Reductions in lower priority services.
6. The budget takes full account of the draft Medium Term Corporate Strategy. This has recently been out to public consultation and is in the process of being amended to reflect the results of this and the contents of the Local Area Agreement. Amendments to the Corporate Strategy will be taken into account when the MTFS is updated in the summer.

Formula Grant

7. The final local government settlements for 2006/07 and 2007/08 were issued at the end of January. This is the first time local authorities have been given information relating to their allocations for more than one year. The Government included an additional £305m formula grant nationally and also plans to provide support of £800m. The details of this support are still unclear but it is likely that it will be a combination of additional funding and reduced spending pressures.
8. A new grant allocation method has also been introduced referred to as the 'four block model'. In this method Formula Spending Shares (FSS) have been replaced by a Relative Needs Formula (RNF). The Government's aim is to shift the focus solely to the level of grant cash increase received by local authorities rather than notional spending and council tax increases assumed within the current grant methodology. In addition, schools will be funded by the new Dedicated Schools Grant rather than through mainstream funding.
9. The formula grant for England will increase by 3% in 2006/07 and 3.8% in 2007/08. The increases for Leicestershire are 2% and 2.7% respectively, based on the ODPM like for like comparison (**the cash increase in formula grant in 2007/8 is only 0.8%**). In both these years the levels have been set at the floor increase for Education and Social Services authorities. Without this floor there would be a reduction in funding of 1.5% in 2006/07 and an increase of 1.1% in 2007/08. In total

17 counties received the floor increase in 2006/7. Leicestershire County Council receives the fourth lowest formula grant per head of population in 2006/7, out of the 20 other counties that do not fund the fire service.

10. The new formula has significant redistributive effects over the medium term that the damping mechanism moderates in the short term. Over a number of years Shire Counties (particularly those in the South East) and outer London Boroughs lose out with Shire and Metropolitan Districts and Unitary Authorities (particularly those in the Midlands and South West) gaining.

Budget Consultation

11. The County Council has undertaken consultation on the provisional budget through a survey which was also sent directly to members of the Citizens Panel. The survey showed that over 80% of the 478 people who responded supported the County Council's approach to keep the council tax increases down and invest in quality services by reducing expenditure in some areas and continuing efficiency savings.

Results of Scrutiny Process

12. The Scrutiny Committees and Commission received reports on the revenue budget and capital programme proposals. Copies are available on request from Mr Pitt, telephone 2656034. The comments arising from the meetings of scrutiny bodies are attached as Appendix O to this report (pages B67 to B89).

Changes to the Budget Proposed in January

13. The changes now incorporated in the proposed revenue budget are set out below;
 - The formula grant has reduced by £142,000 following receipt of the final settlement.
 - The council tax collection surplus has increased by £138,000 reflecting the final figures received from the District Councils.
 - The council tax base has increased by £29,000 reflecting final figures received from the District Councils.
 - The bank and other interest income budget has increased by £300,000 and the financing of capital budget has increased by £100,000. These changes reflect the additional pre borrowing to finance the 2006/07 capital programme to take advantage of historically low interest rates.
 - Other minor changes totalling £20,000.
 - Changes announced in the Leader's Statement to the meeting of the Cabinet on 13 February 2006. (The statement is set out below for the convenience of members).

LEADER'S STATEMENT AND RECOMMENDATIONS

- "1 I would like to thank everyone for taking time to respond to the consultation on the budget. I take comfort from the fact that over 80% of the people who responded to the consultation supported our approach.*
- 2. We are faced with a very difficult financial climate. In the provisional grant settlement announced on 5 December last year the County Council was given minimum grant increases by the government for each of the next two years. The final figures are even worse with reductions in grant of £142,000 in 2006/07 and a staggering £852,000 for 2007/8.*
 - 3. In the light of this, I am unable to recommend a council tax increase which is lower than 4.5%. People expect a lower figure, but it is not possible given the poor government funding settlement and the fact that the cost of maintaining our excellent services outstrips headline inflation. My understanding is that most counties will have increases above 4.5%.*
 - 4. People should be in no doubt that the derisory increase of 0.8% in government grant for 2007/8 will have a severe impact on our ability to keep down council tax and protect vital services. I propose that we seek a meeting with the Minister for Local Government to put our case for additional resources.*
 - 5. In terms of next year, we have done the best we can given the 2% increase in government funding which in no way reflects the cost of maintaining services. Improved efficiency and other savings have allowed us to improve high priority services : social care, recycling, libraries and fulfilling our commitment to provide 50 additional Police Community Support Officers. I am also very pleased with a three year capital programme of over £200m. This will mean major improvements particularly for schools, roads and libraries.*
 - 6. Although I am confident the budget is basically very sound, I have carefully considered the views of the public and scrutiny, I propose the following changes to the 2006/07 budget:*
 - i) We put in additional resources for the following areas:*
 - lorry controls (£60,000) - to ensure better enforcement of 7.5 tonne weight restrictions given the considerable public concern about lorries using inappropriate roads*
 - communities (£60,000) - to allow the Council to develop its approach to working with communities and neighbourhoods*

ii) *We reinstate spending in the following areas:*

- *Community Plus (£610,000) to allow a review of the grant aid with the transfer of the budget into the most appropriate areas eg. the Shire Grants scheme*
- *Chief Executives – Rural budgets and community information (£40,000)*
- *Environmental maintenance – grass cutting (£50,000)*
- *Discretionary sports grants (£25,000)*

In terms of concessionary travel which is a district council responsibility I remain convinced that the districts have ample funding to retain and even enhance the present scheme without a subsidy from the County Council.

I propose that any further requests for community safety grants should be considered as shire grants.

I would also add, since it was discussed with me at Scrutiny and has been raised with me separately, that we are not proposing any reduction in the services offered by departments in regeneration activities. These savings proposals relate to administration and support services.

iii) *I am determined that the additional cost of £845,000, will not be passed on to the council tax payer. These costs should be met from:*

- *utilising the additional Council Tax collected this year and extra interest as reported to the Scrutiny Commission (£245,480)*
- *savings in the Education budget (£250,000)*
- *additional efficiency savings across the board (£142,000) to meet the further loss of government grant. This is on top of the £4m savings already in the budget.*
- *the balance being met from the Education underspend in 2005/06 carried forward (£207,520)”*

Schools

14. The government confirmed that most schools funding will come in the form of a ring fenced grant to local authorities to be known as Dedicated Schools Grant (DSG). This grant will continue to cover funding allocated directly to schools and funding that is retained by the local authority to support pupil led provision such as early years and excluded pupils.

15. The key elements of the Education settlement are;
- Minimum Funding Guarantee for schools budgets has been set at 4% for primary and 3.4% for secondary in 2006/07 and 3.7%, for all schools, in 2007/08. The DfES has calculated that those increases are sufficient to meet cost pressures schools are anticipated to encounter.
 - DSG includes funding streams targeted at DfES priorities including workforce reform, early years and personalised learning.
 - Overall the national increase in DSG is 6.4% in cash terms and 6.8% per pupil in 2006/07. In 2007/08 the increases are 6% and 6.7% respectively.
 - The indicative DSG for 2006/07 is £301.2m and £317.4m in 2007/08. Final allocations will not be known until the January 2006 pupil count takes place.
16. Leicestershire will remain the lowest funded local authority per pupil in 2006/07 and 2007/08. This is because DSG is based on the 2005/06 level of expenditure and the increases in funding per pupil of 6.7% and 6.4% respectively are below the national average over the two years.

Budget Summary

17. The proposed budget totals £281m excluding Dedicated Schools Grant of £301m. This represents an increase in net expenditure of 4.4%. Growth totals £14.5m and savings and additional income account for £10.2m. This increase in expenditure is financed by a minimum 2% increase in central government grant (after amending reports) and a 4.5% increase in council tax. The proposed 2006/07 budget is summarised in Appendix A, to this report (page B1 – buff paper).
18. The detailed budgets, excluding changes announced in the Leader's Statement, are set out in Appendix B to this report (pages B2 to B2 to B14).

Inflation and Other Changes

19. The budget is based on outturn prices and the following general inflation assumptions:-
- Pay @ 2.95%
 - Additional employers pension contributions @ 1.2% of pay
 - Running costs @ 2.5%
20. Overall inflation (excluding schools) is expected to be £7.7m. Where inflation exceeds the above figure this is shown as a growth bid.
21. The budget includes the full year effect of growth and savings decisions taken as part of the budget setting process in previous years and takes account of budget transfers.

Growth

22. In total £14.5m (net of certain specific grants and excluding schools) has been included in the budget to meet demand and cost increases, reduced income and for service improvements.
23. Details of growth items are shown in Appendix C of this report (pages B15 to B18). The main growth items are summarised below:
- The majority of the growth is required to meet demand and cost pressures. These pressures are concentrated within Social Services and Waste Management. In Social Services growth is mainly required to meet residential learning disabilities, independent home care and direct payments. Waste Management growth is required for recycling credits to district councils and a £3 per tonne increase in the landfill tax.
 - Service improvements total £2.6m and include improvements to the learning disability service, library service, additional police community support officers and household waste and recycling sites.
 - Resources have been allocated to offset reduced income (£3.6m). This is mainly as a result of the loss of specific grants within Social Services for residential allowance, safeguarding children and preserved rights.

Savings

24. The budget includes savings of £8.8m and increased income of £1.4m. Cashable efficiency savings total £4.2m and equate to 1½% of the budget. This is above the Gershon cash efficiency target of 1.25%. The annual efficiency statement produced by the County Council will highlight both cash and non cashable efficiencies which are required to total at least 2.5% of the budget. Non cash efficiencies mean that either a higher quality or volume of service can be provided with no increase in cost. Appendix C of this report (pages B15 to B18) shows the savings in detail.
25. The budget includes significant non-efficiency savings. In this context, lower priority services have been identified. These savings are required to restrict the council tax increase and enable investment in higher priority services. The main savings in this category relate to environmental maintenance, concessionary travel and bus service contracts.

Central Items

26. The main change is that bank and other interest has increased by £1.7m mainly reflecting higher cash balances. This continues the trend experienced in recent years. Capital financing costs are expected to increase by £3.6m to reflect the increase in the capital programme. This reflects both an increase in borrowing, in theory, 'supported' by central

government and 'unsupported' borrowing that is met by council tax. 'Supported' borrowing causes the County Council particular difficulties as the increase in formula grant is well below the extra cost of supported borrowing. As a result some of the cost of 'supported' borrowing is effectively met by council tax.

Corporate

27. The County Council is expecting additional one-off funding from both the performance reward grant for the Public Service Agreement and income from the Local Authority Business Growth Incentive (LABGI) scheme of £2m (£1m capital and £1m revenue) and £600,000 respectively in 2006/07. Further one-off funding is also likely to be received in 2007/08. These funds will be used to pump prime the new local area agreement (LAA) and also finance the Corporate Change Management Programme. The Programme is aimed at ensuring the County Council can deliver on the significant change agenda that includes a wide variety of projects including; access to services, delivering efficiency savings and improving procurement procedures. At present the programme is being developed and, as a result, existing and new corporate projects are being prioritised.

Capital Programme 2006/07– 2008/09

Capital Programme Resources

28. The following table sets out the expected capital resources available to the County Council. These include resources made available by the Government for the main programme areas, third party contributions and discretionary resources generated by the County Council (principally capital receipts).

	<u>2006/07</u> <u>£000</u>	<u>2007/08</u> <u>£000</u>	<u>2008/09</u> <u>£000</u>
<u>Central Government</u>			
Education Main Programme	32,971	39,845	37,604
Local Transport Plan	17,013	15,284	16,168
Social Services	410	410	410
<u>Third Party Contributions</u>			
Lottery	376	2	96
EMDA/LSEP	310	600	0
Other	865	225	600
Major Developer contributions	360	3180	180
<u>Capital Receipts</u>			
Forecast (including earmarked)	7,277	5,500	3,080
Unsupported borrowing	8,904	3,810	2,397
Other – Resources b/fwd from 2005/06	3,995	5,081	0
Total	72,481	73,937	60,535

29. The financing of the programme in 2006/07 to 2008/09 will require the Authority to enter into borrowing which is not (even in theory) supported by Government grant and has to be met from council tax. Over the three year period £15.1m of unsupported borrowing is expected to be required.
30. The key issue with respect to the Prudential Code is the revenue impact and affordability of borrowing. The projections below show the increase in the capital financing budget over the next three years.

	<u>2006/07</u> £m	<u>2007/08</u> £m	<u>2008/09</u> £m
Increase in the capital financing budget	3.7	1.7	0.9

31. The full programme of prudential indicators is shown in Appendix E of this report (pages B39 to B42). These indicators include scope to borrow to fund capital expenditure where existing budget provision is available to meet borrowing costs. This will, for example, enable the Authority to borrow rather than lease when this is financially beneficial to the Authority and there is existing budget provision.
32. The formula grant is expected to increase by £1.5m in 2006/07 and £0.6m in 2007/08 which is significantly lower than the increase in capital financing costs and explains, in part, the tight financial position of the County Council over the medium term. The lower increases in capital financing costs in later years reflect both decreasing levels of unsupported borrowing, the fact that central government support is shifting from supported borrowing to grant and that borrowing has been raised early. Over the three year period unsupported borrowing reduces from 20% of borrowing in 2006/07 to 10% in 2008/09.
33. Using improved Asset Management Planning, the County Council will seek to maximise capital receipts over the medium term in order both to minimise the need for prudential borrowing and to finance capital investment in priority services.

Capital Programme

34. The proposed programme is summarised in the table below and shown in detail in Appendix D of this report (pages B19 to B38 – green paper).

	<u>2006/07</u> <u>£000</u>	<u>2007/08</u> <u>£000</u>	<u>2008/09</u> <u>£000</u>
Education*	38,231	47,565	38,614
Highways and Transportation	20,763	17,214	17,298
Waste Management	1,430	1,100	1,400
Community Services	4,050	1,953	1,203
Social Services	2,983	1,375	370
Resources	2,402	3,415	1,170
Chief Executive's	160	100	100
Other Corporate	2,462	1,215	380
TOTAL	72,481	73,937	60,535

* Education resources includes devolved formula capital.

35. The programme reflects the draft priorities within the medium term corporate strategy and the capital strategy. The Capital Strategy is set out in Appendix F of this report (pages B43 to B46). The capital strategy the key priorities for the capital programme for the next four years and the overall approach to capital investment.

Education Programme

36. The Education Capital Programme will focus on five priority areas:-
- Completion of the replacement of intergrid schools. This includes meeting the cost in full of four schools and making a contribution to Enderby Brockington which is a Church of England (Voluntary Aided) school.
 - The outcome of the review of Education provision in the Vale of Belvoir and Melton Mowbray and the wider review of provision across the County is likely to have a major impact on the programme. At present £17.8m has been included for a new secondary school in the Vale of Belvoir to be funded by central government capital grant. As proposals are developed in response to these reviews the three year programme will be amended.
 - The next area special school (£10m) funded by central government targeted capital grant.
 - The development of a further 24 Children's Centres and further funds for the extended schools programme.
 - The ongoing programme to replace mobile classrooms.
37. The costs of many of the major 2007/08 and 2008/09 projects in the programme including the new secondary school, Children's Centres and the new area special school will be dependent on more detailed feasibility and design work. The programme is currently based on either available funding or a desktop estimate.

38. In addition to the main programme, devolved formula capital will increase by £2.2m to £11.3m. The majority of this increase (c.£1.7m) results from a reallocation by the DfES of Schools ICT infrastructure grant. These resources are allocated directly to schools, mainly on the basis of pupil numbers. This means a 1,200 place secondary school will receive £126,800 in 2006/07. A 240 place primary school will receive £31,600 in 2006/07.

Transportation

39. The key influence on the transportation capital programme is the second five year Local Transport Plan (2006 – 2011). The consultation period for the draft plan is due to end in the middle of January and the final version approved in March.
40. The provisional plan has been produced and assessed as 'promising' by the Government Office of the East Midlands (GOEM). This assessment, along with the assessment of the annual progress report (APR), is important as up to 25% of an authority's integrated transport block allocation is dependent on the quality and delivery of LTPs. As the County Council's APR has been assessed as 'excellent', the integrated transport block allocation is increased by 12.5% to £6.2m.
41. The majority of the LTP is for capital maintenance (£9.6m).
42. In total LTP funds of £15.9m have been allocated compared to £15.2m in 2005/06. A further allocation of £1.1m has been made for capital maintenance on the recently de-trunked A6 and A47.
43. The most significant project within the LTP is the park and ride scheme at Enderby. This is forecast to be completed by the summer 2010 at a cost of £9.2m. It will be financed by a combination of LTP, developers, prudential borrowing, City Council contributions and capital receipts.
44. The settlement does not include any funds for major transportation schemes. The East Midlands Regional Assembly is due to endorse a proposed programme in the middle of January in line with the new Government process of regional funding allocations. At this stage it seems likely that in the first five years the programme will include both the Earl Shilton by pass and Loughborough integrated transport scheme. This programme will then be considered by the Department of Transport. The capital programme will need to be amended to take account of any approved schemes later this year.
45. The programme also includes other schemes funded from capital receipts and prudential borrowing. This includes the advance design work for the Loughborough integrated transport scheme and Melton Mowbray bypass and street lighting column replacement.

Waste Management

46. The three year programme is aimed at improving household waste and recycling sites. The programme includes funding for completion of the improved site at Oadby, a new site at Sileby and funds, in 2007/08, to start work on improving one site from Lount, Melton Mowbray or Kibworth. A block allocation has also been included for general improvements to sites.

Social Services

47. The main focus of the programme continues to be progressing the learning disability review with new or upgraded facilities at Melton, Market Harborough, Hinckley, Lutterworth and North West Leicestershire. This is in addition to the new facilities in Wigston and Charnwood included in the 2005/6 programme.

Community Services

48. The programme continues to focus on both the refurbishment and replacement of libraries with new libraries planned at Earl Shilton, Leicester Forest East, Oadby, Kirby Muxloe, Braunstone and Mountsorrel over the next three years.
49. The programme also includes a £0.5m contribution for the extension of the Ashby Canal. This £13m scheme is heavily dependent on external funding that will be sought from the national lottery and other organisations over the next couple of years. The County Council's contribution is for advanced design work.

Resources and Chief Executive's

50. The main focus is continuing the development of ICT infrastructure to support the increasing number of services delivered to the public electronically. Resources have also been allocated to meet the Disability Discrimination Act requirement to improve access to County Council buildings.
51. Resources have also been allocated to meet the potential compensation in relation to the existing ESPO warehouse and expenditure arising as a result of relocation.

Other Corporate

52. A block allocation is included for the Corporate Change Management Programme in 2006/07 and 2007/08. The capital programme will be amended following the current review of corporate priorities as a result of the change management programme. This means that the current priorities for this capital funding (BABS, electronic and document records management system, contact centre and E.procurement) could change.

Robustness of Estimates and Adequacy of Reserves

53. The Local Government Act 2003 requires the Council's Chief Finance Officer to report on:
- a) The robustness of the estimates included in the budget; and
 - b) The adequacy of the proposed financial reserves.

Robustness of Estimates

54. The Director of Resources provides detailed guidance notes for departments to follow when producing their budgets. As well as setting out certain assumptions such as inflation, these notes set a framework for the effective review and compilation of budget estimates. As a result, all estimates have been reviewed by appropriate staff in departments. In addition, each Departmental Head of Finance has identified the main risk areas in their budget and these have been evaluated by the Director of Resources. In producing the budget, due account has been taken of the risk management strategy set out in Appendix G to this report (pages B47 to B49).

County Fund

55. The forecast balance on the County Fund at the end of 2005/06 is £8.5m, which represents 3% of the budget (excluding Dedicated Schools Grant). This assumes a £2m contribution from this year's underspend. At present it is assumed that the balance of underspend will be treated as carry forwards for services. The Supporting People grant in 2006/7 may be supplemented by a carry forward of underspend.
56. The policy continues to be to maintain a level of County Fund consistent with the risks faced by the County Council.
57. The main identifiable financial risks to the County Council over the medium term are:
- Demand led budgets overspending. In particular the waste management budget and social services budgets relating to residential and nursing homes, and children's residential placements and foster care.
 - Non achievement of capital receipts that are factored into the capital programme resources.
 - Non achievement of significant savings that are budgeted for in 2006/7 (£8.8m) and further savings in later years.
 - Non achievement of additional income that is assumed in 2006/7 (£1.4m) and later years. This is in addition to the significant contribution fees and charges already make to the budget. The interest on revenue balances income budget is sensitive to interest rate movements.
 - Continuing low increases in formula grant from Government.

58. In addition to these identifiable risks other unforeseen factors could result in significant financial loss.
59. If the County Fund exceeds the risk assessed level it should be used in the first place to fund non-recurring expenditure. In 2006/7 some limited revenue costs arising from restructuring may be met from County Fund. The policy for both the County Fund and earmarked reserves is set out in Appendix H to this report (pages B50 to B51).

Earmarked Reserves

60. Other reserves and balances have been reviewed. Appendix I to this report (page B52) gives the details. The expected balances as at 31st March 2006 and 2007 have been estimated. The extent to which the balances will be used in the medium term has also been estimated where possible.
61. There is obviously a great deal of uncertainty in terms of the expected movement on the balance of some reserves over the medium term. For example, one of the largest reserves is for Insurance. The amount that will be required to settle claims in any one year varies significantly and therefore it is not possible to project forward balances with any certainty.

School Balances

62. Local Management of Schools allows schools and colleges to retain their accumulated balances in relation to delegated budgets.
63. Balances carried forward from 2004/5 totalled £21.3m of which the uncommitted sum as analysed by schools under the consistent financial reporting requirements of the DfES, totalled £9.4m. This is an increase from the uncommitted balance of £8.4m at 31st March 2004.
64. In part as a response to DfES guidance on schools balances the Schools (Funding) Forum has recently approved a scheme to begin in the next financial year to restrict the level of the uncommitted balances to within certain limits over a three year period. Schools should not increase their level of uncommitted balances over this monitoring period, any such increase would be subject to a clawback arrangement.
65. Overall it is not expected that the level of uncommitted balances will change significantly over the next few years, as any possible clawback will not be operative until 2009/10.

Summary

66. Having taken account of the overall control framework, budget provisions included for inflation and growth to reflect spending pressures, assurance can be given that the estimates are considered to be robust and take account of the key factors that influence expenditure patterns.

67. Given the basis on which the budget is prepared, taking account of the main risks faced by the County Council, making an allowance for potential unforeseen eventualities and the continuing focus on financial control, the level of reserves including the County Fund is considered to be adequate.
68. The Cabinet and Resources Scrutiny Committee receive regular revenue and capital monitoring reports as well as budget and outturn reports and external audit reports. In addition, further financial governance reports are considered by both the Corporate Governance Committee and Constitution Committee. This reporting enables members to satisfy themselves about both the financial management and standing of the County Council. These reports will continue but will be supplemented by performance indicators and targets set out in Appendix J to this report (pages B53 to B54). The aim of reporting this additional information is to improve the already strong financial governance arrangements of the County Council.

Council Tax

69. The proposed budget for 2006/07 is based on a 4.5% Council Tax increase. This will result in Council Tax for a Band D dwelling increasing from £890.40 to £930.47.
70. The Government has made it clear that it expects average Council Tax increases to be less than 5%. It has been explicit in its threat to use its reserve powers to cap authorities that it considers have been excessive in their proposed Council Tax increase.
71. As a result of the introduction of the Dedicated Schools Grant over 70% of the budget will be met from council tax compared with around 35% in 2005/06.

Medium Term Position

72. This Medium Term Financial Strategy includes both a three year capital programme and a summarised three year revenue projection. The three year revenue projection is set out in Appendix L to this report (pages B56 to B57). Medium term planning has been helped by the ODPM issuing settlements for 2006/07 and 2007/08. Next year the ODPM plans to issue three year settlements following the 2006 comprehensive spending review. As stated earlier, the relatively low increase in formula grant of 2% in 2006/07 and 2.7% in 2007/08 (on an ODPM calculated like for like basis) and the prospect of a further 'floor' increase in 2008/09 means that the County Council will continue to operate within a very tight financial environment over the medium term. The final settlement received at the end of January shows a formula grant unadjusted cash increase in 2007/8 of only 0.8% or £0.6m which is a significant reduction on the consultation figures.

73. The Medium Term Corporate Strategy (MTCS) has been developed alongside this financial strategy and resources have been included for the key priorities including learning disability services, children's service, libraries and waste management. In addition to service investment included in the 2006/7 budget, which also feeds through into the 2007/8 and 2008/9 budgets, a further £0.5m has been included in both the 2007/8 and 2008/9 budgets. This will be used to address priorities in future years. A significant element of the investment in these and other services is taking place through the capital programme. The capital financing costs will therefore also be a significant budget pressure that will need to be restricted by maximising capital receipts, seeking external funding and partnership working.
74. The main demand and cost pressures over the medium term continue to be within Social Services and Waste Management. In Social Services they relate to home care and residential and nursing placements. The main pressure in Waste Management relates to the landfill tax and recycling costs. Other pressures include capital financing, employee increments, superannuation increases and the impact of traffic management legislation. Appendix M to this report (page B58) summarises the main service pressures anticipated to be faced by departments over the next few years.
75. One element of the County Council's Corporate Change Management Programme is to ensure the Council can continue to generate cash efficiency savings of circa 1¹/₄% (£3.4m) per annum. However, efficiency savings alone will be insufficient to deliver a reasonable level of council tax increase. Therefore at the same time lower priority service savings will need to be identified, building on those proposed in this year's budget. At this stage the following service areas have been identified as having potential to generate further savings: education transport, adult and community learning, residential care for older people, Social Services charging, regeneration and environmental action, family centres, support for the Ivanhoe Line, development control, grants, country parks, arts and outreach, money advice and library service for education. In 2007/8 and 2008/9 £1.5m has been included for lower priority savings. It is vital that work on reviewing these areas is progressed early in 2006/07.
76. The ability to generate efficiency and other savings underpins the aim to invest in priority services and at the same time aim to restrict the level of Council Tax increase in 2007/8 and 2008/9. The Council's Strategy with respect to income will be:-
- Continue to lobby central government for additional formula grant
 - Seek to maximise other external income for Council priorities
 - Optimise income from fees and charges within the context of the Council's objectives and priorities
 - Limit Council Tax increases

77. The provisional revenue budgets set out in Appendix L to this report (pages B56 to B57) assume a council tax increase of 5% in both 2007/08 and 2008/09. Though this reflects the very difficult financial position of the County Council in these years, as a result of a very poor settlement for 2007/08 with similar prospects for 2008/09 and rising demands and costs for key services, this is an assumption that will be revisited at key stages through the financial planning process.
78. The provisional revenue budget presented in Appendix L will be updated in the summer following the Comprehensive Spending Review. The main changes will be:
- The efficiency savings of c£3.4m per annum will be allocated to corporate projects and departments.
 - Unavoidable growth forecasts will be updated
 - The work to evaluate lower priority service savings will be reviewed.
 - Non recurring funding from LABGI and PSA revenue grant will be allocated to both the Corporate Change Management Programme and the LAA.
 - The contents of the Government's Comprehensive Spending Review will be reflected.
79. The Medium Term Financial Strategy underpins the corporate strategy and the future direction of the County Council. It is very much a "live" document that will be updated at regular intervals and in the future will include more detailed financial information on departmental budgets.

Annual Investment Strategy 2006/07

80. An Annual Investment Strategy must be approved in advance of each financial year by the full Council. Appendix N to this report (pages B59 to B66) sets out the combined Treasury Management and Annual Investment Strategy for 2006/07.
81. The range of investment options for which approval is sought is identical to those approved last year. The Treasury Policy Statement lays out the types of organisation to which the Council is authorised to lend, and approval is being sought to increase the maximum amount that the Council can lend to certain very highly credit-rated organisations. It is considered that this does not make a material difference to the negligible risk of default, and the changes have been supported by the Council's treasury management advisors. The increase in available balances for lending and the less active approach taken recently within the London Money Market by a number of acceptable counterparties has made this increase in limits a necessity if optimal performance is to be maintained.

Treasury Management Strategy 2006/07

82. Key elements of the Treasury Management Strategy can be summarised as follows:
- (i) Due to the historically attractive interest rates available for borrowing, the cash requirement for the majority of the 2006/07 Capital Programme has already been financed.
 - (ii) It is possible that no further borrowing will be undertaken in 2006/07, although if rates remain attractive consideration will be given to pre-financing at least part of the 2007/08 Capital Programme.
 - (iii) The attractiveness of interest rates will be the key consideration in any borrowing decision, although it is accepted that the current portfolio profile would benefit from the introduction of some medium (5-20 year) debt.
 - (iv) Going forward, it is likely that debt rescheduling exercises are more likely to save relatively small amount of money, but be carried out more regularly. This does not exclude the possibility of larger savings, but such savings would require a larger swing in interest rates than has been seen in recent years.
 - (v) Current very low long-term interest rates are considered to be an anomaly brought about by a demand/supply imbalance. This anomaly is ultimately expected to correct itself, although this will not necessarily happen quickly.
 - (vi) Borrowing and lending strategies must retain significant flexibility if long-term net interest costs are to be minimised.
 - (vii) The credit ratings of the institutions to whom the Council will lend remain very high, and the risk of default is considered to be negligible.

Equal Opportunities Implications

83. Many aspects of the County Council's budget are directed towards the needs of disadvantaged people. For example the capital programme includes provision for improved access to County Council buildings.

Consideration by Cabinet

84. The Cabinet's proposals for the revenue budget and capital programme were the subject of reports to Scrutiny Commission and the Scrutiny Committees, copies of which can be obtained from Mr. Pitt (telephone 0116 265 6034). The comments of Scrutiny Bodies are set out in Appendix O to this report (pages B67 to B89).

85. At its meeting on 13 February, 2005 the Cabinet considered its proposals further having regard to the views of scrutiny bodies and other developments. The recommendations of the Cabinet are contained in the motion which appears below.

(Motion to be moved

- a) That subject to the items below, approval be given to the recommended revenue budget for 2006/07 totalling £281,031,400, as summarised in Appendix A to the report of the Cabinet, which incorporates the detailed budgets set out in Appendix B and growth and savings set out in Appendix C thereto.
- b) That it be noted that the detailed budgets set out in Appendix B to the report of the Cabinet require adjustment to reflect the changes announced in the Leader's Statement to the meeting of the Cabinet on 13 February 2006.
- c) That the level of earmarked reserves as set out in Appendix I to the report of the Cabinet be noted.
- d) That the amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2006/07 be as set out in Appendix K to the report of the Cabinet;
- e) That the Chief Executive be authorised to issue the necessary precepts to billing authorities in accordance with the budget requirement above and the tax base notified by the District Councils, and to take any other action which may be necessary to give effect to the precepts.
- f) That approval be given to the medium term financial strategy and the approach to its future development.
- g) That approval be given to the 2006/07 capital programme as set out in Appendix D to the report of the Cabinet;
- h) That approval be given for planning and design purposes for the 2007/08 and 2008/09 programmes as set out in Appendix D to the report of the Cabinet subject to such arrangements the Council may make within the Financial Procedure Rules and Standard Financial Instructions to allow commencement before the planned programme year or the adoption of substitute schemes.
- i) That the financial indicators required under the prudential code set out in Appendix J to the report of the Cabinet be noted and that the following limits be approved.

	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Authorised limit for external debt			
i) Borrowing	402	412	420
ii) Other long term liabilities	<u>0.6</u>	<u>0.5</u>	<u>0.5</u>
TOTAL	<u>402.6</u>	<u>412.5</u>	<u>420.5</u>
Operational boundary for external debt			
i) Borrowing	382	392	400
ii) Other long term liabilities	<u>0.4</u>	<u>0.3</u>	<u>0.3</u>
TOTAL	<u>382.4</u>	<u>392.3</u>	<u>400.3</u>

- j) That the Director of Resources be given delegated authority to effect movement within the authorised limit for external debt between borrowing and other long term liabilities.
- k) That the following borrowing limits be approved for the period 2006/07 to 2008/09.
- i) Upper limit on fixed interest exposures 100%
 - ii) Upper limit on variable rate exposures 30%
 - iii) Maturity of borrowing

	<u>Upper Limit</u>	<u>Lower Limit</u>
	<u>%</u>	<u>%</u>
Under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- l) That the Director of Resources be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2006/07, subject to the above prudential limits.**
- m) The Treasury Management and Annual Investment Strategy, Capital Strategy and Reserves Policy set out in Appendices F, H and N of the report of the Cabinet be approved.)**

13 February 2005

D R Parsons
Leader of the Council

Background Papers

Report of the Director of Resources to the meeting of the Cabinet held on 13 February 2006 on the Medium Term Financial Plan.