

TITLE OF REPORT: Budget and Council Tax Level 2009/10**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 26 February 2009 the Council Tax level for 2009/10. As part of the council tax setting process, Cabinet is also asked to recommend to Council the prudential indicators and Minimum Revenue Provision (MRP) Statement set out in this report.

Background

2. The Council agreed the Medium Term Financial Strategy (MTFS) for 2009/10 to 2011/12 on 6 November 2008.
3. On 16 December 2008, Cabinet received a report updating the changing financial context since the MTFS was agreed along with the provisional local government finance settlement.
4. On 13 January 2009, Cabinet noted the responses from stakeholders to budget proposals produced in November 2008 for consultation.
5. On 13 January 2009, Cabinet agreed the Council Tax Base for 2009/10.
6. Cabinet on 10 February 2009 agreed the revised budget for 2008/09 and budget for 2009/10 including growth and savings.
7. This report represents the final stage of the budget cycle in determining the budget and council tax level for 2009/10.

Proposal

8. Despite a grant settlement of only 1.75%, the report proposes a budget which provides for investment in services of £16.5m and savings of £7.8m to realign to meet local priorities, resulting in a council tax increase of 2.99% for 2009/10, the lowest ever annual rise. The overall council tax increase after police and fire precepts is 2.95%.

Recommendations

9. Cabinet is requested to make the following recommendations to the Council:
 - (1) The revised revenue estimates of £215.863m for the year 2008/09 and the revenue estimates of £223.043m for 2009/10 be approved.

- (2) The use of general reserves of £1.0m and earmarked reserves of £13.771m in 2009/10 be authorised.
- (3) That the recommendations of the Strategic Director, Finance and ICT in respect of the robustness of estimates and adequacy of reserves be noted.
- (4) That the prudential indicators set out in Appendix 5 to this report be agreed.
- (5) That the method of calculating the Minimum Revenue Provision (MRP) for 2009/10 as set out in Appendix 6 be approved.
- (6) That it be noted that at its meeting on 13 January 2009, Cabinet calculated the following amounts for the year 2009/10 in accordance with regulations made under Section 33(5) of the Local Government Finance Act 1992:-
 - (a) 59,050 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 1,258
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 2009/10 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992 ('the Act'): -
 - (a) £571,479,960 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) £363,200,000 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) £208,279,960 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) £124,640,879 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) £1416.4112 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) £1416.2842 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

£1422.2460

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	3.9746	944.1895
B	4.6370	1101.5544
C	5.2994	1258.9193
D	5.9618	1416.2842
E	7.2867	1731.0140
F	8.6116	2045.7438
G	9.9364	2360.4736
H	11.9237	2832.5684

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 2009/10, 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	54.2163	48.3333
B	63.2523	56.3889
C	72.2884	64.4444
D	81.3244	72.5000
E	99.3965	88.6111
F	117.4686	104.7222
G	135.5407	120.8333
H	162.6488	145.0000

- (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 2009/10 for each of the categories of dwellings shown below: -

Valuation Band	Lamesley Parish £	All other parts of the Council's area £
A	1050.7137	1046.7391
B	1225.8326	1221.1956
C	1400.9515	1395.6521
D	1576.0704	1570.1086
E	1926.3083	1919.0216
F	2276.5462	2267.9346
G	2626.7840	2616.8476
H	3152.1409	3140.2172

For the following reason:

- To fulfil the Council's statutory duty to set the budget and Council Tax for 2009/10.

Policy Context

1. The proposals in this report support the vision for Gateshead as set out in Vision 2030 and the Corporate Plan. In particular the budget and realignment of resources will ensure that resources are focussed on the delivery of the Council's priorities, thus ensuring a sustainable financial position.

Background

2. Council approved the MTFS 2009/10 to 2011/12 in November 2008. The Council's budget estimates for 2009/10 attached at Appendix 2 have been prepared in accordance with the MTFS framework. A report on the budget and savings proposals was considered by Cabinet on 10 February 2009.

Considerations

3. In finalising the budget and council tax for 2009/10, the following issues require consideration:-
 - principles of the Medium Term Financial Strategy
 - the final Local Government Finance Settlement for 2009/10
 - the likely outturn for 2008/09
 - updated base budget
 - proposals for savings which have been subject to consultation with Councillors and stakeholders
 - statutory requirements
 - reserves
 - risk assessment
 - council tax capping
 - approval of prudential indicators for 2009/10
 - Minimum Revenue Provision (MRP).

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 Vision 2030, the Gateshead Agreement and more specifically 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 equivalent to 3% cash releasing efficiencies 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 trading opportunities and new charges to maximise income to sustain key services.
- 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 by 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, expected developments in services and changes to legislation.

- 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 arising from taking an active role in the Regional Improvement and Efficiency Partnership (RIEP) 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 2009/10

5. The final local government finance settlement for 2009/10 was announced on 21 January 2009. This confirmed the details previously announced in the provisional settlement in November 2008.
6. The finance settlement gives the Council a grant increase of 1.75% in 2009/10 and provisionally 1.5% in 2010/11. The Council's formula grant for 2009/10 is £104.271m. This grant increase of 1.75% is at the level of the 'floor' and compares to a national average of 2.8%. In addition, the level of Dedicated Schools Grant for 2009/10 has been announced. This is estimated at £104.935m and is ring-fenced to schools spending. This estimate will be updated to take account of January 2009 school numbers before being allocated to schools.
7. When Parliament debated the final settlement it was announced that £100m would be distributed to councils from the Local Authority Business Growth Initiative (LABGI). The provisional allocation for Gateshead is £1.495m, the eighth highest nationally. Given that this is still subject to change following a short period of consultation, the amount has not been included in the budget.

Revised Estimate 2008/09

8. The agreed revenue budget for 2008/09 was set at £214.462m. On 27 January 2009 Cabinet received a report on projected spending taking into account performance to 31 December 2008. The 2008/09 projected outturn is consistent with this Cabinet report at £215.863m as outlined in Appendix 2. This represents an overspend of £1.4m (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 2009/10

9. The revenue budget for 2009/10 was agreed by Cabinet on 10 February 2009 as £230.995m before savings. The Council has now received notification from the Tyne and Wear Passenger Transport Authority that the levy for 2009/10 will be £12.354m (1.6% increase) and for the Environment Agency £137,000 (20% increase).

10. The confirmed levies, along with other minor changes since 10 February 2009 reduce the budget to £230.921m.
11. At £230.921m the budget is an increase of £16.5m (7.7%) on the current year. It includes a contingency of £5.5m to meet pay awards, job evaluation and price increases. It also includes provision to reflect the impact of the economy on the Council's income and the temporary closing of the Central Library and leisure centres. This budget figure is net of schools' spending supported by the Dedicated Schools Grant.
12. Included in the budget is extra growth of £3.1m. This covers the Council's priority services of Children and Families, Older People and Waste Management and Sustainability.

Budget Savings 2009/10

13. The MTFs was based on the delivery of £9m efficiency savings for 2009/10 to redirect to meet spending pressures and Council priorities. Budget proposals to meet this target have been subject to consultation since November 2008. The outcome of the consultation was considered by Cabinet on 13 January 2009.
14. Cabinet on 10 February considered proposed savings of £6.838m from the original list to realign to meet growth. These are set out in Appendix 2 for each service.
15. After taking account of these savings proposals, the budget is reduced to £224.083m, an increase of £9.621m (4.5%). This is still too high to support from current funding levels within which grant is increasing by only 1.75%.
16. Cabinet, on 10 February were informed that options were being explored to reduce the gap between the budget and current funding levels. It is proposed that the following options are agreed to meet the gap:-
 - A target for bringing forward into 2009/10 budget savings earmarked for 2010/11 that have been subject to consultation. A target of £231,500 is proposed which equates to about 10% of the total identified for 2010/11. Where appropriate, consultation will take place in the new financial year on these proposals.
 - Further efficiency savings worth £808,000 with no frontline service impact or staffing implications have been developed since the budget consultation took place. These are primarily in support areas and include consultancy, printing, better use of electronic working, staff advertising using the Council's website and more efficient procurement. These proposals build on those which have already been subject to consultation and were broadly welcomed as good value for money.
17. Taking the above proposals into account results in a budget of £223.043m.

Statutory Requirements

18. 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.
19. 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

- 20. 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.
- 21. 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.
- 22. 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.
- 23. 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 2008 and an estimate of reserves through to 31 March 2012 based on the proposals in this report and the agreed MTFS.
- 24. The Council's general reserve is expected to be £9.444m at 31 March 2009. This is equivalent to 4.2% of the Council's proposed net revenue budget for 2009/10, and exceeds the minimum level of 3% agreed as a principle in the Council's MTFS. The general reserve is supplemented by £56.5m expected earmarked reserves at 31 March 2009.

25. 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 proposals in this report would mitigate this risk by using only £1m from the General Reserve to support the overall budget. The remaining use of reserves is earmarked to particular areas of spending, most of which are one-off in nature. 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 implementation of job evaluation. 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.
26. The Government has announced the level of grant support available for councils in 2009/10 and provisional figures for 2010/11. 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 "the floor" to 1.5% in 2010/11.
27. 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 £1m from the general reserve is proposed together with £13.771m from earmarked reserves. The £13.771m contribution from earmarked reserves is £4.8m more than expected in the MTFS. The additional contribution reflects the seriousness of the impact of the economy on Council Services and is earmarked to meet the following pressures:-

	£000
• Growth in transitional costs of children with disabilities and adult social care packages	1000
• Transitional growth for the Local Development framework, flooding and energy certificates	500
• Continuation of existing transitional growth pending a review of activity	1596
• Central Library/Leisure Centre closures during investment	400
• Impact on income of economic downturn	1200
• Additional contribution from the Cultural Development Reserve	<u>75</u>
	<u>4771</u>

28. The Council has a deposit of £4.5m at risk in Heritable Bank, a wholly owned subsidiary of an Icelandic bank, Landsbanki. Heritable Bank was placed in administration under Scottish law and a statutory creditor committee has been established with local authority representation from Kent and Haringey councils. The Strategic Director, Finance and ICT is also working closely with the Local Government Association.
29. The full deposit in Heritable was due to mature by the end of the current financial year with interest. It is reasonably clear that the deposit will not be repaid within this timescale. Feedback from the creditor committee, however, is fairly positive. The administrator, Ernst and Young, has carried out a great deal of work and the proposal to run off the business rather than a quick sale has been supported by the creditor committee. The administrator has also reported that the first release of monies is not expected until later in 2009, although he has described the prospect of a “material dividend” over the life of the administration.
30. Under normal accounting rules the Council would need to recognise the possibility of not recovering the full deposit in Heritable in the current financial year. This would reduce the level of reserves available for use in 2009/10. Although the Government has not recognised the need to treat the public sector and charities the same way as private depositors, it has recognised the impact of bank administration on local authorities through the introduction of regulations which remove the requirement to provide for any potential losses until 2010/11 at the earliest. This ensures that councils do not need to increase council tax or reduce reserves to cover any assumed losses and accordingly there is no impact on the assessment of the adequacy of reserves.
31. 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 2009/10

32. The Council's Budget for 2009/10 totals £223.043m. After the use of £13.771m earmarked reserves and £1m from the general reserve, reduces the budget to £208.272m (net of schools spending).
33. In calculating the Council's budget requirement as required by the legislation, the Parish precepts must be added to the figure above.
34. The Parish of Lamesley has issued a precept for 2009/10 of £7,500, the same level as the current year.
35. 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 2009/10 is £104.271m for Formula Grant and £18.870m for Area Based Grant.
36. Any amount transferred from the collection fund to the general fund must also be deducted. For 2009/10 this figure has been estimated to be £1.5m, to reflect the fact that despite the economic downturn council tax collection in Gateshead is still buoyant at present.

37. The net expenditure to be met by Gateshead's council tax can now be summarised as follows: -

		£
Budget Requirement 2009/10 Gateshead Council		223,043,460
<u>Less</u> Use of reserves		
- General Reserve	1,000,000	
- Earmarked Reserves	<u>13,771,000</u>	<u>14,771,000</u>
		208,272,460
<u>Add</u> Parish Precept		<u>7,500</u>
Budget Requirement 2008/09 (including Parish Precept)		208,279,960
<u>Less</u> Formula Grant		104,271,201 cr
Area Based Grant		18,869,678 cr
Transfer from Collection Fund		<u>1,500,000 cr</u>
Net Budget Requirement (including Parish Precept)		<u>83,639,081</u>

Capping

38. When considering the level of council tax for 2009/10, 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%".
39. 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.
40. The proposed increase in council tax for Gateshead Council is 2.99%. This level of increase reflects the spending pressures and risks faced by the Council in the light of a worsening economic position nationally as well as the below average grant settlement received by the Council for 2009/10. It is also the lowest increase in Gateshead since the introduction of council tax in 1993.

Council Tax

41. The Council Tax for Gateshead is calculated by dividing the net budget requirement by the Council Tax base of 59,050 (agreed at the Cabinet meeting on 13 January 2009). This calculation gives a Band D Council Tax of £1,416.4112. 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 £1,416.2842 (which is a 2.99% increase across all bands compared to 2008/09). 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 £27 a year or 52p a week.
42. 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	944.1895
B	1,101.5544
C	1,258.9193
D	1,416.2842
E	1,731.0140
F	2,045.7438
G	2,360.4736
H	2,832.5684

43. 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 13 January 2009). This calculation gives a Band D Council Tax of £5.9618 for Lamesley Parish area (£6.0484 in 2008/09).

44. These result in the following additional Council Tax amounts for the Lamesley Parish area (excluding Police and Fire precepts).

Valuation Band	Lamesley Parish £
A	3.9746
B	4.6370
C	5.2994
D	5.9618
E	7.2867
F	8.6116
G	9.9364
H	11.9237

45. To these must be added the precepts of the Northumbria Police Authority and the Tyne and Wear Fire and Rescue Authority. The precept for the Police Authority has been agreed but the meeting of the Fire Authority to agree its precept is not until 23 February. The figures in this report are based on the recommended precept level but this is still subject to change. An increase of 3.9% has been agreed by the Police Authority and the Fire Authority will be considering a rise of 1.3% on 23 February. These are as follows:-

Valuation Band	Northumbria Police Authority £	Tyne and Wear Fire and Rescue Authority £
A	54.2163	48.3333
B	63.2523	56.3889
C	72.2884	64.4444
D	81.3244	72.5000
E	99.3965	88.6111
F	117.4686	104.7222
G	135.5407	120.8333
H	162.6488	145.0000

These precepts result in a Band D Council Tax (excluding Parish Precepts) of £1,570.1086 which represents a 2.95% overall increase on the equivalent figure for 2008/09.

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

Valuation Band	Lamesley Parish £	All other parts of the Council's area £
A	1050.7137	1046.7391
B	1225.8326	1221.1956
C	1400.9515	1395.6521
D	1576.0704	1570.1086
E	1926.3083	1919.0216
F	2276.5462	2267.9346
G	2626.7840	2616.8476
H	3152.1409	3140.2172

Prudential Indicators

47. 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
48. 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.
49. The Prudential Code sets out a range of prudential indicators that need to be agreed by the Council.
50. 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.
51. Appendix 5 to this report details the prudential indicators required under the Prudential Code for approval.

Minimum Revenue Provision (MRP)

52. MRP is the amount that needs to be charged to revenue to reflect the repayment of debt. New regulations came into effect from March 2008 requiring councils to prepare an annual MRP Statement. This was agreed by Council in April 2008. There are no changes proposed to the method used to calculate MRP and the annual statement for 2009/10 is attached at Appendix 6.

Consultation

53. During November and December 2008, budget consultations were carried out with:-
- Councillors
 - Trades Unions
 - Young people
 - Older People
 - Viewpoint
 - Head teachers
 - Diversity Forum
 - Gateshead Voluntary Organisations and Community Network
 - Gateshead Strategic Partnership
 - Chamber of Commerce
54. The outcome of this consultation was reported to Cabinet on 13 January 2009.
55. Further consultation was undertaken with Trades Unions during January and February 2009 and will continue as budget proposals are implemented.
56. All portfolio holders have also been consulted.

Alternative Options

57. There are no alternative options.

Implications of Recommended Option

58. **Financial Implications** – The Strategic Director, Finance and ICT confirms that these are set out in the report and appendices.
59. **Risk Management Implications** – Appendix 3 to this report is a financial risk assessment of the budget.
60. **Human Resources Implications** – Reductions in posts have been kept to a minimum and will be dealt with through the framework of the Council's Human Resources policies.
61. **Equality and Diversity Implications** – Nil
62. **Crime and Disorder Implications** – Nil
63. **Sustainability Implications** – The proposals in this report will ensure a sustainable financial position for the Council.
64. **Human Rights Implications** – Nil
65. **Area and Ward Implications** – The proposals in this report cover the whole of Gateshead.

Background Information

66. (i) Report to Cabinet, 4 November 2008 – Medium Term Financial Strategy 2009/10 to 2011/12.
- (ii) Report to Cabinet, 16 December 2008 – Budget 2009/10 Update.
- (iii) Report to Cabinet, 13 January 2009 – Council Tax Base 2009/10.
- (iv) Report to Cabinet, 13 January 2009 – Response to Budget Consultation.
- (v) Report to Cabinet, 27 January 2009 – Revenue Monitoring at 31 December 2008.
- (vi) Final Local Government Finance Settlement – 21 January 2009.
- (vii) Report to Cabinet, 10 February 2009 – Revenue Budget 2009/10.

APPENDIX 2

	Original Budget 2008/09 £000	Revised Budget 2008/09 £000	Original Budget 2009/10 £000
<u>Learning and Children</u>			
Education and Schools	20,100	19,941	19,774
Children and Families	18,502	18,957	19,338
Youth Offending Team	857	810	962
<u>Community Based Services</u>			
Adults Social Services	57,535	60,259	58,697
Libraries and Arts	5,270	5,431	6,518
Sport and Leisure	6,128	6,910	6,703
Housing General Fund	250	429	192
Communities and Neighbourhoods	4,453	4,531	4,376
<u>Development and Enterprise</u>			
Highways and Transport Strategy	7,374	8,667	8,935
Regulatory Services	2,868	3,057	2,892
Planning and Environmental Strategy	1,719	1,751	1,845
Property Services	-703	-533	-738
Economic Development	2,000	1,940	3,072
Design	384	282	458
<u>Local Environmental Services</u>			
Waste Service and Ground Maintenance	24,168	24,105	24,260
<u>Central Services</u>			
Chief Executives	3,136	3,016	3,153
Legal and Corporate Services	6,173	5,913	6,109
Finance and ICT	11,187	11,117	11,090
Customer and Building Services	6,313	5,950	6,240
Other Services and Contingencies	20,638	19,799	19,796
Capital Financing Costs	21,109	18,471	21,681
Investment Income	-7,414	-7,459	-5,114
Support Services	-9,860	-9,736	-9,687
NET EXPENDITURE	202,187	203,608	210,552
<u>Levies</u>			
Environment Agency	114	114	137
Tyne & Wear PTA	12,161	12,141	12,354
Total Budget	214,462	215,863	223,043

LEARNING AND CHILDREN - ESTIMATES 2009/10

EDUCATION AND SCHOOLS

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Total Schools Budget		
Education Schools ISB	90,125	91,726
Centrally Held DSG	12,418	13,209
DSG	-102,543	-104,935
LEA Budget		
Strategic Management	4,375	4,496
Standards Fund (non-devolved)	652	670
Special Education	756	777
School Improvement	1,251	1,285
Access to Schools	3,155	3,243
Non-School Funding	9,752	10,022
Total LEA Budget	19,941	20,493
Total Net Cost of Current Levels of Service	19,941	20,493

Section 2 - Savings

Reduction in resources for teachers retirement/dismissal/redundancy costs	100
Business Support Services Review - phase 3	25
Part transfer of residual SENSS management costs to DSG	47
Transfer of Pupil and Parent Services salary costs to DSG	35
Delete trainee educational psychologist post	20
Reduction in budget for commissioning Speech and Language and occupational therapies from PCT	15
Reduction in budget for home to school and home to college transport	15
Reduction in funding for Dryden Centre through increased income	10
Reduction in inspector posts	69
Reduce after school club funding	8
Delete Area Youth and Community Worker post	10
Reduction of Connexions budget	95
Reduction of Creche mobile budget	14
Reduction of Pre School Learning Alliance grant	20
Reduction of Extended Schools funding	15
Delete Area Worker post at SCID Deckham	25
Delete Area Worker post at Streets Ahead Youth Project	34
Reduce Teenage Pregnancy budget	5
Reduce various Children and Young People's Service budgets	20
Access and Inclusion - Social Inclusion and Positive Steps	2
Children and YP - various grants	83
Raising Achievement - various grants	52
	719
TOTAL EDUCATION AND SCHOOLS BUDGET	19,774

LEARNING AND CHILDREN - ESTIMATES 2009/10

CHILDREN AND FAMILIES SERVICE

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09	2009/10
	£000s	£000s
Children Looked After	8,834	9,500
Other Children and Families Services	1,977	2,042
Family Support Service	3,796	3,801
Commissioning and Social Worker	2,971	3,185
Support Services and Management Costs	1,199	1,098
Service Strategy	180	193
Total Net Cost of Current Levels of Service	18,957	19,819

Section 2 - Savings

Decommissioning of Lyndhurst Children's Home	300
Reduce domestic hours in Blaydon Children's Home	12
Closure of Wrekenton Office	18
Reconfiguration of Safeguarding Unit	20
Reconfiguration of training and supplies in Safeguarding Unit	5
Alternative funding for Barnados Resource Centre	44
Deletion of family centre support worker	5
Deletion of Head of Service post for Change for Children	30
Change for Children - LSCB and Parenting Programme	24
Children & Families - CAMHS and Child Death Review	23
	481

TOTAL CHILDREN AND FAMILIES BUDGET

19,338

LEARNING AND CHILDREN - ESTIMATES 2009/10

YOUTH OFFENDING TEAM

	2008/09	2009/10
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Youth Offending Team	810	974
Total Net Cost of Current Levels of Service	810	974
<u>Section 2 - Savings</u>		
Reduce various Children and Young People's Service budgets		12
		12
TOTAL YOUTH OFFENDING TEAM BUDGET		962

COMMUNITY BASED SERVICES - ESTIMATES 2009/10

ADULTS SOCIAL SERVICES

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Service Strategy	516	779
Older People	32,043	32,914
Adults with Physical or Sensory Disabilities	5,915	5,825
People with Learning Disabilities	12,467	11,528
People with Mental Health Needs	3,000	3,007
Services to Asylum Seekers	88	0
Other Adult Services	105	398
Supported Employment	197	333
Support Services and Management Costs	5,928	6,059
Total Net Cost of Current Levels of Service	60,259	60,843

Section 2 - Savings

Reprovision of Learning Disability Residential Services to Supported Living within the Independent Sector		50
Review of Intermediate Care within the Independent Sector / Review Commissioned Services		400
Phase 2 Older People's Day Service Review		60
Review of commissioned arrangements with the Voluntary Sector		60
Increase charges for services within CBS		172
Delete vacant posts within Adult Care Provision		23
Efficiencies within relief budgets in Learning Disability Services		58
Reprovision of Transport Services in Learning Disability Services		20
Service improvements within Adult Care provision		323
Efficiencies in Social Care Management Structure		150
Deletion of Non-Schools Property post		17
Improved use of grant for Management Information		20
Business Strategy & Support Review Phase 3		113
Reduction in external training budget		19
Improved utilisation of Supporting People grant		52
Reduction in commissioned services to voluntary sector		50
Reduction in Central Support administration		20
Review commissioning of domiciliary care hours		500
Learning Disability Development Fund		6
Local Involvement Networks		2
Mental Health		20
Adult Social Care		11
		2,146
TOTAL ADULTS SOCIAL SERVICES BUDGET		58,697

COMMUNITY BASED SERVICES - ESTIMATES 2009/10

LIBRARIES AND ARTS

	2008/09	2009/10
<u>Section 1 – Net Cost of Current Levels of Service</u>	£000s	£000s
Library Service	4,380	4,397
Archives	111	113
Tourism	294	229
Arts & Culture	217	288
Museums	429	990
Heritage	0	89
Theatres & Public Entertainment	0	498
Total Net Cost of Current Levels of Service	5,431	6,604
<u>Section 2 - Savings</u>		
Reduction in janitorial overtime budget in Libraries		10
Income generation from Libraries services to schools		12
Restructuring of staff within Libraries		54
Reduction in Library Book Fund		10
		<u>86</u>
TOTAL LIBRARIES AND ARTS BUDGET		<u>6,518</u>

COMMUNITY BASED SERVICES - ESTIMATES 2009/10

SPORT AND LEISURE

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Sport & Leisure Facilities	4,340	4,227
Events	689	656
Parks, Open Spaces & Countryside	703	758
Sports Development and Coaching	384	533
Leisure Admin & Management	794	701
Total Net Cost of Current Levels of Service	6,910	6,875
<u>Section 2 - Savings</u>		
Integration of Community Health Team and Sport and Physical Activity Team		19
Income generation from catering, sport and leisure		130
Deletion of post in sport and leisure		23
		<hr/>
		172
		<hr/>
TOTAL SPORT AND LEISURE BUDGET		6,703

COMMUNITY BASED SERVICES - ESTIMATES 2009/10

HOUSING

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Housing Strategy	30	0
Housing Advice	0	9
Housing Advances	0	0
Housing Associations	-8	-7
Private Sector Housing Renewal	144	113
Homelessness	413	211
Housing Benefits Payments	-200	-200
Other Council Property	70	70
Welfare Services	0	30
Other Welfare Services	-20	0
Total Net Cost of Current Levels of Service	429	226
<u>Section 2 – Savings</u>		
Reduction in match funding contribution		10
Millennium House		9
Foundation Scheme		15
		34
TOTAL HOUSING BUDGET		192

COMMUNITY BASED SERVICES - ESTIMATES 2009/10

COMMUNITIES AND NEIGHBOURHOODS

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Community Safety	4,531	4,437
Total Net Cost of Current Levels of Service	4,531	4,437
<u>Section 2 - Savings</u>		
Drug Reference Group		36
Additional Policing		10
Healthy Communities Collaborative		15
		<hr/> 61
TOTAL COMMUNITY SUPPORT BUDGET		<hr/> 4,376 <hr/>

DEVELOPMENT AND ENTERPRISE - ESTIMATES 2009/10

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09	2009/10
	£000s	£000s
Planning and Environmental Strategy	1,751	1,933
Highways and Transport Strategy	8,667	9,364
Regulatory Services	3,057	3,078
Property Services	-533	-549
Design	282	485
Economic Development	1,940	3,153
Total Net Cost of Current Levels of Service	15,164	17,464

Section 2 - Savings

Reduction in various running expenses across Group	108
Reduction in expenses within Countryside Projects	4
Remove Bowes Railway Museum funding	14
Remove Great North Forest funding	28
Transfer mainline salaries to HMR	30
Increase surveyors fees on land and property disposals	65
Increase surveyors fees for tenants	20
Reduction of staffing within Property Services	98
Delete trainee posts	39
Reduction in Food Sampling and Analysis Budget	10
Delete 2 Senior EHO posts on early retirement of postholders	31
Contribution from GPLA	10
Charge for Planning pre-application approval	10
Delete Pool Van	5
Increased income from skip licensing	10
Reduce staffing at Business Centres	20
Reduce verge maintenance	70
Reduce street lighting routine maintenance	35
Remove lunchtime school crossing patrols	15
Reduce road marking maintenance traffic signs and illuminated bollards	14
Delete clerical assistant within Business Support	15
Reduce street lighting column replacement	140
Delete structural engineer post each year	40
Reduce scheduled highways maintenance	90
Delete Secretariat / Group Support Assistant post	24
Delete 1 Scale D Senior Support Assistant Post and 1 Scale B/C Support Assistant Post	37
Change mainline funded post to DAF funded post	18
	<hr style="border: none; border-top: 1px solid black; margin-bottom: 5px;"/> 1,000

TOTAL DEVELOPMENT AND ENTERPRISE BUDGET

16,464

LOCAL ENVIRONMENTAL SERVICES - ESTIMATES 2009/10

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09	2009/10
	£000s	£000s
Waste Disposal	5,721	6,509
Neighbourhood Areas (including Waste Collection, Street Cleansing and Grounds Maintenance)	11,794	11,989
Horticultural Services	2,826	3,042
Highways and Winter Maintenance	3,505	3,695
School Meals	370	489
Fleet	-15	-81
Building Cleaning	-5	-121
Construction	-91	-91
Total Net Cost of Current Levels of Service	24,105	25,431

Section 2 - Savings

Reduce management, admin and technical posts	50
Reduced highways staffing and management	25
Tendering of cleaning materials and consumables	15
Charging for schools packed lunch service	230
Additional income and increase in cremation and burial fees	160
Reconfiguration of neighbourhood services	75
Improve internal waste disposal arrangements	100
Reduce in-house provision of Security Services	50
Reduce bulbs and floral bedding materials	40
Cease Green-It collections for 3 months over the winter period	60
Fortnightly refuse collections in rural areas (90 properties)	40
Reduce grass cutting operations	100
Removal of floral bedding	150
Transport, Catering and Cleaning - Older Peoples Support Service	46
Waste Services & Grounds Maintenance - Environmental Improvement	30
	1,171
TOTAL LOCAL ENVIRONMENTAL SERVICES BUDGET	24,260

CENTRAL SERVICES - ESTIMATES 2009/10

CHIEF EXECUTIVES

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Chief Executive	3,016	3,239
Total Net Cost of Current Level of Service	3,016	3,239
<u>Section 2 - Savings</u>		
General office equipment, purchasing and stationery		14
Chief Exec learning and development		12
LAA Reward Target		60
		<hr/>
		86
		<hr/>
TOTAL CHIEF EXECUTIVES BUDGET		<hr/> 3,153 <hr/>

CENTRAL SERVICES - ESTIMATES 2009/10

LEGAL AND CORPORATE SERVICES

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Corporate Procurement	275	328
Legal Services	3,071	3,035
Human Resources	2,567	2,807
Total Net Cost of Current Level of Service	5,913	6,170
<u>Section 2 - Savings</u>		
Reduction in OD staff hours		8
Reduction in Business Support & Registrar's Service postage, printing, software and floral decoration budget		14
Printing of Guide to Gateshead Council		3
Deletion of 10 hours from Grade K HR post		10
Rationalisation of Development Law staff advertising, publications, and statutory advertising		4
Reduction in Litigation staff training and advertising budget, rationalisation of online library, negotiations of contracts		4
Consolidation of clerical and administration posts and activities in CEX and Legal		18
		61
 TOTAL LEGAL AND CORPORATE SERVICES BUDGET		6,109

CENTRAL SERVICES - ESTIMATES 2009/10

FINANCE AND ICT

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Finance and ICT	11,117	11,563
Total Net Cost of Current Levels of Service	11,117	11,563
<u>Section 2 - Savings</u>		
Removal of Fujitsu Service Delivery Charge		24
Re-procurement of network and printer support & maintenance and consolidation of 5 data servers to 1		45
FM Systems Improvements		23
Internal Audit Increased Trading Income, reduction in conference expenses and audit plan		8
Organisational review of Financial Services		125
Additional income from review of CT single person discount		100
Withdrawal of 24hr telephone self service number		38
£5 increase in summons/liability order costs		50
Renewal of ICT equipment		10
Electronic mileage claims		30
Reduction in energy consumption - automatic PC shutdown		20
		<hr/>
		473
		<hr/>
TOTAL FINANCE AND ICT BUDGET		<hr/> 11,090 <hr/>

CENTRAL SERVICES - ESTIMATES 2009/10

CUSTOMER AND BUILDING SERVICES

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Customer and Building Services	5,950	6,551
Total Net Cost of Current Levels of Service	5,950	6,551
<u>Section 2 - Savings</u>		
Customer Service & Spaces Strategies & Building Services		311
		311
TOTAL CUSTOMER AND BUILDING SERVICES BUDGET		6,240

CENTRAL SERVICES - ESTIMATES 2009/10

OTHER SERVICES AND CONTINGENCIES

<u>Section 1 – Net Cost of Current Levels of Service</u>	2008/09 £000s	2009/10 £000s
Registrar Births, Deaths and Marriages	96	120
Other Services	13,980	14,241
Contingency	5,723	5,460
Total Net Cost of Current Levels of Service	19,799	19,821
<u>Section 2 - Savings</u>		
Reduction in Litigation staff training and advertising budget, rationalisation of online library, negotiations of contracts		2
Reduction in annual residents survey budget		23
		<u>25</u>
TOTAL OTHER SERVICES AND CONTINGENCIES BUDGET		<u>19,796</u>

Financial Risk Assessment

1 General and Earmarked Reserves

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

- The expected balance on the Council's general reserve is £9.4m as at 31 March 2009. This is 4.2% of the net revenue budget, which is above the minimum level agreed in the Medium Term Financial Strategy.
- The general reserve is supplemented by £56.5m earmarked reserves as at 31 March 2009.

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 cash releasing efficiency gains are reported through a National Indicator, NI 179, and are monitored throughout the year.

3 Internal Control

The risk that 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 2009/10 to 2011/12 identifies financial pressures in respect of pensions, waste management, 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 £5.5m within the 2009/10 budget.

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

- **Employees' Pay**

The pay award for 2008/09 is still subject to arbitration and negotiations on the 2009/10 award will not start until this is resolved. An assumed pay award of 2% has been incorporated into the central contingency.

In addition, the contingency includes a provision to reflect the submission of a number of appeals following the implementation of job evaluation.

- **Energy Prices**

Projected price increases of 20% for energy are included in the 2009/10 base budget.

- **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 significantly reduced in 2009/10 as a result of falling interest rates. There is a risk that rates will fall further and not recover during 2009. Different scenarios for movements in rates have been modelled, 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 2009/10 is included in the contingency.

- **Economic Downturn**

An assessment has been made of the potential effect of the economic recession on income generated by the Council. This is expected to impact on areas such as planning, business centre rents and discretionary areas where charges are levied. A provision has been made in the contingency to cover a potential shortfall.

Taking account of the above, the contingency of £5.5m is considered adequate to mitigate the risk that some of the assumptions applied may differ from actual events during 2009/10.

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.

7 Loss of Deposit

There is an increased risk that funds deposited by the Council in banks and building societies could be lost due to the collapse of the financial institution. The risk is mitigated by the controls in the Treasury Management Strategy which focuses on control of deposits rather than returns. The potential impact is limited by the strategy of a diverse portfolio with top rated banks and building societies which are also covered by government guarantees.

Estimated Use of Reserves

	Opening Balance at 01/04/08	Estimated Payments During Year	Estimated Receipts During Year	Estimated Closing Balance at 31/03/09	Estimated Payments During Year	Estimated Receipts During Year	Estimated Closing Balance at 31/03/10	Estimated Closing Balance at 31/03/11	Estimated Closing Balance at 31/03/12
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
General Reserve	(11,444)	2,000	0	(9,444)	1,000	0	(8,444)	(7,444)	(6,444)
Strategic Reserves									
Pensions	(6,000)	3,000	(5,555)	(8,555)	4,500	(850)	(4,905)	(905)	0
Capital	(5,622)	2,044	0	(3,578)	0	0	(3,578)	(3,578)	(3,578)
Insurance	(5,878)	2,000	0	(3,878)	0	0	(3,878)	(3,878)	(3,878)
Grant Clawback	(7,444)	1,644	0	(5,800)	0	0	(5,800)	(5,800)	(5,800)
Gateshead Development Pool	(30,480)	2,693	(5,208)	(32,995)	8,796	0	(24,199)	(16,203)	(11,753)
Cultural Development	(1,126)	400	0	(726)	475	0	(251)	0	0
Bridge Maintenance	(2,117)	1,197	0	(920)	0	0	(920)	(920)	(920)
Total Strategic Reserves	(58,667)	12,978	(10,763)	(56,452)	13,771	(850)	(43,531)	(31,284)	(25,929)
Total Reserves	(70,111)	14,978	(10,763)	(65,896)	14,771	(850)	(51,975)	(38,728)	(32,373)

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, including the Airport dividend and LABGI receipts.

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.

PRUDENTIAL INDICATORS

1. The actual capital expenditure that was incurred in 2007/08 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are: -

Capital Expenditure					
	2007/08 £000 Actual	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate	2011/12 £000 Estimate
Non-HRA	53,443	85,561	93,246	87,895	46,524
HRA	76,413	63,072	69,832	53,996	29,889
Total	129,856	148,633	163,078	141,891	76,413

2. Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2007/08 are: -

Ratio of Financing Costs to Net Revenue Stream					
	2007/08 £000 Actual	2008/09 £000 Estimate	2009/10 £000 Estimate	2010/11 £000 Estimate	2011/12 £000 Estimate
Non-HRA	3.59%	3.87%	4.42%	4.61%	4.84%
HRA	78.39%	73.38%	83.47%	82.44%	80.58%

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 2008 are: -

Capital Financing Requirement					
	31.03.08 £000 Actual	31.03.09 £000 Estimate	31.03.10 £000 Estimate	31.03.11 £000 Estimate	31.03.12 £000 Estimate
Non-HRA	169,866	181,642	211,099	227,292	230,636
HRA	211,954	256,251	309,668	356,271	371,179

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 2007/08, 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			
	2009/10 £000	2010/11 £000	2011/12 £000
Borrowing	640,000	740,000	795,000
Other Long term Liabilities	0	0	0
Total	640,000	740,000	795,000

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>			
	2009/10 £000	2010/11 £000	2011/12 £000
Borrowing	605,000	705,000	760,000
Other Long Term Liabilities	0	0	0
Total	605,000	705,000	760,000

9. The Council's actual external debt at 31 March 2008 was £376 million comprising £376 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 2009/10 (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 2009/10 from the totality of the capital and revenue plans recommended in this budget report is £1.44.

12. Forward estimates for the incremental impact on Band D council tax levels for 2010/11 and 2011/12 are £1.44 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 2009/10 from the totality of the capital and revenue plans recommended in this budget report is £0.07.
14. Forward estimates for the incremental impact on housing rents for 2010/11 and 2011/12 are £0.06 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 2009/10, 2010/11 and 2011/12 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	2009/10 £000	2010/11 £000	2011/12 £000
Fixed Rate	307,537 8,175	405,109 54,479	490,229 28,427
Variable	74,658 -32,000	102,605 -32,000	136,320 -32,000

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 2009/10, 2010/11 and 2011/12 as follows:

<i>Upper Limit on amounts invested beyond 364 days</i>			
	2009/10 £000	2010/11 £000	2011/12 £000
Investments	30,000	30,000	30,000

GATESHEAD COUNCIL MINIMUM REVENUE PROVISION (MRP) STATEMENT 2009/10

Four methods of calculating MRP are set out in the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [Si 2008/414] as detailed below:

Option 1: Regulatory Method

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. The MRP element of the RSG (Revenue Support Grant) is calculated on this basis.

Option 2: CFR Method

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

(a) Equal instalment method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

where-

A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (eg by the application of capital receipts) should be made as necessary.

MRP should normally commence in the financial year following the one in which the expenditure was incurred.

The estimated life of the asset should be determined in the year that MRP commences and not subsequently be revised.

If no life can reasonably be attributed to an asset, such as freehold land, the life should be taken to be a maximum of 50 years. However, in the case of freehold land on which a building or other structure is constructed, the life of the land may be treated as equal to that of the structure, where this would exceed 50 years.

When borrowing to provide an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may postpone beginning to make MRP until the financial year following the one in which the asset becomes operational. "Operational" here has its standard accounting definition. Investment properties should be regarded as becoming operational when they begin to generate revenues.

Option 4: Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects.

MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.

On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.

Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

In 2009/10, Gateshead Council will calculate MRP on supported expenditure using the regulatory method (Option 1) and on self-financed expenditure using the asset life (equal instalment method Option 3(a)). The Strategic Director, Finance & ICT has the discretion to make additional voluntary provision.