



TITLE OF REPORT: Policy and Service Planning Cycle 2004/05 - Budget 2004/05

REPORT OF: Leslie Elton - Chief Executive
Derek Coates - Strategic Director, Finance and ICT

EXECUTIVE SUMMARY

This report represents the penultimate stage of the Policy and Service Planning Cycle 2004/05 in determining the budget and council tax level for 2004/05.

The council tax for 2004/05 will be the subject of a separate report to Cabinet on 24 February 2004.

Policy Context

1. The proposals in this report are consistent with the Council's vision and medium term objectives as set out in 'Towards 2010' and in particular ensure that effective use of the Council's resources is made in line with the Council's vision and its medium term objectives.

Consultation

2. Consultation on the budget proposals has taken place with trades unions, the public and local businesses and details of this will be reported to Cabinet on 24 February 2004.

Implications

3. The financial implications are outlined in Appendix 2.

Recommendations

4. The Cabinet is asked to:-
 - note the proposals outlined in this report;
 - note a further report will be presented to Cabinet on 24 February, together with a report on the council tax for 2004/05 for approval by a special meeting of the Council on 27 February 2004;
 - recommend to Council as part of the council tax setting process, the prudential indicators set out in this report.

- note the recommendations of Strategic Director, Finance and ICT in respect of the robustness of the budget and the adequacy of reserves.

APPENDIX 1

Background

1. Council agreed the base budget estimates for 2004/05 at its meeting on 23 January 2004. These were prepared in accordance with budget guidance agreed by Council on 19 December 2003.

Considerations

2. In preparing the budget for 2004/05, the following issues require consideration:-
 - the final Local Government Finance Settlement for 2004/05
 - the likely outturn for 2003/04
 - the base estimates for 2004/05
 - the Education budget for 2004/05 and the Government's requirements to passport increases in Education Formula Spending Shares
 - the implications of the budget proposals which have been subject to consultation with the public, trade unions and Chamber of Commerce
 - fees and charges which have been increased by 3% in line with budget guidance previously agreed by Council and will be the subject of a separate report to Cabinet on 24 February 2004
 - council tax capping
 - approval of prudential indicators following the introduction for 2004/05 of the Prudential Code for Capital
 - an assessment of the robustness of estimates and the adequacy of reserves.

The Final Local Government Finance Settlement Announcement 2004/05

3. The final Local Government Finance Settlement was announced on 29 January 2004. The Council's total Formula Spending Share (FSS) decreased by £243,000 from the provisional settlement. In addition, the Council's Revenue Support Grant (RSG) has decreased by £397,000.
4. This further decrease in RSG in the final settlement for 2004/05 is particularly disappointing, given that in the provisional settlement the Council received one of the worst settlements of all metropolitan districts. However the decrease in RSG is offset by the increased council tax base agreed by Council on 23 January 2004. The final settlement now leaves the Council with a grant increase of 4.2% which equates to £6.77m, of which £4.592m has been passported to Education.

5. The changes from the provisional settlement to the final settlement are as follows:-

	<u>Provisional</u> £m	<u>Final</u> £m
Formula Spending Share	221.989	221.746
Total Formula Grant	169.423	169.026
Made up of:		
i) Revenue Support Grant	116.150	115.756
ii) Non-Domestic Rates	53.273	53.270

2003/04 Outturn

6. The 2003/04 outturn is expected to be £232.286m as outlined in Appendix 2 and as reported to Cabinet on 20 January 2004. At this level of spending £5.849m balances will need to be used for 2003/04. Efforts will continue to be made to ensure that the outturn remains within original estimates.
7. It is estimated that at the end of 2003/04 £12m usable balances will be available to support future revenue spending.

2004/05 Estimates

8. Base estimates for 2004/05 prepared in line with Strategic Guidance were approved by Council on 23 January 2004 and totalled £243.919m. Changes described below result in a base estimate of £243.883m.

Education

9. Cabinet considered the base budget 2004/05 proposals for Education at its meeting on 20 January 2004. The Council had already agreed to fully passport the increase in Education FSS and this was reflected in the Education base budget of £107.259m.
10. The final settlement reduced Education FSS by £1,672. This results in a revised Education Base Budget of £107.258m for 2004/05 to satisfy the DfES passporting criteria for schools.

Other Services

11. Strategic guidance also agreed that the budgets for Social Services and Highways would increase by no more than the corresponding changes in the respective FSS. In the final settlement for 2004/05 the FSS for Social Services has decreased by £1,103 and Highways by £35,043, resulting in revised base estimates of £52.382m and £14.957m respectively.

External Funding

12. In the report on Strategic Guidance considered by the Council in December, Councillors were informed of the implications of the reliance on external funding.
13. The report referred to the significant number of externally funded schemes where funding will cease or taper in 2004/05 and 2005/06 which if not addressed could place the Council's overall financial position at risk.
14. The guidance agreed by the Council stated
"The cost of any expenditure on externally funded schemes (SRB, NRF etc) where the funding ceases or tapers, must be identified and where it is intended to continue the scheme, must be met by corresponding savings or alternative external funding".
This guidance has been broadly met in all services. The only exception is Social Services, where a shortfall of £0.6m is financed as part of the increase implied by the change in FSS.

Budget 2004/05

15. The Council's Budget for 2004/05 as detailed at Appendix 2 totals £243.883m, an increase of £11.6m (4.99%) on the current year. The Budget takes account of:-
 - passporting of £4.6m resources for Education;
 - increase of £5m for Social Services to reflect the change in FSS, including the continuation of externally funded schemes;
 - all growth offset by corresponding reductions
 - no budget reductions in addition to those required to offset growth.

Council Tax

16. The Council is currently awaiting notification of the precepts from Northumbria Police Authority, Tyne and Wear Fire and Civil Defence Authority and Birtley and Lamesley Parishes. The council tax position for 2004/05 will be the subject of a separate report to Cabinet on 24 February 2004. This report will also cover the issue of council tax capping.

Prudential Indicators

17. CIPFA's Prudential Code is a professional code of practice to support local authorities in taking decisions about capital investment. All local authorities are required to have regard to the Prudential Code under Part 1 of the Local Government Act 2003. The Prudential Framework for Local Authority Capital Investment comes into effect on 1 April 2004.
18. The key objectives of the Code are:-

- To ensure that the capital investment plans of local authorities are affordable prudent and sustainable;
 - To ensure that treasury management decisions are taken in line with good professional practice and in a manner which supports prudence, affordability and sustainability;
 - To ensure consistency with local strategic planning, asset management and option appraisal.
19. The Prudential Code sets out a range of prudential indicators that need to be agreed by the Council. In future years it would be the intention to consider the indicators in advance of the budget process. Given the timing of the legislation, most Councils are seeking approval of the indicators as part of budget setting in this first year.
20. In setting and revising prudential indicators, the Council is required to take account of the following issues:-
- affordability, including the impact on council tax;
 - prudence and sustainability;
 - value for money;
 - stewardship of assets and asset management planning;
 - service objectives;
 - practicality.
21. Appendix 3 to this report details the prudential indicators required under the Prudential Code for approval. The majority of these indicators relate solely to Gateshead Council. However there are some indicators which also include Northumbria Police Authority given the nature of the investments and borrowing undertaken on behalf of NPA by Gateshead Council under powers delegated to the Treasurer. In addition, the indicators at Appendix 3 exclude the Gateshead Housing Company. Once the Housing Company has been formally granted borrowing approvals, the indicators will be revised and submitted to Council for approval.

Adequacy of Reserves and Budget Estimates

22. The Local Government Act 2003 requires the Strategic Director, Finance and ICT to undertake an assessment of the robustness of budget estimates and the adequacy of reserves.
23. In assessing the robustness of the budget, the Strategic Director, Finance and ICT has considered the following issues:-
- the general financial standing of the Council;
 - the underlying budget assumptions, including an assessment of the estimates for pay and price increases;
 - a risk assessment of expenditure and income estimates;

- the future budget pressures faced by the Council; previously identified within the Council's Medium Term Financial Strategy which include financial pressures in respect of pensions, single status, insurance premiums and waste disposal and recycling.
 - the adequacy of the budget monitoring and financial reporting arrangements;
 - the adequacy of the internal control system within the Council;
 - the adequacy of reserves to cover any potential financial risks faced by the Council.
24. The Council's reserves and provisions are subject to continuous review. In estimating the level of reserves at 31 March 2004, the Strategic Director, Finance and ICT has taken account of known commitments for 2003/04 and the financial risks faced by the Council which could impact on the level of reserves. It is estimated that at 31 March 2004, the Council will have usable balances of £12 million.
25. The Strategic Director, Finance and ICT confirms that, taking account of these issues, the Revenue Estimates are considered robust and that the level of reserves is considered adequate to cover the financial risks faced by the Council.

Consultation

26. Consultation on the budget proposals has taken place with trades unions, the public and local businesses.

Alternative Options

27. There are no alternative options.

Implications of Recommended Option

28. **Equal Opportunities Implications – Nil**
29. **Crime and Disorder Implications – Nil**
30. **Environmental Implications – Nil**
31. **Human Rights Implications – Nil**
32. **Ward Implications – Nil**

APPENDIX 2

BASE ESTIMATE 2004/05

	Revised Estimate 2003/04 £m	Base Estimate 2004/05 £m
<u>Learning and Culture</u>		
Education	105.622	107.258
Leisure Services	7.673	7.957
Libraries and Arts	5.339	5.345
<u>Community Based Services</u>		
Social Services	50.646	52.382
Community Support	0.298	0.320
Housing – General Fund	4.453	3.728
<u>Development and Enterprise</u>		
Planning and Environmental Strategy	1.590	1.561
Transport Strategy	2.707	3.214
Building and Development Control	0.026	0.071
Commercial and Consumer Services	1.909	1.903
Property Services	0.830	0.877
Design	0.762	0.710
Highways and Construction	14.475	14.957
Economic Development	0.897	0.993
<u>Local Environmental Services</u>		
Cleansing	2.756	2.780
Waste Collection and Disposal	7.374	7.572
Open Spaces and Grounds Maintenance	5.160	5.329
<u>Central Services</u>		
Chief Executive, Legal & Corporate Services	3.570	3.519
Finance and ICT	1.967	1.598
Human Resources	1.873	2.010
Office Accommodation	2.623	2.642
Other Services	0.983	8.313
Total Council Services	223.533	235.039
Levies:		
- PTA	8.224	8.784
- Environment Agency	0.529	0.060
Total	232.286	243.883

APPENDIX 3

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2002/03 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:-

Capital Expenditure					
	2002/03 £000 Actual	2003/04 £000 Estimate	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
Non-HRA	63,812	65,188	56,534	32,236	32,236
HRA	14,188	14,370	17,585	17,547	17,547
Total	78,000	79,558	74,119	49,783	49,783

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2002/03 are:-

Ratio of Financing Costs to Net Revenue Stream					
	2002/03 Actual	2003/04 Estimate	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate
Non-HRA	6.26%	7.70%	5.82%	5.51%	5.11%
HRA	70.37%	76.54%	74.33%	74.12%	73.97%

The estimates of financing costs include current commitments and the proposals in this budget report.

3. Estimates of the end of year Capital Financing Requirement for the Council for the current and future years and the actual Capital Financing Requirement at 31 March 2003 are:-

Capital Financing Requirement					
	31.03.03 £000 Actual	31.03.04 £000 Estimate	31.03.05 £000 Estimate	31.03.06 £000 Estimate	31.03.07 £000 Estimate
Non-HRA	96,017	97,513	103,649	104,698	101,759
HRA	157,416	158,886	161,715	164,710	165,550

4. The Capital Financing Requirement measures the Council's underlying need to borrow for a capital purpose. In accordance with best professional practice, the Council does not associate borrowing with particular items or types of expenditure. The Council has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In contrast, the Capital Financing Requirement reflects the Council's underlying need to borrow for a capital purpose.
5. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following as a key indicator of prudence:-
- "In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of Capital Financing Requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years."*
- The Strategic Director, Finance and ICT reports that the Council had no difficulty meeting this requirement in 2002/03, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.
6. In respect of its external debt, it is recommended that the Council approves the following Authorised Limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long term liabilities. The Council is asked to approve these limits and to delegate authority to the Strategic Director, Finance and ICT within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option

appraisal and best value for money for the Council. Any such changes made will be reported to the Council at its next meeting following the change.

Authorised Limit for External Debt			
	2004/05 £000	2005/06 £000	2006/07 £000
Borrowing	373,000	376,000	373,000
Other Long term Liabilities	0	0	0
Total	373,000	376,000	373,000

7. The Strategic Director, Finance and ICT reports that these Authorised Limits are consistent with the Council's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Strategic Director, Finance and ICT confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account, as have plans for capital expenditure, estimates of the Capital Financing Requirement and estimates of cashflow requirements for all purposes. These limits include amounts in respect of Northumbria Police Authority.

8. The Council is also asked to approve the following Operational Boundary for external debt for the same time period. The proposed Operational Boundary for external debt is based on the same estimates as the Authorised Limit, but reflects directly the Strategic Director, Finance and ICT's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the Authorised Limit to allow, for example, for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The Operational Boundary represents a key management tool for in year monitoring by the Strategic Director, Finance and ICT. Within the Operational Boundary, figures for borrowing and other long term liabilities are separately identified. The Council is also asked to delegate authority to the Strategic Director, Finance and ICT within the total Operational Boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the Authorised Limit. Any such changes will be reported to the Council at its next meeting following the change. These limits include amounts in respect of Northumbria Police Authority.

Operational Boundary for External Debt			
	2004/05 £000	2005/06 £000	2006/07 £000
Borrowing	340,000	343,000	340,000
Other Long Term Liabilities	0	0	0
Total	340,000	343,000	340,000

9. The Council's (including that of Northumbria Police Authority) actual external debt at 31 March 2003 was £315 million comprising £315 million borrowing and no other long term liabilities. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary, since the actual external debt reflects the position at one point in time.
10. In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2004/05 (see paragraph 6 above) will be the statutory limit determined under Section 3(1) of the Local Government Act 2003.
11. A key measure of affordability is the incremental impact on the council tax as a result of the Council's capital and revenue plans. The Council is asked to approve these indicators.

The incremental impact on Band D Council Tax that would result for the council for 2004/5 from the totality of the capital and revenue plans recommended in this budget report is £1.57.

12. Forward estimates for the incremental impact on Band D council tax levels for 2005/06 and 2006/07 are £1.54 and £1.51 respectively. These forward estimates are not fixed and do not commit the Council. They are based on the Council's existing commitments, current plans and the totality of the capital and revenue plans recommended in this budget report. There are no known significant variations beyond this timeframe that would result from past events and decisions or the proposals in this budget report.
13. With respect to the Housing Revenue Account (HRA), the average incremental impact on weekly rent that would result for 2004/05 from the totality of the capital and revenue plans recommended in this budget report is £0.08.
14. Forward estimates for the incremental impact on housing rents for 2005/06 and 2006/07 are £0.09 and £0.09 respectively. Again, these forward estimates are not fixed and do not commit the Council. They are based on the Council's existing commitments, current plans and the totality of the capital and revenue plans recommended in this budget report. There are no

known significant variations beyond this timeframe that would result from past events and decisions or the proposals in this budget report.

15. In addition to the indicators that have already been calculated, the Prudential Code requires the Council to calculate and set five indicators in respect of the treasury management function.
16. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. However, if these indicators were set to be too restrictive, they will impair the opportunities to reduce costs.
17. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.
18. It is recommended that the Council sets an upper limit on its fixed and variable interest rate exposures for 2004/05, 2005/06 and 2006/07 as follows. The % figures is expressed in terms of net outstanding principal sums and includes amounts in respect of Northumbria Police Authority

UPPER LIMIT ON FIXED AND VARIABLE INTEREST RATES EXPOSURES						
Range	2004/05		2005/06		2006/07	
	£000's	%	£000's	%	£000'	%
Fixed Rate	116,246	177	119,487	175	117,333	179
	- 32,400	- 49	- 33,143	- 48	- 33,172	- 50
Variable	98,064	149	101,500	148	98,892	150
	- 50,582	- 77	- 51,130	- 75	- 51,613	- 79

19. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings including amounts in respect of Northumbria Police Authority as follows:-

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing including amounts in respect of Northumbria Police Authority that is fixed rate:-

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	60%	0%
10 years and above	90%	0%

20. There are no proposals for the Council to invest sums for periods longer than 364 days.