

**TITLE OF REPORT: Policy and Service Planning Cycle
 Budget and Council Tax Level 2008/09**
**REPORT OF: Roger Kelly - Chief Executive
 Derek Coates - Strategic Director, Finance and ICT**
Purpose of Report

1. To request Cabinet to recommend to Council on 28 February 2008 the Council Tax level for 2008/09. As part of the council tax setting process, Cabinet is also asked to recommend to Council the prudential indicators set out in this report.

Background

2. The Council agreed the Medium Term Financial Strategy (MTFS) for 2008/09 to 2010/11 on 13 December 2007.
3. On 11 December 2007, Cabinet noted the responses from stakeholders to budget proposals produced in November 2007 for consultation.
4. On 15 January 2008, Cabinet agreed the Council Tax Base for 2008/09.
5. On 29 January 2008, Cabinet agreed the draft base budget for 2008/09 and received an update on the final local government finance settlement announced on 24 January 2008.
6. On 12 February 2008 Cabinet also considered proposed growth and savings for 2008/09 and recommended that Council should consider the proposals as part of the consideration of the budget and council tax level.
7. This report represents the final stage of the Policy and Service Planning cycle in determining the budget and council tax level for 2008/09.

Proposal

8. Despite a below inflation grant settlement, the report proposes a budget which provides for extra investment in services of £7.5m above the base budget and savings of £5.1m to realign to meet growth, resulting in a council tax increase of 3.9% for 2008/09. The overall council tax increase after police and fire precepts is 3.88%.

Recommendations

9. Cabinet is requested to make the following recommendations to the Council:
 - (1) That the growth and savings as set out in Appendix 2 be agreed.

- (2) The revised revenue estimates of £186.521m for the year 2007/08 and the revenue estimates of £214.462m for 2008/09 be approved.
- (3) The use of general reserves of £2.0m and earmarked reserves of £11.6m in 2008/09 be authorised.
- (4) That the recommendations of the Strategic Director, Finance and ICT in respect of the robustness of estimates and adequacy of reserves be noted.
- (5) That the prudential indicators set out in Appendix 5 to this report be agreed.
- (6) That it be noted that at its meeting on 15 January 2008, Cabinet calculated the following amounts for the year 2008/09 in accordance with regulations made under Section 33(5) of the Local Government Finance Act 1992:-
 - (a) 59,034 being the amount calculated by the Council, in accordance with regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as its Council Tax base for the year;
 - (b) Part of the Council's area 1,240
Lamesley Parish

being the amount calculated by the Council, in accordance with regulation 6 of the Regulations, as the amount of its Council Tax base for the year for dwellings in those parts of its area to which special items relate.
- (7) That the following amounts be now calculated by the Council for the year 2008/09 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992 ('the Act'): -
 - (a) £539,065,000 being the aggregate of the amounts, which the Council estimates for the items, set out in Section 32(2) (a) to (e) of the Act
 - (b) £338,229,000 being the aggregate of the amounts, which the Council estimate for the items, set out in Section 32(3) (a) to (c) of the Act
 - (c) £200,835,500 being the amount by which the aggregate at (a) above exceeds the aggregate at (b) above, calculated by the Council, in accordance with Section 32(4) of the Act, as its budget requirement for the year

- (d) £119,646,575 being the aggregate of the sums which the Council estimates will be payable for the year into its general fund in respect of redistributed non domestic rates, revenue support grant, additional grant or relevant special grant increased by the amount of the sums which the Council estimates will be transferred in the year from its collection fund to its general fund in accordance with Section 97(3) of the 1988 Local Government Finance Act, and pursuant to the Collection Fund (Community Charge) Directions under Section 98(4) of the Local Government Finance Act 1988 made on 7 February 1994
- (e) £1375.2909 being the amount at (c) above less the amount at (d) above, all divided by the amount at (6)(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its Council Tax for the year
- (f) £7,500 being the aggregate amount of all special items referred to in Section 34(1) of the Act
- (g) £1375.1639 being the amount at (e) above less the result given by dividing the amount at (f) above by the amount at (6)(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates
- (h) Part of the Council's area
- Lamesley Parish £1381.2123
- being the amounts given by adding to the amount at (g) above the amounts of the special item or items relating to dwellings in those parts of the Council's area mentioned above divided in each case by the amount at (6)(b) above, calculated by the Council, in accordance with Section 34(3) of the Act, as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate.

(i)

Valuation Band	Lamesley Parish £	All other parts of the Council's area £
A	4.0323	916.7759
B	4.7043	1069.5719
C	5.3764	1222.3679
D	6.0484	1375.1639
E	7.3925	1680.7559
F	8.7366	1986.3479
G	10.0807	2291.9398
H	12.0968	2750.3278

being the amounts given by multiplying the amounts at (g) and (h) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

- (8) That it be noted that for the year 2008/09, the Northumbria Police Authority and Tyne and Wear Fire and Rescue Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below: -

Precepting Authority

Valuation Band	Northumbria Police Authority £	Tyne and Wear Fire and Rescue Authority £
A	52.1811	47.7384
B	60.8779	55.6948
C	69.5748	63.6512
D	78.2716	71.6076
E	95.6653	87.5204
F	113.0590	103.4332
G	130.4527	119.3460
H	156.5433	143.2152

- (9) That, having calculated the aggregate in each case of the amounts at (7)(i) and (8) above, the Council in accordance with Section 30(2) of the Local Government Finance Act 1992, hereby sets the following amounts as the amounts of Council Tax for the year 2008/09 for each of the categories of dwellings shown below: -

Valuation Band	Lamesley Parish £	All other parts of the Council's area £
A	1020.7277	1016.6954
B	1190.8489	1186.1446
C	1360.9703	1355.5939
D	1531.0915	1525.0431
E	1871.3341	1863.9416
F	2211.5767	2202.8401
G	2551.8192	2541.7385
H	3062.1831	3050.0863

For the following reason:

- To fulfil the Council's statutory duty to set the budget and Council Tax for 2008/09

CONTACT: Derek Coates, extension 3582

PLAN REF: 281

Policy Context

1. The proposals in this report support the vision for Gateshead as set out in Vision 2030 and the Corporate Plan. The Medium Term Financial Strategy and budget proposals will ensure that resources are focused on the delivery of the Council's priorities.

Background

2. Council approved the MTFS 2008/09 – 2010/11 in December 2007. The Council's budget estimates for 2008/09 attached at Appendix 2 have been prepared in accordance with the MTFS framework. Reports on service estimates and growth and savings proposals were considered by Cabinet on 29 January 2008 and 12 February 2008 respectively.

Considerations

3. In finalising the budget and council tax for 2008/09, the following issues require consideration:-
 - principles of the Medium Term Financial Strategy
 - the final Local Government Finance Settlement for 2008/09
 - the likely outturn for 2007/08
 - updated base budget
 - proposals for growth and savings which have been subject to consultation with Councillors and stakeholders listed in paragraph 51 of this appendix
 - statutory requirements
 - reserves
 - risk assessment
 - council tax capping
 - approval of prudential indicators for 2008/09

Medium Term Financial Strategy

4. The MTFS is based on the following principles:
 - 1) The overall financial strategy will be to ensure that the Council's resources are directed to achieving the Council's six key priorities of:-
 - Building Stronger Communities
 - Empowering Children & Young People
 - Empowering Older People & Ensuring Healthier Communities
 - Improving Accessibility, Connectivity and Economic Prosperity
 - Serving our Customers
 - Ensuring a Sustainable Gateshead
 - 2) The Council recognises that it will not be able to continue to resource current levels of service without putting an extra burden on council taxpayers and will ensure that efficiency savings in non-priority areas are identified and redirected to priority areas.

- 3) Overall Council spending should be contained within original estimates. If, following monthly revenue monitoring, service budgets are projected to exceed original estimates, plans should be prepared setting out the actions required to ensure spending at the end of the year does not exceed original estimates.
- 4) The Council will maintain its general reserve at a minimum of 3% of its net budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the general reserve.
- 5) The Council will maintain earmarked reserves for specific purposes, which are consistent with achieving its key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFS and reviewed annually.
- 6) The Council will continue to improve its approach to efficiency, value for money and procurement. It will specifically ensure that targets for efficiency gains equivalent to 3% in cash per annum to the end of 2010/11 are identified, recorded and delivered.
- 7) The Council recognises the impact of increases in council tax levels in an area of relatively low income and low wealth (as measured by property values) and will balance the need for council tax increases against the delivery of the Corporate Plan.
- 8) The Council will use the service planning process to review its level of fees and charges annually to ensure they are set at an appropriate level in line with the six corporate priorities and take into account comparative levels of charge and ability to pay.
- 9) The Council will consider ways in which it can maximise its powers of well-being including the consideration of new charges to maximise income, and trading opportunities.
- 10) The Council will consider the use of prudential borrowing to support the capital programme implications of the delivery of its six corporate priorities and will ensure that the cost of borrowing is met from efficiency gains or the agreed use of earmarked reserves.
- 11) The Council will continue to contribute to reviews of the local government finance system, both in its own right and as a member of lobbying groups, such as ANEC and SIGOMA.
- 12) The Council will ensure that specific school resources earmarked in the Dedicated Schools Grant are distributed in line with the formula for Local Management of Schools and this distribution is regularly reviewed in conjunction with the Gateshead Schools Forum.
- 13) The Council's service planning process will inform the review of the MTFS on an annual basis. The annual review will include an update of the 3-year budget forecast.

- 14) Opportunities for securing external funding to support the Council's corporate priorities will be sought. The implications of the cessation or withdrawal of funding will also continue to be reviewed so that options can be considered on the future of funded schemes.
- 15) Opportunities for working in collaboration and partnership will be identified and developed where this will support the Council's corporate priorities and improve service efficiency and delivery.

Final Local Government Finance Settlement 2008/09

5. The final Local Government Finance Settlement for 2008/09 was announced on 24 January 2008. This confirmed the details previously announced in the provisional settlement in December 2007 and resulted in a marginal increase in grant of £145,000 due to minor data changes.
6. The final settlement gives the Council a grant increase compared to the adjusted 2007/08 settlement of 2%, which is a cash increase of about £2m. The Council's formula grant for 2008/09 is £102.533m. This grant increase of 2% is at the level of the 'floor' and compares to a metropolitan district average of 4.1%. In addition, the level of Dedicated Schools Grant for 2008/09 has been announced. This is estimated at £102.5m and is ring-fenced to schools spending. This estimate will be updated to take account of January school numbers before being allocated to schools.

Revised Estimate 2007/08

7. The agreed revenue budget for 2007/08 was set at £185.4m. On 29 January 2008 Cabinet received a report on projected spending taking into account performance to 31 December 2007. The 2007/08 projected outturn is consistent with this Cabinet report at £186.5m as outlined in Appendix 2. This represents an overspend of £1.1m (0.6%). Efforts will continue to be made through the delivery of action plans to ensure that the outturn remains within original estimates in line with one of the key principles of the MTFS relating to spending within budgets.

Base Budget 2008/09

8. The draft base budget for 2008/09 was reported to Cabinet on 29 January 2008 as £212.468m. The Council has now received notification from the Tyne and Wear Passenger Transport Authority that the levy for 2008/09 will be £12.161m (3.2% increase) and for the Environment Agency £114,000 (15% increase).
9. The confirmed levies, along with other minor changes, including pensions, since 29 January 2008 reduce the base budget to £212.088m.
10. At £212.088m the base budget is an increase of £26.713m (14.4%) on the current year. It includes a contingency of £7.3m to meet pay awards, job evaluation and price increases and the proposed increase in fees and charges to be considered by Council on 6 March. This base budget figure is net of the schools' budget supported by the Dedicated Schools Grant.
11. As previously reported to Cabinet, this increase is after new arrangements for Area Based Grant (ABG) which requires a change in presentation of budgets. This change in presentation increases the net cost of services by £16.1m.

12. In addition, funding totalling £4.1m which was previously shown in the net cost of services is now included in Revenue Support Grant.

Growth and Savings 2008/09

13. Cabinet on 12 February 2008 considered growth proposals, to allow investment in priority service areas, of £7.5m. These include:-
- Environmental sustainability
 - Gateshead Town Centre
 - Waste Management Strategy
 - Waste disposal and recycling
 - Children and families
 - Young people with disabilities
14. MTFs required the preparation of proposals for achieving £6m efficiency savings for 2008/09 to be realigned to meet spending pressures and Council priorities. Proposals to meet this target were subject to consultation during October and November 2007. Since the consultation, proposed savings of £0.9m in Adult Social Care, relating to PCT income, have been included in the base budget.
15. Cabinet on 12 February considered proposed savings of £5.1m from the original list to realign to meet growth. All of the proposed growth and savings considered on 12 February are set out in Appendix 2 for each service.
16. After taking account of proposed growth and savings, the budget is £214.462m before use of reserves.
17. Cabinet on 12 February also noted that three main areas of concern were raised by stakeholders during the consultation process. These were:-
- School Meals
 - Bulky Waste
 - Highways Maintenance
18. Proposals to address the concerns including strict enforcement and the continuation of the “It’s Your Gateshead” campaign, to avoid an increase in fly tipping, and proposed growth in reactive highways maintenance were noted by Cabinet.
19. The previous Cabinet report also noted that discussions to improve the sustainability of the schools meals service by reducing the current deficit of £500,000 were still taking place. It is proposed therefore that the target to reduce the deficit by £150,000 during 2008/09, rising to £250,000 in 2009/10, is retained as part of the overall budget package and options to achieve this target will be the subject of a further report to Cabinet.

Statutory Requirements

20. Section 30 of the Local Government Finance Act 1992 requires the Council to set an amount of Council Tax for each financial year for each category of dwelling. For a category of dwellings the amount of Council Tax is the aggregate of:-
- (i) the amount of tax that the Authority itself has calculated, and
 - (ii) the sum of the amounts of tax that major precepting authorities have calculated.

21. Sections 32 to 36 of the 1992 Act require the Authority to calculate its own amount of tax for each category of dwellings in its area, reflecting its budget requirement. In calculating its budgetary requirement, the Authority must make the following calculations:-

(1) The aggregate of

- (a) the expenditure which the Authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year (including Parish precepts and levies);
- (b) such allowance as the Authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year;
- (c) the financial reserves which the Authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure;
- (d) such financial reserves as are sufficient to meet so much of the amount estimated by the Authority to be a revenue account deficit for any earlier financial year as has not already been provided for;
- (e) any amounts the Authority estimates will be transferred from its general fund to its collection fund by virtue of a transfer under legislation.

(2) The aggregate of

- (a) the sums which the Authority estimates will be payable for the year into its general fund and in respect of which amounts will be credited to a revenue account for the year, other than sums which it estimates will be so payable in respect of redistributed non-domestic rates, revenue support grant, additional grant, or relevant special grant;
- (b) any amounts which the Authority estimates will be transferred from its collection fund to its general fund pursuant to a direction under Section 98(4) of the Local Government Finance Act 1988 and credited to a revenue account for the year, other than any amounts which it estimates will be so transferred pursuant to a direction under Section 98(4) relating to the difference between amounts in respect of community charges credited and charged to a revenue account for any earlier financial year;
- (c) the amount of the financial reserves which the Authority estimates that it will use in order to provide for the items mentioned in paragraphs (a), (b) and (e) of (1) above.

If the aggregate calculated under (1) above exceeds that calculated under (2) above, the Council must calculate the amount equal to the difference. This amount is known as the Authority's budget requirement for the year.

Adequacy of Reserves and Robustness of 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 adequacy of the budget monitoring and financial reporting arrangements
 - The adequacy of the Council's internal control system
 - The future budget pressures faced by the Council, as identified in the Council's MTFs.
24. In addition to the above, the Strategic Director, Finance & ICT has undertaken a risk assessment of the underlying budget assumptions applied to income and expenditure estimates. This includes an assessment of the estimates for pay and price increases. Further details are shown at Appendix 3.
25. The Strategic Director, Finance & ICT has also considered the adequacy of reserves to cover any potential financial risks faced by the Council. The Council's general and earmarked reserves are maintained at a prudent level and are subject to continuous review. Appendix 4 to this report shows the opening balances as at 1 April 2007 and an estimate of reserves through to 31 March 2011.
26. The Council's general reserve is expected to be £8.303m at 31 March 2008. This is equivalent to 3.9% of the Council's proposed net revenue budget for 2008/09, and exceeds the minimum level of 3% agreed as a principle in the Council's MTFs. The general reserve is supplemented by £53.8m expected earmarked reserves at 31 March 2008.
27. The Council's MTFs recognises that it has been necessary, for several years, to support the Council's overall budget by using reserves, and that the use of reserves above this level cannot be sustained in the longer term without placing the Council's financial position at risk. The Council, in common with most authorities in the region, faces risks arising from equal pay claims. Many of these risks have been mitigated in Gateshead by the actions taken to agree a compensatory payments scheme and phase 1 of the new pay structure. There are still however significant risks which, if they materialise, would require a fundamental review of the Council's earmarked reserves to protect frontline services. These risks will not be completely addressed by the implementation of phase 2 of job evaluation which is currently the subject of discussions with Trades Unions.
28. The Government has announced the level of grant support available for councils in 2008/09 and provisional figures for the following two years. Gateshead's grant increase is the minimum or "floor" for each of these years. This suggests future budgets will continue to be tight, given the continuing pressures highlighted in the MTFs and a reduction in "floors" to 1.8% and 1.5% in 2009/10 and 2010/11.

29. Taking into account the risks set out in Appendix 3 of this report and the estimated movement in reserves in Appendix 4, a contribution of £2m from the general reserve is proposed together with £11.6m from earmarked reserves. The £11.6m contribution from earmarked reserves includes £2.3m to support Invest to Save initiatives (£1.8m higher than proposed in the MTFs) and £3m to support prudential borrowing to fund investments in leisure services and Invest to Save schemes requiring capital investment. This reduces the budget to £200.828m.
30. The Strategic Director, Finance and ICT confirms that, after 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 in the medium term.

Budget 2008/09

31. The Council's Budget for 2008/09 totals £214.462m after growth and savings. After the use of £11.6m earmarked reserves and £2m general reserve, this results in a budget of £200.828m (net of schools spending).
32. In calculating the Council's budget requirement as required by the legislation, the Parish precepts must be added to the figure above.
33. The Parish of Lamesley has issued a precept for 2008/09 of £7,500.
34. In arriving at the Council's net budget requirement, Formula Grant, (Revenue Support Grant and redistributed Non-domestic Rates) and Area Based Grant must be deducted. The final figure for 2008/09 is £102.533m for Formula Grant and £16.114m for Area Based Grant.
35. Any amount transferred from the collection fund to the general fund must also be deducted. For 2008/09 this figure has been estimated to be £1m.
36. The net expenditure to be met by Gateshead's Council Tax can now be summarised as follows: -

Budget Requirement 2008/09 Gateshead Council		£ 214,462,000
<u>Less</u> Use of reserves		
- General Reserve	2,000,000	
- Earmarked Reserves	<u>11,634,000</u>	<u>13,634,000</u>
		200,828,000
<u>Add</u> Parish Precept		<u>7,500</u>
Budget Requirement 2008/09 (including Parish Precept)		200,835,500
<u>Less</u> Formula Grant		102,532,711 cr
Area Based Grant		16,113,864 cr
Transfer from Collection Fund		<u>1,000,000 cr</u>
Net Budget Requirement (including Parish Precept)		<u>81,188,925</u>

Capping

37. When considering the level of council tax for 2008/09, the Council needs to consider the implications of the Government using its reserve capping powers. Formal guidelines have not been issued but the Local Government Minister has stated that he expects “average council tax rises to be substantially below 5%”.
38. The consequences of the Government capping an individual Authority would result in a reduced budget and council tax. This would require the Authority to issue revised council tax bills to all taxpayers in the Borough, which could have significant financial implications. Accurate costs are not available, but guidance from the Local Government Association suggests a figure of approximately £1.50 per household. This would equate to a cost of around £135,000 for Gateshead before taking account of lost interest on bills being delayed. As well as being a financial risk for the Council, the consequences of capping would also be a risk to the Council’s reputation.
39. The proposed increase in council tax for Gateshead Council is 3.9%, which is below the latest annual increase in the Retail Price Index of 4.1%. This level of increase reflects the spending pressures and risks faced by the Council and the below average grant settlement received by the Council for 2008/09. It is also the second lowest increase in Gateshead since the introduction of council tax in 1993. The lowest increase was last year (3.5%) when the Council received a grant increase of 2.7% compared to 2% for 2008/09.

Council Tax

40. The Council Tax for Gateshead is calculated by dividing the net budget requirement by the Council Tax base of 59,034 (agreed at the Cabinet meeting on 15 January 2008). This calculation gives a Band D Council Tax of £1375.2909. However, from this figure, the legislation requires the Parish element to be deducted (£0.127). This gives a Band D Council Tax for Gateshead of £1375.1639 (which is a 3.9% increase across all bands compared to 2007/08). Section 36 of the Local Government Finance Act 1992 requires the Council Tax to be calculated by reference to Band D, although 91% of households in Gateshead are in Bands A to C. The proposed increase for Band A properties (60% of households) is £34 or 65p a week.
41. The amount payable for dwellings in different valuation bands is calculated using the following proportions: -

Valuation Band

A	6/9
B	7/9
C	8/9
D	9/9
E	11/9
F	13/9
G	15/9
H	18/9

This gives the following Council Tax amounts for the Gateshead area (excluding precepts).

Valuation Band	Gateshead Council £
A	916.7759
B	1069.5719
C	1222.3679
D	1375.1639
E	1680.7559
F	1986.3479
G	2291.9398
H	2750.3278

42. The Council Tax for the Parish area is calculated by dividing the Parish precept by the Council Tax base for the Parish area (agreed at the Cabinet meeting on 15 January 2008). This calculation gives a Band D Council Tax of £6.0484 for Lamesley Parish area.
43. These result in the following additional Council Tax amounts for the Lamesley Parish area (excluding Police and Fire precepts).

Valuation Band	Lamesley Parish £
A	4.0323
B	4.7043
C	5.3764
D	6.0484
E	7.3925
F	8.7366
G	10.0807
H	12.0968

44. To these must be added the precepts of the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority. These have been notified to the Authority as follows and represent increases of 4.9% and 2.4% respectively: -

Valuation Band	Northumbria Police Authority £	Tyne and Wear Fire and Rescue Authority £
A	52.1811	47.7384
B	60.8779	55.6948
C	69.5748	63.6512
D	78.2716	71.6076
E	95.6653	87.5204
F	113.0590	103.4332
G	130.4527	119.3460
H	156.5433	143.2152

These precepts result in a Band D Council Tax (excluding Parish Precepts) of £1525.0431 which represents a 3.88% overall increase on the equivalent figure for 2007/08.

45. These result in the following total Council Tax amounts (including precepts).

Valuation Band	Lamesley Parish £	All other parts of the Council's area £
A	1020.7277	1016.6954
B	1190.8489	1186.1446
C	1360.9703	1355.5939
D	1531.0915	1525.0431
E	1871.3341	1863.9416
F	2211.5767	2202.8401
G	2551.8192	2541.7385
H	3062.1831	3050.0863

Prudential Indicators

46. 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

47. 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.

48. The Prudential Code sets out a range of prudential indicators that need to be agreed by the Council.

49. 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.

50. Appendix 5 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 made on behalf of the Authority by Gateshead Council under powers delegated to the Treasurer, and borrowing in relation to the Gateshead Housing Company

Consultation

51. During October and November 2007, consultations were carried out with:-

- Councillors
- Trades Unions
- Young people
- Viewpoint
- Head teachers
- Diversity Forum
- Gateshead Voluntary Organisations and Community Network
- Gateshead Strategic Partnership
- Chamber of Commerce

52. The outcome of this consultation was reported to Cabinet on 11 December 2007.

53. Further consultation has been undertaken with Trades Unions during January and February 2008 and will continue as budget proposals are implemented.

54. All portfolio holders have also been consulted.

Alternative Options

55. There are no alternative options.

Implications of Recommended Option

56. **Financial Implications** – The Strategic Director, Finance and ICT confirms that these are set out in the report and appendices.

57. **Risk Management Implications** – Appendix 3 to this report is a financial risk assessment of the budget.

58. **Human Resources Implications** – Growth in services will secure current posts across the Council and increase the number of posts in some areas. Reductions in posts have been kept to a minimum and will be dealt with through the framework of the Council's Human Resources policies.

59. **Equality and Diversity Implications** – Nil

60. **Crime and Disorder Implications** – Nil

61. **Sustainability Implications** – The proposals in this report will ensure a sustainable financial position for the Council.

62. **Human Rights Implications** – Nil

63. **Ward Implications** – The proposals in this report cover all wards in Gateshead.

Background Information

64. (i) Report to Cabinet, 27 November 2007 – Medium Term Financial Strategy 2008/09 to 2010/11.
- (ii) Report to Cabinet, 11 December 2007 – Policy and Service Planning Cycle 2008/09 – Budget Update.
- (iii) Report to Cabinet, 15 January 2008 – Revenue Monitoring at 31 December 2007.
- (iv) Report to Cabinet, 15 January 2008 – Council Tax Base 2008/09.
- (v) Final Local Government Finance Settlement – 24 January 2008.
- (vi) Report to Cabinet, 29 January 2008 – Policy and Service Planning Cycle 2008/09 – Service Estimates.
- (vii) Report to Cabinet, 12 February 2008 – Policy and Service Planning Cycle 2008/09 – Growth and Savings.

	Original Budget 2007/08 £000	Revised Budget 2007/08 £000	Original Budget 2008/09 £000
<u>Learning and Children</u>			
Education and Schools	14,730	15,209	20,743
Children and Families	15,768	16,731	18,721
Youth Offending Team	324	264	857
<u>Community Based Services</u>			
Adults Social Services	49,362	51,804	57,573
Libraries and Arts	5,344	5,471	5,304
Sport and Leisure	6,119	6,553	6,309
Housing General Fund	256	346	250
Community Support	366	671	3,117
<u>Development and Enterprise</u>			
Highways and Transport Strategy	7,187	7,161	7,324
Regulatory Services	2,737	3,112	2,840
Planning and Environmental Strategy	1,596	1,543	1,711
Property Services	-1,165	-813	-485
Economic Development	999	1,106	1,672
Design	237	325	399
<u>Local Environmental Services</u>			
Local Environmental Services	19,238	20,840	23,520
<u>Central Services</u>			
Chief Executives	2,787	2,657	3,121
Legal & Corporate Services	5,923	6,022	6,127
Finance and ICT	11,250	11,221	11,023
Customer and Building Services	6,031	5,905	6,324
Other Services and Contingencies	18,866	17,486	21,805
Capital Financing Costs	19,818	18,396	21,109
Investment Income	-5,338	-7,812	-7,414
Support Services	-8,944	-9,561	-9,763
NET EXPENDITURE	173,491	174,637	202,187
Levies			
Environment Agency	97	97	114
Tyne & Wear PTA	11,787	11,787	12,161
Total Budget	185,375	186,521	214,462

LEARNING AND CHILDREN - ESTIMATES 2008/09

EDUCATION AND SCHOOLS

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Total Schools Budget		
Education Schools ISB	88,301	90,598
Centrally Held DSG	11,637	11,945
DSG	-99,938	-102,543
LEA Budget		
Strategic Management	4,438	4,535
Standards Fund (non-devolved)	661	675
Special Education	590	784
School Improvement	1,269	1,295
Access to Schools	3,201	3,270
Non-School Funding	4,571	10,108
Total LEA Budget	14,730	20,667
Total Net Cost of Current Levels of Service	14,730	20,667
<u>Section 2 - Growth</u>		
School Improvement Officers		180
Home to College Transport - Budget Pressures		75
Home to College Transport - Budget Pressures		50
Parent Partnership Service		19
EP Training		42
Educational Management Information System		250
		616
<u>Section 3 - Savings</u>		
School Inspectors - Loss of One Post		-51
Increase Revenue Raising Activities		-20
Utilisation of Grant Funding		-5
Transfer of Funding to Dedicated Schools Grant		-119
Reduction in Connexions Grant Allocation Budget		-60
Accommodation Rental Charges		-10
Early Years and Childcare Manager		-46
Recharging External Partners for use of Assets		-20
Play Party Events		-2
Reduction in Subsidy to Voluntary Orgs		-48
Support Services Review Phase 2		-50
PRC & Dismissal Costs		-109
		-540
TOTAL EDUCATION AND SCHOOLS BUDGET		20,743

LEARNING AND CHILDREN - ESTIMATES 2008/09

CHILDREN AND FAMILIES SERVICE

	2007/08	2008/09
	£000s	£000s
<u>Section 1 – Net Cost of Current Levels of Service</u>		
Children Looked After	9,954	10,392
Other Children and Families Services	873	1,513
Support Service	2,280	2,423
Children’s Services Commissioning and Social Worker	1,812	3,006
Support Services and Management Costs	655	734
Service Strategy	194	215
Total Net Cost of Current Levels of Service	15,768	18,283
<u>Section 2 - Growth</u>		
Contact Service		35
Specialist Out of Borough Placements / Foster Carer Allowance		638
Residence / Adoption Order Allowance		100
		<hr/> 773
<u>Section 3 - Savings</u>		
CAMHS Grant - P/T Social Worker		-21
Reconfiguration of CAMH Services		-50
Closure of Wrekenton Multi Purpose Centre		-33
Early Years Grant - Contact Service Mgr Post		-27
Delete Senior Clerk Post - Safeguarding Children		-18
CFS - Savings in Management Costs		-40
Reduction in Business Support Post		-9
Reduction in Posts - Supporting Families		-80
Teams Family Centre funded from Early Years Grant		-57
		<hr/> -335
TOTAL CHILDREN AND FAMILIES BUDGET		<hr/> 18,721

LEARNING AND CHILDREN - ESTIMATES 2008/09

YOUTH OFFENDING TEAM

	2007/08 £000s	2008/09 £000s
<u>Section 1 – Net Cost of Current Levels of Service</u>		
Youth Offending Team	324	869
Total Net Cost of Current Levels of Service	324	869
<u>Section 2 - Growth</u>		0
<u>Section 3 - Savings</u>		
Business Strategy & Support Review		-12
		-12
TOTAL YOUTH OFFENDING TEAM BUDGET		857

COMMUNITY BASED SERVICES - ESTIMATES 2008/09

ADULTS SOCIAL SERVICES

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Service Strategy	533	499
Older People	27,923	32,873
Adults with Physical or Sensory Disabilities	4,386	4,530
People with Learning Disabilities	9,033	10,990
People with Mental Health Needs	2,127	3,180
Services to Asylum Seekers	-24	0
Other Adult Services	467	82
Supported Employment	44	105
Support Services and Management Costs	4,873	5,970
Total Net Cost of Current Levels of Service	49,362	58,229
<u>Section 2 - Growth</u>		
Older Peoples' Assembly		21
Transitions Packages for Young People		391
IS Care First Additional Maintenance Costs		75
ILF & Individual Budget Worker		29
		<hr/> 516
<u>Section 3 - Savings</u>		
Commissioning - development of regional market		-300
Day Services Review		-200
Independent Supported Living		-50
Learning Disability Services		-345
Downsizing of Buses to Smaller Vehicles		-10
Reduction in NVQ Assessors - Adult Services		-60
Domiciliary Care Fees & Charges		-40
Review of Management Structures		-154
Reduction of Sheltered Housing		-13
		<hr/> -1,172
TOTAL ADULTS SOCIAL SERVICES BUDGET		<hr/> 57,573

COMMUNITY BASED SERVICES - ESTIMATES 2008/09

LIBRARIES AND ARTS

	2007/08	2008/09
	£000s	£000s
<u>Section 1 – Net Cost of Current Levels of Service</u>		
Library Service	4,323	4,410
Archives	113	116
Tourism	271	288
Arts & Culture	637	672
Total Net Cost of Current Levels of Service	5,344	5,486
<u>Section 2 - Growth</u>		<u>0</u>
<u>Section 3 - Savings</u>		
Reduction in Tourism marketing & Promotion		-2
Reduction in Contributions to Museums and Archives		-30
Arts Council Partnership Agreement		-7
Library Overtime Budgets		-50
Operating Improvements in Library Services		-29
Reduction in Library Opening Hours		-64
		<u>-182</u>
TOTAL LIBRARIES AND ARTS BUDGET		<u>5,304</u>

COMMUNITY BASED SERVICES - ESTIMATES 2008/09

SPORT AND LEISURE

	2007/08	2008/09
	£000s	£000s
<u>Section 1 – Net Cost of Current Levels of Service</u>		
Sport & Leisure Facilities	3,846	4,195
Events	582	586
Parks, Open Spaces & Countryside	700	747
Sports Development and Coaching	336	365
Leisure Admin & Management	655	564
Total Net Cost of Current Levels of Service	6,119	6,457
 <u>Section 2 - Growth</u>		
Sustain Externally Funded Posts		72
		<u>72</u>
 <u>Section 3 - Savings</u>		
Improving Leisure Income		-205
Reduction of Opening Hours at GLC Creche		-15
		<u>-220</u>
 TOTAL SPORT AND LEISURE BUDGET		<u>6,309</u>

COMMUNITY BASED SERVICES - ESTIMATES 2008/09

HOUSING

	2007/08	2008/09
	£000s	£000s
<u>Section 1 – Net Cost of Current Levels of Service</u>		
Housing Strategy	9	9
Housing Advances	-2	-2
Housing Associations	-8	-8
Private Sector Housing Renewal	144	144
Homelessness	173	217
Housing Benefits Payments	-200	-200
Other Council Property	70	70
Welfare Services	70	30
Total Net Cost of Current Levels of Service	256	260
<u>Section 2 – Growth</u>		<u>0</u>
<u>Section 3 – Savings</u>		
Homelessness Administration		<u>-10</u>
		<u>-10</u>
TOTAL HOUSING BUDGET		<u>250</u>

COMMUNITY BASED SERVICES - ESTIMATES 2008/09

COMMUNITY SUPPORT

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Community Safety	366	2,275
Total Net Cost of Current Levels of Service	366	2,275
<u>Section 2 - Growth</u>		
Health Development Team Funding		97
Neighbourhood Wardens Funding		400
Safer Families Funding		265
Community Centre Review		80
		<hr/>
		842
		<hr/>
<u>Section 3 - Savings</u>		<hr/>
		0
		<hr/>
TOTAL COMMUNITY SUPPORT BUDGET		<hr/>
		3,117
		<hr/>

DEVELOPMENT AND ENTERPRISE - ESTIMATES 2008/09

<u>Section 1 – Net Cost of Current Levels of Service</u>	2007/08 £000s	2008/09 £000s
Planning and Environmental Strategy	1,596	1,679
Highways and Transport Strategy	7,187	7,489
Regulatory Services	2,737	2,851
Property Services	-1,165	-1,179
Design	237	346
Economic Development	999	1,758
Total Net Cost of Current Levels of Service	11,591	12,944
<u>Section 2 - Growth</u>		
Capital Work Decline		500
Environmental and Energy Sustainability Posts		59
Street Scape - new post		40
Sustain Externally Funded Posts		66
Support to HMR - Across the Council		358
Procure Property Database		10
Manage Asbestos & Legionella - two posts		59
Loss of Lease Income from Trinity Square		311
		1,403
<u>Section 3 - Savings</u>		
Reduce Admin Support		-32
5% Reduction in Site Maintenance		-4
Full saving from last years deletion of countryside post		-6
Reduce Supplies & Services Budgets		-33
Regulatory Services Staffing Budget Reduction		-116
Generate Income from Street Trading		-18
Street Lighting Routine Maintenance		-80
Reduction in Maintenance Budgets		-52
Reduce Scheduled Road Maintenance		-117
Reduce Street Lighting Replacement Budget		-50
Reduce Staffing at Blaydon Business Centre		-19
NRF Funding - Economic Development Officer		-33
Reduce Marketing, Promotions, Grants Budget		-19
Design Services - Delete 3 Vacant Posts		-90
Restructure of Staffing within Property Services		-117
Energy Conservation across the Council		-100
		-886
TOTAL DEVELOPMENT AND ENTERPRISE BUDGET		13,461

LOCAL ENVIRONMENTAL SERVICES - ESTIMATES 2008/09

<u>Section 1 – Net Cost of Current Levels of Service</u>	2007/08 £000s	2008/09 £000s
Street Cleansing	3,870	5,225
Environmental Health	170	170
Waste Collection	2528	3,108
Waste Disposal	4,588	4,759
Waste Recycling	929	929
Horticultural Services	3,815	3,720
Highways and Winter Maintenance	3,319	3,319
School Meals	472	486
Fleet	-310	-310
Building Cleaning	-60	-60
Construction	-83	-83
Total Net Cost of Current Levels of Service	19,238	21,263
 <u>Section 2 - Growth</u>		
Development of Waste Management Strategy		284
Increased Waste Disposal and Recycling Costs		1,230
Review into the Council's Use of Transport		100
Waste & Recycling Performance Improvements		133
HMR Environmental Improvement Teams		515
Highways Maintenance		200
Fleet		596
		3,058
 <u>Section 3 - Savings</u>		
Reduce School Meals Employee Hours		-88
Review Procurement of Operational Equipment		-46
Review Approach to Short Term Staffing		-25
Reduce Winter Bulbs Budget		-10
Reduce Energy and Support Service Costs		-8
Reduce School Meals Budget Deficit		-150
Reconfiguration of Bulky Collection Service		-97
Reduce Transport Costs		-40
Working Arrangement for Operational Employees		-15
Allotment Lease Agreement		-10
Review Wheeled Bin Charging Policy		-30
Increase Burial & Cremation Fees		-80
Increase Trade Waste Charge		-12
Increase Building Waste Charge		-10
Bulky Household Waste Charge		-110
Reduce Grounds Maintenance Budget		-70
		-801
 TOTAL LOCAL ENVIRONMENTAL SERVICES BUDGET		23,520

CENTRAL SERVICES - ESTIMATES 2008/09

CHIEF EXECUTIVE

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Chief Executive	2,787	3,082
Total Net Cost of Current Level of Service	2,787	3,082
<u>Section 2 - Growth</u>		
Research & Intelligence Unit		34
Single Programme Administration / Management		34
		<hr/>
		68
<u>Section 3 - Savings</u>		
Reduced Staff Advertising		-5
Reduced Stationery and Printing		-20
Transport Efficiencies		-4
		<hr/>
		-29
TOTAL CHIEF EXECUTIVE BUDGET		<hr/>
		3,121

CENTRAL SERVICES - ESTIMATES 2008/09

LEGAL AND CORPORATE SERVICES

<u>Section 1 – Net Cost of Current Levels of Service</u>	2007/08 £000s	2008/09 £000s
Corporate Procurement	144	344
Legal Services	2,998	3,148
Human Resources	2,781	2,800
Total Net Cost of Current Level of Service	5,923	6,292
 <u>Section 2 - Growth</u>		
Legal Assistant - Debt Recovery Team		38
		<u>38</u>
 <u>Section 3 - Savings</u>		
HR Miscellaneous		-11
File Reduction		-1
Vacant Post L&CS		-17
Travel Hospitality		-4
Indirect Employee Expenses		-8
International Activity		-2
Business Support Establishment		-17
Print Equipment Rentals & Servicing		-67
Promotions		-1
OD Star Awards		-15
HR Establishment		-18
Procurement Establishment		-4
Debt Recovery via Legal Assistant		-38
		<u>-203</u>
 TOTAL LEGAL AND CORPORATE SERVICES BUDGET		 6,127

CENTRAL SERVICES - ESTIMATES 2008/09

FINANCE AND ICT

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Finance and ICT	11,250	11,537
Total Net Cost of Current Levels of Service	11,250	11,537
<u>Section 2 - Growth</u>		
Single Programme Administration / Management		21
Housing Benefits Overpayments		100
		<hr/> 121
<u>Section 3 - Savings</u>		
Software Licensing		-62
Hardware Maintenance		-30
External Income ICT Services		-25
Reduction in Travel		-10
Internal Audit Establishment		-20
Accountancy Establishment		-20
Visiting Officers Travel		-10
Recovery of Costs Summons		-30
In-house Provision of Payroll		-50
Change in Pay Date		-17
E-Mail Remittance Advice		-1
Income Housing Benefit Overpayments		-300
Efficiencies Released from Revenues and Benefits		-14
Computer Maintenance - Finance Admin		-10
Payroll Establishment		-18
ICT Establishment		-18
		<hr/> -635
TOTAL FINANCE AND ICT BUDGET		<hr/> 11,023 <hr/>

CENTRAL SERVICES - ESTIMATES 2008/09

CUSTOMER AND BUILDING SERVICES

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Customer and Building Services	6,031	6,415
Total Net Cost of Current Levels of Service	6,031	6,415
<u>Section 2 - Growth</u>		0
<u>Section 3 - Savings</u>		
Electricity savings		-55
Fixtures and fittings expenditure		-11
Hardware and computer leasing		-20
Publicity budget		-5
		<hr/>
		-91
		<hr/>
TOTAL CUSTOMER AND BUILDING SERVICES BUDGET		6,324
		<hr/>

CENTRAL SERVICES - ESTIMATES 2008/09

OTHER SERVICES AND CONTINGENCIES

	2007/08	2008/09
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Registrar Births, Deaths and Marriages	88	112
Other Services	13,278	14,410
Contingency	5,500	7,300
Total Net Cost of Current Levels of Service	18,866	21,822
<u>Section 2 - Growth</u>		<u>0</u>
<u>Section 3 - Savings</u>		
Reduced Publications		-10
Reduced Subscriptions		-4
Civic Officer and Mayor's Secretary		-3
		<u>-17</u>
TOTAL OTHER SERVICES AND CONTINGENCIES BUDGET		<u>21,805</u>

Financial Risk Assessment

1 General and Strategic Balances

The risk that general and strategic reserve balances may not be sufficient is mitigated by:

- The expected balance on the Council's general reserve of £8.3m as at 31 March 2008. This is 3.9% of the net revenue budget, which is above the minimum level agreed in the Medium Term Financial Strategy.
- The general fund reserve is supplemented by £53.8m strategic reserves as at 31 March 2008.

2 Budgetary Control

The risk that expenditure will exceed budget is mitigated by the existence of a robust revenue monitoring framework. Some key features of this framework are:

- Monthly monitoring information is presented to budget holders within 10 working days of the close of each accounting period.
- All projected material variances are investigated and action plans are agreed with budget holders to address any areas of projected overspending.
- Quarterly monitoring reports are presented to Cabinet, which show income, and expenditure variances for each of the Council's service areas.
- Targets for efficiency gains, including cashable savings, are set via the Council's Annual Efficiency Statement and are monitored throughout the year.

3 Internal Control

The risk that the internal controls are not sufficient is mitigated by the Council's system of internal control, as set out in the Council's Constitution. Some key features include:

- A clear system of delegation incorporated within the Council's Constitution;
- Setting targets to measure financial and other performance;
- The adoption of CIPFA capital expenditure guidelines, including the requirements of the Prudential Code;
- Use as appropriate of formal project management disciplines;
- Strict adherence to the CIPFA Code of Practice for Treasury Management in Public Services;

- Compliance with established policies, procedures, laws and regulations;
- Application of the principles of the CIPFA/SOLACE Guidelines on Corporate Governance through a local Code of Governance;
- Risk management framework;
- Maintenance of the Verification Framework for the administration of Council Tax and Housing Benefit; and
- Participation in the National Fraud Initiative.

The system of internal control is reviewed by the Council's Internal Audit service, which reports on its planning and performance to the Audit Committee on a quarterly basis.

4 Financial Planning

The risk that known major liabilities or commitments have not been taken into account is mitigated by the integration of corporate plans into the Council's Medium Term Financial Strategy.

The Medium Term Financial Strategy for 2008/09 to 2010/11 identifies financial pressures in respect of pensions, job evaluation, waste disposal and recycling, adults social care and looked after children.

5 Budgetary Assumptions

Income and expenditure budgets have been compiled on the basis of a set of budgetary assumptions in relation to price and activity levels. The risk that the assumptions, which have been applied, may not be robust is mitigated by the inclusion of a corporate contingency of £7.3m within the 2008/09 budget.

Some of the key assumptions, which have been applied to the budget, are outlined below:

- **Employees' Pay**

The pay award for 2008/09 has yet to be agreed. An assumed pay award of 2% has been incorporated into the central contingency.

It has also been necessary to make some assumptions on the impact of the current triennial actuarial review of the Tyne and Wear Pension Fund, which will come into effect in April 2008. The contingency includes £1m to reflect potential increases in employer contributions based on provisional results of valuation.

In addition, the contingency includes £2.2m to reflect the impact of the next phase of Job Evaluation based on provisional estimates provided by Human Resources.

- **Energy Prices**

Projected price increases of 10% for electricity and 5% for gas are included in 2008/09 base budget. Latest information from the Energy Unit suggests that larger rises in energy prices are possible and this has been included in the contingency. The Council's Corporate Procurement service has negotiated contracts to pre-purchase supplies of gas and electricity at fixed prices, which mitigates the risk of unexpected price increases.

- **Investment Income**

The level of investment income, which the Council's projected cash balances will yield, has been modelled on the basis of different projections of movements in interest rates. The budget for investment income is based upon a prudent estimate of cash balances and an evaluation of the different scenarios for movements in interest rates. This has been supplemented by advice from the Council's Treasury Management advisors.

- **Social Care**

The estimated cost of price rises for independent residential care and domiciliary care in 2008/09 is included in contingency.

- **Public Law Children's Act Proceedings**

There is currently consultation on liability for Public Law Children's Act proceedings. An estimate has been included in the contingency to reflect this uncertainty.

Taking account of the above, the contingency of £7.3m is considered adequate to mitigate the risk that some of the assumptions applied may differ from actual events during 2008/09.

6 Capital Financing

The risk that capital financing charges will exceed budget is mitigated by

- 100% of existing loans are at fixed rates.
- Treasury management advisers are used to assist in determining the most appropriate time to undertake new borrowing and rescheduling of existing loans.
- Monitoring of External funding of capital projects is undertaken monthly and reported to Cabinet on a quarterly basis as part of the Capital monitoring process.

Estimated Use of Reserves

	Opening Balance at 01/04/07	Estimated Payments During Year	Estimated Receipts During Year	Estimated Closing Balance at 31/03/08	Estimated Payments During Year	Estimated Receipts During Year	Estimated Closing Balance at 31/03/09	Estimated Closing Balance at 31/03/10	Estimated Closing Balance at 31/03/11
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Reserve	(10,803)	2,500	0	(8,303)	2,000	0	(6,303)	(5,600)	(5,600)
Strategic Reserves									
Pensions	(6,000)	3,000	0	(3,000)	3,000	0	0	0	0
Capital	(5,622)	0	0	(5,622)	0	0	(5,622)	(5,622)	(5,622)
Insurance	(7,931)	2,000	0	(5,931)	2,000	0	(3,931)	(3,931)	(3,931)
Grant Clawback	(7,442)	0	0	(7,442)	0	0	(7,442)	(7,442)	(7,442)
Gateshead Development Pool	(29,908)	3,000	(400)	(27,308)	6,634	(400)	(21,074)	(16,274)	(10,774)
Cultural Development	(1,729)	700	(400)	(1,429)	400	0	(1,029)	(629)	(229)
Bridge Maintenance	(2,117)	0	0	(2,117)	0	0	(2,117)	(2,117)	(2,117)
Developers' Contributions	(956)	0	0	(956)	0	0	(956)	(956)	(956)
Total Strategic Reserves	(61,705)	8,700	(800)	(53,805)	12,034	(400)	(42,171)	(36,971)	(31,071)
Total Reserves	(72,508)	11,200	(800)	(62,108)	14,034	(400)	(48,474)	(42,571)	(36,671)

General Reserve

The general reserve exists to protect the Council against unexpected events and to finance future revenue or capital expenditure.

Strategic Reserves

The **Pensions Reserve** exists to meet future increases in employers' liability for pensions costs and back funding payments to the Tyne & Wear Pension Fund.

The **Capital Reserve** is for future development on large capital projects as an alternative to borrowing and to cover any shortfall in capital resources.

The **Insurance Reserve** allows for possible insurance claims against the Authority not covered by external policies

The **Grant Clawback Reserve** represents grant received, which may need to be repaid. The Council is still carrying risks in this area.

The **Gateshead Development Pool** represents revenue contributions to date to the Council's Development Pool, plus the Airport dividend, which was received in 2006/07.

The **Cultural Development Reserve** represents interest earned on the Gateshead Development Pool, which the Council agreed would be used to fund cultural initiatives within the borough and support the Culture 10 programme.

The **Bridge Maintenance Reserve** exists to meet the costs of future unplanned bridge maintenance work.

The **Developers' Contributions Reserve** represents contributions to play schemes on future residential developments and other contributions arising from Development Control decisions.

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2006/07 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are: -

Capital Expenditure					
	2006/07 £000 Actual	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Non-HRA	37,586	66,731	66,437	47,386	43,522
HRA	62,314	69,747	72,255	72,255	54,775
Total	99,900	136,478	138,692	119,641	98,297

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2006/07 are: -

Ratio of Financing Costs to Net Revenue Stream					
	2006/07 £000 Actual	2007/08 £000 Estimate	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate
Non-HRA	9.38%	9.53%	9.33%	8.91%	8.19%
HRA	68.46%	75.05%	73.08%	74.21%	76.59%

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 2007 are: -

Capital Financing Requirement					
	31.03.07 £000 Actual	31.03.08 £000 Estimate	31.03.09 £000 Estimate	31.03.10 £000 Estimate	31.03.11 £000 Estimate
Non-HRA	170,602	169,468	169,604	171,637	170,857
HRA	143,755	200,135	266,534	323,053	369,306

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 2006/07, 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			
	2008/09 £000	2009/10 £000	2010/11 £000
Borrowing	530,000	595,000	645,000
Other Long term Liabilities	0	0	0
Total	530,000	595,000	645,000

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 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 relation to The Gateshead Housing Company but do not include amounts relating to Northumbria Police Authority on the basis that, as of 1st April 2007 the element of borrowing relating to the Police Authority was transferred into its name.
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 relation to The Gateshead Housing Company but do not include amounts relating to Northumbria Police Authority on the basis that, as of 1st April 2007 the element of borrowing relating to the Police Authority was transferred into its name.

<i>Operational Boundary for External Debt</i>			
	2008/09 £000	2009/10 £000	2010/11 £000
Borrowing	495,000	560,000	610,000
Other Long Term Liabilities	0	0	0
Total	495,000	560,000	610,000

9. The Council's actual external debt at 31 March 2007 was £318 million comprising £318 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 2008/09 (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 2008/09 from the totality of the capital and revenue plans recommended in this budget report is £1.46.

12. Forward estimates for the incremental impact on Band D council tax levels for 2009/10 and 2010/11 are £1.46 in each year. 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 2008/09 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 2009/10 and 2010/11 are £0.07 in each year. 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 2008/09, 2009/10 and 2010/11 as follows. The % figures are expressed in terms of net outstanding principal sums and include Northumbria Police Authority investments but exclude borrowing on the basis that, as of 1st April 2007 the element of borrowing relating to the Police Authority was transferred into its name.

UPPER LIMIT ON FIXED AND VARIABLE INTEREST RATES EXPOSURES			
Range	2008/09 %	2009/10 %	2010/11 %
Fixed Rate	163 26	243 17	269 4
Variable	74 -63	83 -143	96 -169

19. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings 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	50%	0%
5 years and within 10 years	70%	0%
10 years and above	90%	0%

20. It is recommended that the Council sets an upper limit on its investment of sums for periods longer than 364 days for 2007/08, 2008/09 and 2009/10 as follows:

<i>Upper Limit on amounts invested beyond 364 days</i>			
	2007/08 £000	2008/09 £000	2009/10 £000
Investments	30,000	30,000	30,000