



**REPORT TO CABINET
15 February 2005**

TITLE OF REPORT: Policy and Service Planning Cycle 2005/06 - Budget 2005/06

**REPORT OF: Roger Kelly - Chief Executive
Derek Coates - Strategic Director, Finance and ICT**

EXECUTIVE SUMMARY

This report represents the penultimate stage of the Policy and Service Planning Cycle 2005/06 in determining the budget and council tax level for 2005/06.

Final budget proposals and the council tax for 2005/06 will be the subject of a separate report to Cabinet on 22 February 2005.

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 all Councillors, local people, trades unions, and representatives of the Tyne and Wear Chamber of Commerce. This will be considered in more detail at Cabinet on 22 February.

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 22 February, incorporating final budget proposals and the council tax for 2005/06 for approval by a special meeting of the Council on 24 February 2005;
 - recommend to Council as part of the council tax setting process, the prudential indicators set out in this report.

For the following reasons:-

- To fulfil statutory obligations.
- To allow progress to the next stage of the Policy and Service Planning Cycle for 2005/06.

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APPENDIX 1

Background

1. Council agreed the draft base budget estimates for 2005/06 at its meeting on 25 January 2005. These were prepared in accordance with strategic guidance agreed by Council on 16 December 2004.

Considerations

2. In preparing the budget for 2005/06, the following issues require consideration:-
 - the final Local Government Finance Settlement for 2005/06
 - the likely outturn for 2004/05
 - the base estimates for 2005/06
 - the Schools Budget for 2005/06 and the Government's requirements to passport increases in Schools Formula Spending Shares
 - the implications of the budget proposals for growth and savings which have been subject to consultation with all Councillors, local people, trade unions and Chamber of Commerce
 - fees and charges which have been increased by 3% in line with strategic guidance previously agreed by Council and will be the subject of a separate report to Cabinet on 22 February 2005
 - council tax capping
 - approval of prudential indicators for 2005/06

The Final Local Government Finance Settlement Announcement 2005/06

3. The final Local Government Finance Settlement for 2005/06 was announced on 27 January 2005. The Council's total Formula Spending Share (FSS) decreased by £390,000 from the provisional settlement. This, in turn, has reduced the Council's Formula Grant (Revenue Support Grant + National Non Domestic Rates) by £372,000.
4. The final settlement now leaves the Council with a grant increase compared to the 2004/05 settlement of 4.4%, which equates to £7.57m, of which £4.531m has been passported to Education.

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

	<u>Provisional</u> <u>2005/06</u> £m	<u>Final</u> <u>2005/06</u> £m
Formula Spending Share	234.096	233.706
Total Formula Grant	178.401	178.029
Made up of:		
i) Revenue Support Grant	114.740	114.368
ii) Non-Domestic Rates	63.661	63.661

The fall in FSS is due to revised data being used in the calculations and impacts mainly on the figure to reflect capital financing. The reasons for this are still being investigated with the ODPM. This reduction leads to a loss of grant.

2004/05 Outturn

6. The 2004/05 outturn is expected to be £244.782m as outlined in Appendix 2 and as reported to Cabinet on 25 January 2005. At this level of spending £6.646m balances will need to be used for 2004/05. Efforts will continue to be made to ensure that the outturn remains within original estimates.
7. The revised estimate for the current year assumes that the cost of the compensatory payments scheme in response to equal pay claims will be capitalised. The effect of this is taken into account in the report on the capital programme elsewhere on the agenda. If permission is not granted by Ministers for capitalisation powers, the revenue outturn will be around £7.5m higher than stated in this report. A decision on capitalisation has not been made yet
8. It is estimated that at the end of 2004/05, £12m usable balances will be available to support future revenue spending.

2005/06 Estimates

9. Base estimates for 2005/06 prepared in line with Strategic Guidance were approved by Council on 27 January 2005 and totalled £255.748m. Changes described below result in a revised base estimate of £255.740m.

Education

10. Cabinet considered the base budget 2005/06 proposals for Education at its meeting on 25 January 2005. The Council had already agreed to fully passport the increase in Education FSS and this was reflected in the Education base budget of £110.190m.

11. The final settlement reduced Education FSS by £7,526. This results in a revised Education Base Budget of £110.182m for 2005/06 to satisfy the DfES passporting criteria for schools.

Other Services

12. 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 2005/06 the FSS for Social Services and Highways remain unchanged.

External Funding

13. In the report on Strategic Guidance considered by the Council in December 2004, Councillors were informed of the implications of the reliance on external funding. The report referred to the significant number of externally funded schemes where funding will cease or taper in 2005/06 and 2006/07 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".
15. The impact of externally funded schemes has been incorporated into the savings and growth proposals to be considered by Cabinet on 22 February 2005.

Savings and Growth 2005/06

16. Consultation has been taking place on budget proposals in relation to savings and growth in line with Strategic Guidance. The final budget proposals arising from this exercise will be considered by Cabinet on 22 February 2005.

Budget 2005/06

17. The Council's Budget for 2005/06 before savings and growth as detailed at Appendix 2 totals £255.740m, an increase of £11.9m (4.86%) on the current year.

Council Tax

18. 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 2005/06 will be the subject of a separate report to Cabinet on 22 February 2005. This report will also cover the issue of council tax capping, which is expected to be much tighter for 2005/06 than the current year, with Ministers expecting average increases below 5%.

Prudential Indicators

19. 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 was introduced from 1 April 2004.
20. 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.
21. The Prudential Code sets out a range of prudential indicators that need to be agreed by the Council.
22. 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.
23. 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.

Consultation

24. Consultation on the budget proposals has taken place with all Councillors, local people, trades unions, and the Tyne and Wear Chamber of Commerce.

Alternative Options

25. There are no alternative options.

Implications of Recommended Option

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

APPENDIX 2

BASE ESTIMATE 2005/06

	Original Estimate 2004/05 £m	Revised Estimate 2004/05 £m	Base Estimate 2005/06 £m
<u>Learning and Culture</u>			
Education	107.258	107.928	110.182
Cultural Development	13.302	13.718	14.374
<u>Community Based Services</u>			
Social Services	52.382	55.376	56.532
Community Support	0.320	0.374	0.435
Housing – General Fund	3.728	3.828	6.258
<u>Development and Enterprise</u>			
Planning and Environmental Strategy	1.561	1.683	2.352
Transport Strategy	3.184	3.333	3.695
Development Control	0.123	0.199	0.210
Building Control and Private Sector Housing	0.025	0.022	0.067
Environmental Health and Trading Standards	1.825	1.759	1.980
Property Services	0.877	0.771	0.580
Design	0.710	0.775	0.946
Highways and Construction	14.987	15.286	13.280
Economic Development	0.993	0.999	1.103
<u>Local Environmental Services</u>	15.681	16.344	19.142
<u>Central Services</u>			
Chief Executive, Legal & Corporate Services	3.519	3.764	3.887
Finance and ICT	1.598	1.578	3.452
Human Resources	2.010	2.453	2.181
Office Accommodation	2.642	2.831	3.132
Other Services	8.313	2.917	2.821
Total Council Services	235.038	235.938	246.609
Levies:			
- PTA	8.784	8.784	9.056
- Environment Agency	0.060	0.060	0.075
Total	243.882	244.782	255.740

APPENDIX 3

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2003/04 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:-

<i>Capital Expenditure</i>					
	2003/04 £000 Actual	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate	2007/08 £000 Estimate
Non-HRA	64,960	77,029	65,743	43,800	35,085
HRA	14,783	17,585	18,863	17,527	17,443
Total	79,743	94,614	84,606	61,327	52,528

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2003/04 are:-

<i>Ratio of Financing Costs to Net Revenue Stream</i>					
	2003/04 Actual	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
Non-HRA	6.63%	6.41%	6.40%	6.80%	7.05%
HRA	76.49%	69.94%	66.54%	66.26%	66.05%

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 2004 are:-

Capital Financing Requirement					
	31.03.04 £000 Actual	31.03.05 £000 Estimate	31.03.06 £000 Estimate	31.03.07 £000 Estimate	31.03.08 £000 Estimate
Non-HRA	164,463	170,786	171,122	174,035	173,292
HRA	77,105	79,672	82,179	84,679	87,179

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 2003/04, 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			
	2005/06 £000	2006/07 £000	2007/08 £000
Borrowing	380,000	385,000	400,000
Other Long term Liabilities	0	0	0
Total	380,000	385,000	400,000

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			
	2005/06 £000	2006/07 £000	2007/08 £000
Borrowing	345,000	350,000	365,000
Other Long Term Liabilities	0	0	0
Total	345,000	350,000	365,000

9. The Council's (including that of Northumbria Police Authority) actual external debt at 31 March 2004 was £289 million comprising £289 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 2005/06 (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 2005/6 from the totality of the capital and revenue plans recommended in this budget report is £1.52.

12. Forward estimates for the incremental impact on Band D council tax levels for 2006/07 and 2007/08 are £1.53 and £1.54 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 2005/06 from the totality of the capital and revenue plans recommended in this budget report is £0.09.
14. Forward estimates for the incremental impact on housing rents for 2006/07 and 2007/08 are £0.08 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 2005/06, 2006/07 and 2007/08 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	2005/06		2006/07		2007/08	
	£000's	%	£000's	%	£000'	%
Fixed Rate	112,645	183	118,606	175	133,739	160
	- 12,143	- 20	- 12,172	- 18	- 12,201	- 15
Variable	73,828	120	80,060	118	95,544	115
	- 50,960	- 83	- 50,718	- 75	- 50,396	- 60

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:-

	Upper Limit	Lower Limit
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	40%	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.