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|---|---|
| meeting | **COUNTY COUNCIL** |
| Date | **28th February 2008** |

# MEDIUM TERM FINANCIAL STRATEGY 2008/09 – 2011/12

# CAPITAL PROGRAMME 2008/09 – 2011/12

# ANNUAL BUDGET 2008/09

## 1. Purposes

The purposes of this report are:-

- To seek approval to the Revised Budget for 2007/08 and the Annual Budget for 2008/09.
- To approve the level of Capital Programmes for 2008/09 to 2011/12.
- To outline the Medium Term Financial Strategy for 2008/09 to 2011/12.
- To make recommendations on the amount of Council Tax to be levied for County Council purposes and the arrangements for collecting this from Districts.
- To seek approvals to borrowing limits that the Council is required by Statute to make.

## 2. Summary of Key Points

**2007/08**

- The Revised Budget for 2007/08 shows net underspendings of £6.0 million on portfolio budgets.

**2008/09**

- Budget proposals are based on the themes of the Strategic Plan, which are consistent with the Medium Term Financial Strategy. Emphasis has been given to protecting front-line services as far as possible.

- A net cash increase of 3.1% in the Schools budget after taking account of declining pupil numbers which is wholly financed by the Dedicated Schools Grant.
- An increase in front line services of £6.3 million beyond that previously anticipated in the Medium Term Financial Strategy.
- Re prioritisation of areas of lower priority amounting to £7.8 million across all portfolios, plus a further £1.1 million from the value for money programme.
- A gross capital programme of £142.4 million for 2008/09.
- A Council Tax increase of 3% for 2008/09. The increase would be approximately £34 per annum for a Band D property, £26 for a Band B property and £22 for a Band A property.
- Working balances of about £23.4 million at the end of 2008/09.

**2009/10 to 2011/12**

- Additional budget pressures identified in 2008/09 will continue to rise.
- The Government's Comprehensive Spending Review will include addition Formula Grant of £9.0 million (+5.7%) in 2009/10 and £8.0 million (+5.0%) in 2010/11.
- The efficiency agenda will require cashable savings of 3% per annum in each year.
- A fundamental review of organisation structures and job designs will be undertaken to identify efficiency savings. In addition all of the Council's major rule systems will be rationalised to streamline decision making processes and increase efficiency.

## 3. Background

3.1 The County Council is committed to working with partners to improve the quality of life for people in Nottinghamshire. This is reflected in the Strategic Plan, "All Together Better", in which five priorities are identified,

- Nottinghamshire to be a safer place to live with a strong sense of community.
- To improve the health and wellbeing of the people in the County.
- To help everyone to reach their potential, particularly through opportunities to learn.
- To protect and improve the County's environment.
- To help people to travel easily and safely and be able to access all the services they need.

These are the five key priorities which will shape the County Council's plans in the medium term.

3.2 The Strategic Plan also commits the Council to three key aims:

- To put the customer at the heart of all we do.
- To be a civic leader, helping to develop communities across the County.
- To continue delivering excellent and affordable services.

The budget proposals within the Medium Term Financial Strategy contribute towards the achievement of the targets that are set out in the Strategic Plan.

3.3 The Medium Term Financial Strategy provides a framework within which the budget proposals for 2008/09 and later years can be developed. As ever, a balance has to be struck between the pace of improvement and the affordability of proposals that deliver the desired improvements to services and fulfil the Council's community leadership responsibilities. The strategy covers both the expected variations to the revenue budget and the approach adopted towards planning the capital programme for future years.

## 4. Revised Budget 2007/2008

4.1 The build up of this budget position is shown on the Revenue Budget Summary at the end of the report which shows a revised budget of £421.705 million. Details of the main variations are as follows:

4.2 **Portfolio Budgets**

Original portfolio budgets for 2007/08 have been adjusted for contingency allocations, budget carry forwards, changes to capital charges and other approved items. Details of these adjustments are shown in the summary page for each portfolio in the Budget Book. The revised portfolio budgets are £422.342 million, and at this stage there is a forecast net underspending of £6.036 million on portfolio budgets. The underspendings by portfolio are:

| | **£000** |
|---|---|
| Children & Young People | 2,251 |
| Adult Social Care & Health | 1,082 |
| Environment | 572 |
| Culture & Regeneration | 30 |
| Community Safety and Partnership | 38 |
| Leader | 120 |
| Deputy Leader | 1,171 |
| Finance and Property | 722 |
| People and Peformance | 50 |
| TOTAL | **6,036** |

The principal reasons for these underspendings are:

- Delays in establishing the Building Schools for the Future project
- Savings at Family Centres pending restructuring
- Review of Mental Health & Learning disability day care services
- Insufficient homecare capacity in the early part of the year
- Reduced transport expenditure arising from two Easter holidays in the financial year
- Delays in the full establishment of the Customer Contact Centre
- Underspending in a range of staffing budgets as a result of restructuring and integration

4.3 **Flood Defence Levies**

The amount required of £0.307 million is £30,000 more than the original budget.

4.4 **Trading Organisations' Pension/Redundancy Costs**

An amount of £0.972 million is set aside to cover the difference between the overall employers contribution rate including past deficits, and the rate that applies for "current service", so that trading accounts do not have to recover these "past deficit" costs in their charges.

4.5 **General Contingency**

The General Contingency can be set at £1.3 million for the remainder of 2007/08. This amount is required to meet the costs of outstanding redundancies and other costs of restructuring.

4.6 **Capital Expenditure Financing**

The revised contribution from revenue in support of planned building maintenance and other capital related expenditure is £1.916 million.

4.7 **Capital charges included in Portfolios**

The Revised Budget 2007/08 for these items are:

| | **£000** |
|---|---|
| Capital Charges in Portfolios | (48,579) |
| Interest | 12,310 |
| Loan Repayments | 16,546 |
| | (19,723) |

4.8 **Use of Budget Carry Forwards**

Departments were allowed to carry forward £5.332 million from their underspendings in 2006/07. These amounts have been added, temporarily, to original budgets for 2007/08, and are expected to be spent on the specific purposes for which carry forward was approved. The amount being carried forward from 2007/08 underspends is £3.996 million.

4.9 **Pay Review Reserve**

The amount in this reserve at the end of 2006/07 was £23.651 million and it is proposed to increase this reserve by a further £9.890 million, including interest. This will be used to meet the costs of the Job Evaluation project which were agreed at the Personnel Committee on 20 December 2007.

4.10 **Other Transfers to Earmarked Reserves**

The amounts being transferred into earmarked reserves are for:

| | **£000** |
|---|---:|
| Net PFI Grant surplus on NET Line 1 | 383 |
| Net PFI Grant surplus on Bassetlaw and East Leake Schools | 2,653 |
| Leasing Alternative Reserve | 212 |
| Trading Units Asset Replacement Reserve, etc | 805 |
| Waste PFI | 6,011 |
| NET Phase 2 | (970) |
| Capital Expenditure Reserve | 1,000 |
| | 10,094 |

4.11 **County Fund Balances**

The level of County Fund balances at 31 March 2007 was £19.502 million. The original budget for 2006/07 assumed that there would be no change to this figure.

Due to underspends and favourable interest rates in 2007/08 it is now possible to increase County Fund balances and the revised estimate for 31 March 2008 is £21.481 million after transfers to earmarked reserves outlined above.

4.12 **Local Authority Business Growth Incentive**

The 2007/08 Original Budget anticipated income from the LABGI scheme of £2.2 million. The government have indicated that the final figure for 2007/08 will be of the order of £3.025 million.

## 5 Annual Budget 2008/09

5.1 When the budget for 2007/08 was approved in February 2007, the forward look for 2008/09 showed that a budget of £431.4 million would be achievable with an indicative increase in the Council Tax of 4%.

5.2 Since then, budget pressures have been reassessed and some new pressures and initiatives identified. In total these pressures have been assessed at £16.4 million. The underlying reasons are:-

- Work relating to the Building Schools for the Future bid (£0.5 million)
- Direct payments in respect of disabled children to allow their carers to manage their own support (£0.2 million)

- Demand growth in the services for people with mental health and learning disabilities (£2.6 million)
- Additional expenditure in respect of care for older people as a result of an increasing older population (£2.0 million)
- Further expenditure on services for people with a physical disability (£1.5 million)
- Provisions for a review of fees to independent care homes (£1.5 million)
- Additional costs associated with the Waste PFI contract (£0.4 million)
- Above inflation costs of highway maintenance together with the effects of a growing highway network. (£0.5 million)
- Contributions to District Councils to increase recycling (£0.1 million)
- Remedial drainage works and increased maintenance (£0.5 million)
- Provision for the full costs of the Notts Connect project (£1.2million)
- Community Action Weeks (£0.4 million)
- Increased pay budgets to fund the additional cost of Pay Phase 2 (£1.0 million)
- New schemes and projects to support children and young people and provide them with activities outside of school (£1.0million)
- Increase the number of people supported at home by changing the eligibility criteria from meeting the needs of those with critical and substantial risk to independence to include moderate risk to independence (£1.5 million)
- Additional expenditure on highways maintenance with particular emphasis on dealing with small scale problems more rapidly and also investment in drainage maintenance (£0.9 million)
- A range of projects and initiatives are proposed which will allow the County Council with partners, both internal an external, to tackle crime and the fear of crime, and thus help to create safer communities (£0.6 million)

5.3 In order to manage these additional budget pressures in 2008/09 Cabinet at its meeting on 19 December proposed a range of variations of £7.827 million to existing budgets to reprioritise expenditure in favour of the new budget pressures. These proposed variations were subsequently confirmed by Cabinet on 6 February following a period of consultations.

5.4 The more significant areas of change are as follows:-

**Children and Young Peoples Services Portfolio**

- Reduction in non-school maintenance (-£159,000)

  Savings can be achieved by reducing the amount of grounds maintenance and premises maintenance at some non-school properties such as Hathersage, Perlthorpe, Hagg Farm, Mundella and others.

- Children's social care field work services (-£328,000)

  Savings can be achieved by altering the balance of skill mix within fieldwork teams and therefore reducing the overall number of unqualified posts. In addition savings can be made from residence order allowances and aftercare payments.

- Placement and Residential Service (-£115,000)

  Savings can be achieved from changes to the management of the service as well as changes to the deployment of all existing budgets allocated to fund the placements of children in care.

- Directorate (-£155,000)

  Restructuring of senior management following the departure of a Service Director plus a number of minor non-staffing budget reductions.

- Advisory and Inspection Service (-£164,000)

  To be achieved by a variety of small staffing and non staffing reductions, including the service's training budget, all of which arise from the Government's New Relationship with Schools.

**Adult Social Care and Health**

- Savings on Departmental Accommodation costs (-£350,000)

  The authority is no longer participating in a LIFT scheme with partners as alternative accommodation solutions have been identified. In addition some accommodation costs which were to be funded from revenue will now be capitalised.

- Transport Income (-£250,000)

  The transport service can now consistently achieve additional income from the Ambulance Service, external vehicle hire and grants. This income stream has been permanently built into budget assumptions.

- Disability Services Income (-£1,000,000)

  Earlier budget projections had anticipated a lower level of income from jointly funded services within the NHS for people with learning disabilities than had proved to be the case. In addition there has been a higher level of income for the authority's directly provided services in this area.

- Care home payments to independent sector providers (-£200,000)

  Improved systems for monitoring charges from the independent sector can achieve savings by reducing overpayments when service users move out of care or the ownership of homes change. This will reduce the need to seek repayments.

- Improved financial management by people in residential care (-£100,000)

  People in residential care with assets in excess of £21,500 are required to fund their own care costs. Various financial planning tools provide tax efficient routes to maximise care cost provision for longer, thus reducing the cost to the Authority and enabling those in residential care to preserve their savings for longer.

- Merging Meals Service Operations (-£185,000)

  The meals production facility – County Enterprise Foods and the Meals Distribution Unit are separately located and separately managed. Rationalising and merging the management structure will release savings without any impact on service quality or delivery.

- Learning Disability Procurement (-£300,000)

  Care costs of a small number of service users in the Learning Disability and Mental Health groups can be reduced by collaborative working with other Councils.

- Policy/Service Development (-£380,000)

  A review of a range of budgets has identified a number of efficiency savings.

- Infocare Project (-£300,000)

  Replacing manual timesheets with information produced from the Infocare system in service user homes will provide more accurate attendance time data on which payments are based.

**Environment Portfolio**

- Highway routine maintenance (-£151,000)

  A reduction in the frequency of some routine and cyclical highways maintenance activities such as patching will achieve the above budget reductions.

- Concessionary Fares – Cross-District Travel (-£198,000)

  The County Council currently funds the cross-district aspect of the Concessionary Fares scheme run jointly with the District Councils. Following the introduction of the National Concessionary Scheme in April 2008 cross-district costs will be met by additional government funding. No service reduction will result from this reduction in County Council funding.

- Reduced use of consultants (-£200,000)

  As the Council's officers become more experienced in the procurement/development of PFI contracts the use of external professional consultants to provide advice and support can be reduced.

**Culture & Regeneration Portfolio**

- Libraries and Education Library Services (-£116,000)

  Reorganising the senior management structure of these services together with re-phasing the ICT equipment replacement programme will achieve these efficiencies with limited impact on direct service delivery.

- Other reductions (-£217,000)

  A number of smaller adjustments to staffing and non-staffing budgets are proposed.

**Community Safety and Partnership Portfolio (-£151,000)**

- All reductions are below £100,000 and include a range of efficiency savings on non-staffing budgets combined with some staffing reductions.

**Leader's Portfolio (-£122,000)**

- A variety of staffing and non-staffing reductions combined with reduced Member travelling, subsistence and hospitality.

**Deputy Leader's Portfolio (-£367,000)**

- Principally reductions in the ICT Strategy budget together with reduced consultancy costs and increased income. Further efficiency savings from the Contact Centre and Access budgets.

**Finance and Property Portfolio (-£310,000)**

- A variety of staffing and non-staffing efficiencies combined with some reductions in day to day maintenance of County Offices budgets.

**People and Performance Portfolio (-£92,000)**

- Staffing reductions within the Human Resources services following integration.

5.5 The Government have indicated that they will use their capping powers if Council Tax increases are higher than 5% in 2008/09.

5.6 Current indications for 2009/10 and beyond are that many of the additional budget pressures identified in 2008/09 will continue to rise such that, despite an increase in Formula Grant, the authority will still need to find additional savings elsewhere in the budget. In addition as part of the Comprehensive Spending Review the Government have indicated that local government will be expected to achieve cash releasing efficiency gains at a rate of 3% per annum over the next three years.

5.7 Unlike the Gershon efficiency regime which considered both "cashable" and "non-cashable" efficiency gains the new system focuses exclusively on cashable savings. Another difference form Gershon is that there will be no mandatory targets for individual councils although it is anticipated that the Audit Commission will look for evidence of efficiency savings as part of the Use of Resources assessment.

5.8 Proposals are being developed to manage the Value for Money agenda and will be reported to Cabinet in due course.

5.9 As part of the longer term planning of the financial strategy a number of policy option reviews were initiated during the current financial year aimed at delivering future budget efficiencies. These were as follows:

- Play Services
- Family Centres
- Emergency Duty Team
- Older Persons Homes
- Adult Meals Service
- Shared Services Centre
- Sickness Absence
- Property
- Procurement

5.10 Progress in each of the areas has been made and was reported to Cabinet on 6 February 2008 .These areas will continue to be examined for value for money gains.

5.11 As part of the overall Value for Money improvement programme there will need to be some further rationalisation of staffing structures to drive out efficiency savings to meet increased service demands. Over the next few years there will be a systematic review of organisational structures and job design across the organisation. The purpose of this will be to maximise the scope of jobs and the freedom that job holders have to use their initiative and take responsibility. It is hoped that the review can be carried out jointly with the trade unions to make it as effective and inclusive as possible. The review will also look at things like career grades and career progression within the Council. It is anticipated the review will also extend to a revision to the Council's main rule systems and codes of practice e.g. the Constitution, The Personnel Handbook, Financial Regulations etc. to attempt to make them less onerous and more user friendly. By relaxing some of the Council's more prescriptive rules and regulations staff at all levels will have greater autonomy and freedom to act without having to obtain higher authority on so many occasions. This should streamline the Councils decision making processes and increase efficiency.

5.12 **Flood Defences**

The Flood Defence levies are estimated at £0.263 million.

5.13 **Trading Service Pensions Costs**

The sum of £1.131 million is included to cover the difference between the basic employers contributions used in the trading accounts and the amounts actually charged, as required by the actuarial valuation.

5.14 **General Contingency**

The General Contingency of £8.3 million is provided to cover certain redundancy costs, life cycle maintenance costs, contributions to "Invest to Save" schemes, pay awards and other eventualities. Cabinet approval is required for the release of Contingency funds.

5.15 **Capital Expenditure Financing**

Certain elements of capital expenditure will be funded through revenue contributions rather than from borrowing or capital receipts. The estimated revenue contributions in 2008/09 will be £0.580 million.

5.16 **Capital Charges included in Portfolios**

The capital charges included in Portfolio budgets amount to £48,579 million. This notional figure is removed for the budget and replaced in the "Items outside Portfolios" section with the actual costs of borrowing as follows:

| | **£000** |
|---|---|
| Interest | 16,038 |
| Minimum loan repayments | 17,728 |

5.17 **Use of Balances and Reserves**

5.17.1 **Earmarked Reserves**

The complete picture on the proposed use of Earmarked Reserves and County Fund Balances in 2007/08 and 2008/09 is set out in the Summary Statement attached to this report. These reserves show the purposes for which they were originally set up, and the adequacy and appropriateness of them have been reviewed as part of the budget process. This includes an analysis of Departmental Reserves which have been set up mainly for asset replacement, other capital purposes, and for trading activities like Supplies, Sheltered Employment and Clayfields. It is proposed to reduce departmental reserves by £4.037 million in 2008/09 for asset replacement, temporarily managing homecare savings, restoration of Rufford landfill site and other purposes.

5.17.2 **Budget Carry Forwards**

Expenditure of £3.996 million in portfolio budgets is being financed from underspendings in 2007/08 that have been agreed for budget carry forwards and held in an earmarked reserve.

5.17.3 **PFI Reserves**

The initial arrangements for calculating PFI grant meant that more grant was received in the early years of a PFI scheme than was needed to meet the payments to providers of the service. The grant arrangements were amended to an "annuity" basis from 2005/06, so that the level of surplus is smaller than under the previous arrangements, because the grant flow is more evenly spread over the life of the contract. These surpluses need to be kept in an earmarked reserve for use in later years. The amounts estimated to be set aside in 2008/09 are:

| | **£'000** |
|---|---|
| NET Line 1 | 383 |
| East Leake Schools | 308 |
| Bassetlaw Schools | 2,157 |
| Waste PFI | 6,124 |

5.17.4 **Pay Review Reserve**

It is expected that the Pay Review Reserve, which has been accumulating since 2002/03, will be fully utilised in 2008/09 to meet the cost of back pay as a result of implementing the second phase of the Pay Strategy.

5.17.5 **Use of County Fund Balances**

The level of "free" balances at the end of 2007/08 is estimated to be £21.5 million. This represents about 5% of non-schools expenditure as recommended by the Audit Commission.

5.17.6 **Robustness of Budget and Level of Balances**

The Section 151 Officer is required to provide Members with his view of the overall robustness of the budget proposals and the adequacy of reserves and balances. The Strategic Director of Resources has once again carried out a Risk Assessment of the budget and his report is attached at Appendix A.

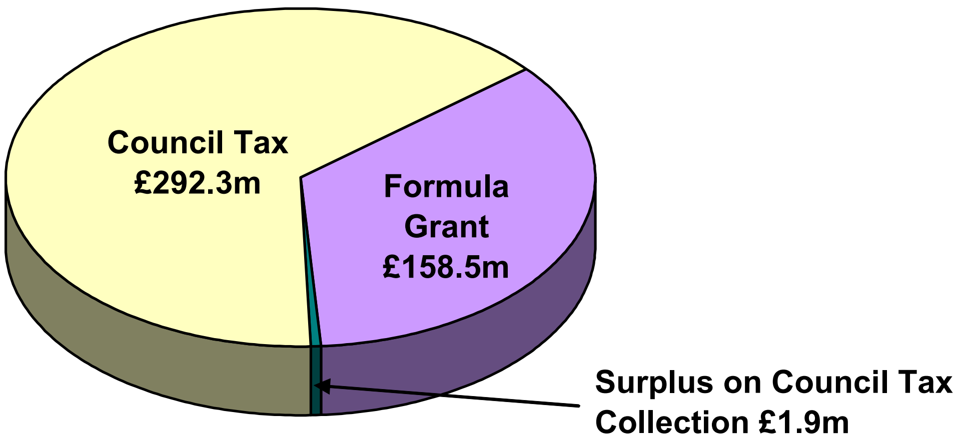
5.18 **Summary of 2008/09 Budget Proposals**

The following table shows the build-up of the Budget Requirement for 2008/09:

| | £000 | £000 |
|---|---|---|
| Schools Budget | 420,077 | |
| Less Dedicated Schools Grant | (420,077) | - |
| Other Service Requirements | | 445,263 |
| Central Items | | 35,122 |
| **Expenditure before use of Reserves** | | **480,385** |
| Net transfer from Reserves | | (27,655) |
| **Budget Requirement** | | **452,730** |

## 6. Methods of Financing Budget Requirement 2008/09

### 6.1 Funding of Budget Requirement 2008/09




### 6.2 Council Tax Collection Surplus

The surplus on Council Tax collection arises from Districts collecting more tax than they anticipated when the original budgets were set. The total amount notified by Districts is £1.875 million.

### 6.3 Formula Grant

Formula Grant was introduced in 2006/07. It takes account of:

| | | |
|---|---|---|
| Relative Needs | e.g. | extent of social deprivation |
| Relative Resources | i.e. | size of council taxbase |
| Central Allocation | - | basic amounts for all authorities |
| Damping | - | to protect some authorities against significant losses of grant |

A complex calculation produces a figure for Formula Grant, which for 2008/09 is £158.548 million, assessed as follows:

| | £m |
|---|---|
| Relative Needs | 133.991 |
| Relative Resources | (45.972) |
| Central Allocation | 90.450 |
| Damping | (19.091) |

The Formula Grant is then split between National Non-Domestic Rates (£139.174 million) and Revenue Support Grant (£19.374 million).

6.4 **Area Based Grant (£32.8 million)**

The Government have also introduced a new Area Based Grant which brings together a number of smaller specific grants. For 2008/09 the amount of Area Based Grant receivable by the County Council is £32.8 million. Discussions within the Local Area Agreement framework will influence the specific use of the grant. One former specific grant in respect of Safer and Stronger Communities which has been included in the County Council Area Based Grant was previously paid directly to the District Councils. It is proposed that the amounts paid direct to the District Councils in 2007/08 should be passported to the districts in 2008/09.

Within the Area Based Grant the new Waste Infrastructure Capital grant payable to the County Council replaces the Waste Performance and Efficiency grant which was payable to the County Council and all of the District Councils. It is proposed that the new grant should be allocated and paid pro rata to the old grant.

6.5 **Council Tax Funding (£292.307 million)**

The balance of the Budget Requirement has to be met by Council Tax.

## 7. Budget Consultations

7.1 Cabinet agreed budget proposals as outlined above for consultation at its meeting on 19 December 2007.

7.2 Press releases and discussion with local journalists have led to articles appearing in the local press and discussions on local radio media.

7.3 Before the proposed budget was announced there was a widespread MORI poll of public opinion which attracted over 1,200 responses. The views expressed were taken into account when preparing the budget, and have been previously reported to cabinet.

7.4 There has also been correspondence with Nottinghamshire MP's and consultations with representatives of business ratepayers. Consultation has taken place with Trade Unions through the Corporate Joint Forum, and there has been consultation with schools about the Schools budget distribution arrangements, and within the School Forum. The trade unions felt that a 4% or 5% Council Tax increase would be publicly acceptable and provide additional funding to protect the "social capital" of public services. The unions also considered that service reductions should be reconsidered before utilising the additional Formula Grant funding on new services.

7.5 Strategic Directors have also carried out consultations with stakeholders and some service users.

7.6 The consultation arrangements were considered by the Overview and Scrutiny Committee which made the following comments and recommendations to Cabinet.

- The Overview and Scrutiny Committee wishes to congratulate the Cabinet on the improvements to consultation on the Budget Proposals for 2008/09. The Overview and Scrutiny Committee note the inclusive approach taken by the County Council as superior to the consultation for 2007/08 and would anticipate further improvement for 2009/10 through the use of the County Council's new citizen's panel.
- The Overview and Scrutiny Committee recommends that the methodology for selecting questions for future consultations should be examined and would welcome a discussion with an appropriate Cabinet Member at the meeting of the Committee on 12 May 2008.

7.7 Details of the proposed budget have been supplied to representatives of business ratepayers. A joint meeting with the Police and Fire Authorities took place on 6th February 2008.

7.8 The main points raised by the business community representatives regarding the County Council's budget proposals included:

- The suggestion that procurement savings could be achieved by greater use of local businesses.
- Questions whether charges to older persons for residential care covered the costs to the Council.
- Concerns that older people in hospitals and in need of medical care were being discharged too soon.
- A question regarding the cost of insurance premiums.

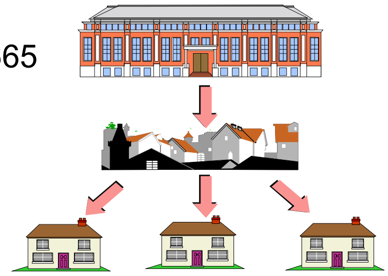
7.9 The Cabinet Member for Finance & Property and officers responded to the points raised. In addition the representatives were consulted on the possible use of Supplementary Business Rates in the future if the Government's White Paper proposals are enacted. The business representatives were completely opposed to Supplementary Business Rates.

## 8. Council Tax Bill Calculation

8.1 Each District Council has to construct a "Council Tax-base" by assessing the number of "Band D equivalent" properties in its area, and then building in an allowance for possible non-collection. The notifications from the seven District Councils are a tax-base of 252,330. This is 0.9% higher than the equivalent figure from the seven Districts for 2007/08. The increase in taxbase helps to reduce the percentage increase in the Council Tax payable.

8.2 The County Council's Council Tax is calculated by dividing the Net Expenditure to be raised through Council Tax by the Council Tax base as follows:

| | |
|---|---|
| Amount to be raised by Council Tax | £292,306,665 |
| ÷ | |
| Council Tax base | 252,330 |
| = | |
| Amount per Band D Property | £1,158.43 |



8.3 The amounts charged to properties in other Bands are based on relative proportions set by the Government. The amounts charged for each Band is as follows:

| BAND | 2008/09 £ |
|---|---|
| A | 772.29 |
| B | 901.00 |
| C | 1,029.72 |
| D | 1,158.43 |
| E | 1,415.86 |
| F | 1,673.29 |
| G | 1,930.72 |
| H | 2,316.86 |

The County Council's proposed Council Tax for 2008/09 is an increase of 3% equivalent to £33.74 for a Band D property.

8.4 The actual amounts payable by householders will also depend on:-

- The District's own Council Tax
- The Police Authority Council Tax
- The Combined Fire Authority Council Tax
- Any parish precepts or special levies
- The eligibility for a 25% discount for single adult households.

People with very low income will also be eligible for rebates.

## 9. County Precept

9.1 The Council Tax is collected for the County Council by the District Councils. The County Council recovers the tax from the Districts by setting a County Precept. The total precept is split according to the Council Tax base for each District. The figures are:-

| District Council | Council Tax base | County Precept £ |
|---|---|---|
| Ashfield | 34,562.00 | 40,037,658 |
| Bassetlaw | 35,610.99 | 41,252,839 |
| Broxtowe | 35,086.17 | 40,644,872 |
| Gedling | 37,705.84 | 43,679,576 |
| Mansfield | 31,042.70 | 35,960,795 |
| Newark & Sherwood | 37,834.32 | 43,828,411 |
| Rushcliffe | 40,488.00 | 46,902,514 |
| | **252,330.02** | **292,306,665** |

9.2 Discussions have been held with District Councils and the following dates have been agreed for the collection of the precept:

| **2008** | **2008** |
|---|---|
| 23 April | 17 October |
| 23 May | 21 November |
| 04 July | **2009** |
| 07 August | 05 January |
| 15 September | 09 February |
| | 13 March |

The dates shown are those by which the County Council's bank account must receive the credit, otherwise interest is charged. Adjustments for net variations in amounts being collected in 2007/08 will be paid or refunded on the same dates.

## 10. Capital Programme and Financing 2008/09 to 2011/12

10.1 The Council has previously adopted a Capital Strategy and Corporate Asset Management Plan that link to the themes in the Strategic Plan. The selection of schemes for the capital programme is influenced by a prioritisation process overseen by the Corporate Asset Management Group, which is a cross-service group of Officers with a finance, service and property background. The Finance Member Reference Group also plays a key role in judging the merits of potential capital schemes. This process assesses options for project delivery that meet a variety of corporate and service criteria, together with availability of funding sources and future savings and efficiencies. Information on the condition of existing assets is available in the Asset Management Plan and work has been undertaken to assess the suitability and sufficiency of existing assets.

10.2 The Government continue to support capital expenditure either by capital grants or through the Revenue Support Grant meeting part of the costs of borrowing. However, local authorities are able to determine their overall levels of borrowing, provided they have regard to "The

Prudential Code for Capital Finance in Local Authorities" published by CIPFA. It is therefore possible to increase the capital programme and finance this increase by additional borrowing provided that this is "affordable, prudent and sustainable". As such, the County Council is able to fund capital programme allocations from a combination of general capital receipts not earmarked for specific purposes, supported borrowing and other "prudential" borrowing. This is in addition to capital expenditure funded from other sources such as earmarked capital receipts, external grants and contributions, revenue and reserves.

10.3 As part of the local government finance settlement, the government has announced provisional capital support to local authorities for the three year period 2008/09 to 2010/11. This includes details of schools capital allocations and funding for the Local Transport Plan (LTP). Whilst both areas have seen a movement towards funding by specific capital grants there are still significant allocations to be funded by supported borrowing. These allocations have been incorporated into the capital programme but decisions on the utilisation of some of this funding have yet to be taken and will be the subject of future reports to Cabinet. The revenue implications of the capital programme are provided for in, and integrated with, the revenue budget.

10.4 The County Council's bid for lottery funding for Sherwood: The Living Legend was unsuccessful. However, it is proposed to increase the Capital Programme by £5 million to fund a new visitor centre at Sherwood and it is hoped that this will help to lever in additional funding, building on the partnership work that went into the lottery bid.

10.5 It is also proposed to extend the £4.6 million per annum Building Better Communities (BBC) programme for a further 3 years beyond 2008/09. The funding will be used to implement a programme of major flagship and smaller scale community schemes. This will involve the annual delivery of around 250 environmental improvement focused schemes, primarily in the most deprived areas of the County. Schemes will aim to bring about enhancements to the quality of the built environment, often delivered in close partnership with local communities.

10.6 In addition, it is proposed to continue to invest £4 million per annum to improve the quality and condition of roads and footpaths, as well as associated highway infrastructure, to make Nottinghamshire a better place to live and work. A significant proportion of this funding will be directed towards improving unclassified roads as there remains a considerable backlog of work to be addressed to bring the County's non-principal road and footway network up to standard.

10.7 Extensions beyond 2008/09 of the £3 million per annum School Condition Initiative and £1 million per annum additional funding for building maintenance will be considered as part of the 2009/10 budget following detailed reviews of these initiatives.

10.8 The A612 Gedling Transport Improvement Scheme is anticipated to incur additional costs of £1.2 million, primarily due to additional archaeology requirements, undisclosed sewers, unexpected material in the flood compensation area and the discovery of a protected species (Little Ringed Plover). This also led to an increased contract period and site supervision costs. These additional costs will be contained within the overall approved capital programme allocation for the Environment Portfolio and /or be supported by contributions from existing revenue budgets or reserves.

10.9 There are a number of uncertain potential future commitments yet to be incorporated into the Capital Programme, as follows:

- Any contribution that the County Council needs to make to Net Phase 2 pending the outcome of the public enquiry.
- Proposals for the future of Holme Pierrepont National Water Sports Centre.
- Any additional capital expenditure arising from the current review of older persons' residential accommodation.
- Any contribution that the County Council needs to make to Building Schools for the Future pending the announcement of government allocations.

10.10 The proposed capital programme for 2008/09 is £142 million, and this includes £47 million that will be financed by "unsupported borrowing" i.e. the financing costs are met wholly from Council Tax. This includes £20 million of expenditure slippage from 2007/08. The overall summary position for the years 2008/09 to 2011/12 is:-

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** | **2011/12 £m** |
|---|---|---|---|---|
| Capital Expenditure | **142** | **84** | **75** | **75** |
| Financed by: | | | | |
| Supported Borrowing* | 22 | 18 | 15 | 15 |
| Other Borrowing | 47 | - | - | - |
| Capital Grants etc | 49 | 42 | 45 | 45 |
| Capital Receipts | 24 | 24 | 15 | 15 |
| | **142** | **84** | **75** | **75** |

*Based on Government approvals, with support towards financing costs through Revenue Support Grant.

Significant financing resources continue to be raised from the sale of existing assets to produce capital receipts.

10.11 The principal schemes in the capital programme for 2008/09 are:-

### Children and Young People's Services

Bishop Alexander Primary
Bowbridge Primary
Church Drive Primary
Clarborough Primary
Langar Primary
Ranby Primary
St Johns CofE Primary
School Modernisation / Basic Needs programmes (details to be confirmed)
Young People's Centres at Eastwood, Mansfield and Worksop

### Environment

Rationalisation of Highways Depots
Programme of Environmental Improvements – Building Better Communities
Carriageway Renewals
Roads Maintenance and Integrated Transport Measures
Waste Management

### Adult Social Care and Health

Mixed care schemes
Rushcliffe Resource Centre Refurbishment

### Culture and Regeneration

West Bridgford Community Hub
Worksop Community Hub
Mansfield Library Refurbishment
Relocation of Sherwood Forest Visitors Centre
Bestwood Winding Engine House

### Finance and Property

Corporate Fire Remedial Works

10.12 The Corporate Asset Management Group is currently developing a "Gateway Process" for capital schemes. As part of this, future proposals for new capital schemes will initially be assessed for possible inclusion in an outline 10-year capital programme. Schemes will then be subject to a detailed project option appraisal prior to being considered for inclusion in the 3-year capital programme. Once fully implemented, this process will be used to inform the development of the capital programme for 2009/10 and beyond.

10.13 Variations to the existing capital programme will be managed in accordance with the procedures set out within section 4 of the Authority's Financial Regulations.

10.14 The level of external debt at March 2007 was £255 million (£228 million at March 2006), which remains relatively low compared to the average for shire counties. One of the requirements of the Local Government Act 2003 is that the Council must set an “authorised limit” for its external borrowings. Any potential breach of this limit would require authorisation from the Council. There are a number of other prudential indicators that are required by The Prudential Code. The assessment of these is set out in the report of the Strategic Director of Resources attached at Appendix B. The purpose of this report is to provide comfort that the proposed levels of borrowing, including the “unsupported borrowing”, are affordable, prudent and sustainable. In summary, the Prudential Indicators for the three year period are:-

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** |
|---|---|---|---|
| Estimated Capital Expenditure | 142 | 84 | 75 |
| Estimated Capital Financing Requirement | 493 | 493 | 490 |
| Authorised Limit for External Debt | 341 | 341 | 338 |
| Operational Boundary for External Debt | 321 | 321 | 318 |
| Financing Costs as Percentage of Net Revenue Stream | 6.9% | 7.0% | 6.5% |
| Impact of Capital Investment on Band D Council Tax | £4.66 | £14.59 | £18.89 |

It is proposed that the Strategic Director of Resources be allowed to raise loans within the authorised limit for external borrowing, and that there continues to be:

- a short term (i.e. borrowing for less than one year) borrowing limit of £35 million;
- a limit of interest payable at variable rates set at 25% of total interest payable in 2008/09.

10.15 It has also been the practice to give approval for Strategic Directors to appoint private consultants where necessary in connection with the Council’s Capital Programme and financing and for the Strategic Director of Resources to pay the consultants fees.

## 11. Medium Term Financial Strategy Update

11.1 The County Council agreed at its meeting in April 2006 the Medium Term Financial Strategy and Capital Strategy for 2006/07 to 2009/10. The fundamental principles of that strategy are still relevant, and as part of the annual budget the main features are reviewed and re-endorsed. The Council's Strategic Plan is supported by a wide range of corporate and departmental strategies. The core corporate strategies that integrate within the Medium Term Financial Strategy are the Human Resources Strategy, the Information Technology Strategy and the Property Strategy. As part of annual budget and business planning process within the Resources department any additional funding requirements arising from the strategies are identified and built into the budget planning round.

### 11.2 Policies

The Medium Term Financial Strategy sets out a number of policies and their implications. The main policies have been reviewed and the amended version for 2008/09 to 2011/12 is as follows:

- **Council Tax**

  The Authority is looking to stabilise Council Tax increases by planning a relatively even spread of increases over the period of the revised Medium Term Financial Strategy.

  The Council Tax strategy will be an increase of about 3% p.a. with the intention of bringing tax bills in the county closer to the average of County Councils, while recognising the pressures for keeping increases in line with inflation, avoiding government capping, and providing the funding to continue delivering excellent services. This strategy will be reviewed each year in the light of government funding and emerging service pressures. At present the Council Tax increases for 2010/11 and 2011/12 are indicative.

- **Government Grant**

  Government Grant for 2009/10 and 2010/11 have now been announced and will only change as a result of updating the data sources which drive the formulae. This gives a welcome degree of certainty to future financial planning. The Formula Grant for the future years is £167.629 million (2009/10) and £176.074 million (2010/11). An estimated increase of 4% has been built into the 2011/12 projection which is considered to be prudent. The Government will assume 3% cashable efficiency savings in each of the next three years.

- **County Fund Balances**

  County Fund Balances are now above 2%. The level of balances will be regularly reviewed against future financial risks.

- **Reserves**

  The Councils policy on reserves was established in 2004/05 and restated in the Medium Term Financial Strategy.

  In broad terms departmental reserves should only be held for specific purposes, principally for:

  - Asset replacement of short life assets, usually 10 years or less
  - To spread the cost of “lumpy” items of expenditure
  - For trading activities (no more than 2% of annual turnover)
  - To support items of capital expenditure

  Departmental reserves can only be established for the purpose set out and the levels held in reserves and the level of such reserves are reviewed annually. Any new reserves can only be created after validation by a Head of Service and approval is given via Cabinet. There is a supporting justification for the level of each of the reserves.

- **Value for Money**

  A VFM review of services will be built in to the annual budget process. Future potential savings will then be built into the rolling four year budget forecasts.

- **Inflation**

  Predicted inflation has been set at 2.5% for 2008/09 and each year thereafter.

  Any specific increases above these levels will generally be managed within the overall inflation allocation.

  Predicted pay awards have been set on a prudent basis assuming settlement at 0.5% above inflation, 3% for 2008/09 and each year thereafter.

  In recognition of the risk of specific price increases in future years, the Medium Term Financial Strategy includes an additional £500,000 each year for significant above inflation rises.

- **Capital Programme**

  The Strategy is to enhance the permanent facilities for use by the community and to improve and maintain existing assets and replace those that are no longer fit for purpose. All new schemes will be assessed in terms of their contribution to the Strategic Plan objectives. The size of the Capital Programme will be influenced by funding sources and financing costs. The Authority seeks to minimise the level of borrowing required to finance capital expenditure by maximising grants and contributions received and ensuring any surplus assets are sold.

  Any temporary shortfalls in receipts from asset sales will be met by increased borrowing up to the authorised limit.

- **Working in Partnership**

  The emphasis on partnership working is set to increase significantly over the next few years, both public/public partnerships and public/private partnerships. In recognition of this growing trend the Council has developed some partnership guidance for use when establishing a partnership. The guidance aims to assist with

  - Planning, preparing and participating more effectively
  - Managing partnership arrangements more efficiently
  - Ensuring clarity of outcomes and each partner's responsibilities
  - Understanding risks and liabilities
  - Anticipating difficulties an identifying solutions

  The guidance is particularly relevant in those circumstances where the Council is the accountable/employing authority.

  Perhaps the main feature of partnership working is the Local Area Agreement Partnership. This has been operating for a number of years and has recently been refreshed as the first Agreement draws to a close. A series of new priorities have been developed with partners in the Nottinghamshire Partnership which will form the basis for negotiation with the Government Office for the East Midlands to agree the new Local Area Agreement.

  The introduction of the new Area Based Grant is a financial spur to increased partnership working and the allocation and use of the Area Based Grant will be influenced by the Partnership. An LAA Finance Group has been established to consider appropriate funding mechanisms within the partnership, and for 2008/09 it has been agreed that certainty and stability of funding is paramount, and allocations to individual authorities will mirror the 2007/08 arrangements. This includes the passporting of certain elements of the Area Based Grant to the district councils.

  Partnership working with the private sector includes the various PFI schemes and framework, agreements each of which includes specific financial arrangements with appropriate safeguards and performance criteria.

11.3 **Financial Implications**

In addition to the policies outlined above the financial implications below take account of budget pressures and the capital programme for the next four years:

| | 2008/09 £m | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|---|---|---|---|---|
| **Previous Year's Budget** | **418.4** | **452.7** | **472.1** | **492.3** |
| **Inflation/Pension Costs** | 12.1 | 13.2 | 13.7 | 14.6 |
| **Budget Growth:** | | | | |
| Budget Pressures/Policy Changes | 12.8 | 9.2 | 14.1 | 6.2 |
| Existing Commitments | 0.4 | 0.7 ☆1 | -0.7 ☆1 | - |
| Capital Programme | 1.3 | 1.9 | -1.7 ☆2 | -0.8 |
| Additional Proposals | 4.0 | 0.5 | - ☆3 | - |
| **Budget Reductions:** | | | | |
| Budget Savings | -7.8 | -1.2 | -6.2 | -1.0 |
| Value For Money Programme | -1.1 | -0.1 | -0.1 | -0.1 |
| **Contingency/Redundancy** | 3.6 | -1.8 | 0.3 | 0.6 |
| **Temporary Items** | -4.7 | - | - | -0.1 |
| **Grant Changes** ☆4 | 11.8 | -0.2 | -0.1 | - |
| **County Fund Balances etc** | 1.9 | -2.8 | 0.9 | - |
| **Total Spend** | **452.7** | **472.1** | **492.3** | **511.7** |
| **Council Tax Increase** | **3%** | **3%** | **3%** | **3%** |
| **Government Grant Increase** | **8.7%** | **5.9%** | **5.1%** | **4.0%** |
| **County Fund Balances** | **£23.4m** | **£22.4m** | **£22.4m** | **£22.4m** |
| | **5.2%** | **4.7%** | **4.6%** | **4.4%** |

Notes:

☆1 Cost of County Council Elections

☆2 Borrowing requirement will fall as a result of the current capital programme reducing while capital grant funding is maintained. From 2010/11 cash raised from Minimum Loan Repayment calculation exceeds borrowing requirement.

☆3 Temporary funding of Tram phase 2 costs and backdated interest on NJE reserve etc

☆4 Impact of changes to specific grants, particularly those now funded through Formula Grant

A projection of the summarised Balance Sheet for 2006/07 onwards is included within the Summary Statements at the end of this report. These show that the level of borrowing at present and anticipated in the future, is about 17% to 24% of the total value of assets, which is below the average position for shire counties.

11.4 **Risk Analysis**

- Pay and inflation rates are assumed to remain low, however, any increases above the assumptions made will generate additional budget pressures. A 1% variation amounts to around £2.2 million for pay costs and £1.4 million for other inflation.

- The position for 2010/11 and 2011/12 anticipate the need for budget savings of £6.2 million and £1.0 million respectively. Detailed proposals to manage these reductions will be developed in subsequent budget rounds.
- Section 10.9 regarding the Capital Programme indicates a number of potential future commitments which have not been incorporated in the Capital or Revenue forecasts.
- Experience in 2007/08 regarding flooding demonstrated that significant additional financial burdens can emerge which are unforeseen. The increased level of County Fund Balances together with revised insurance arrangements should mitigate against these risks.
- The assumption of a 4% increase in Government Grant in 2011/12 is considered reasonable given the unwinding of the damping effect of grant “floors” but economic circumstances could change over the next three years and the government has given no indication of grant funding beyond 2010/11. If the assumption turns out to be optimistic there will be additional pressure on budget savings. A 1% variation in grant funding amounts to around £1.7 million.
- The Local Authority Business Growth Initiative Scheme is due to end in 2008/09. The Government has indicated that a new scheme will be in place for 2009/10 and have allocated funding of £100 million nationally by 2010/11. The implications for Nottinghamshire County Council are unknown until details of the scheme are approved so no funding has been included from 2008/09. Based on the existing scheme additional funding could vary between nil and £1 million.
- From 2009/10 around £60 million of grant will be included in the Local Area Agreement Funding pool. The LAA Board will influence how this funding is distributed.
- After allowing for carry forwards portfolios have shown a tendency to underspend in recent years, further adding to balances.
- Although there is reliable evidence for the predicted increase in social care, this has tended to be the most variable area of spend in recent years. The degree of additional funding to be found by the Council may however vary with changes in demand, the Governments response to the pressures, and the outcome of the Green Paper on reform of the care system.

## 12 Statutory and Policy Implications

12.1 This report has been compiled after consideration of implications in respect of finance, equal opportunities, personnel, Crime and Disorder and those using the service. Where such implications are material, they have been described in the text of the report.

## 13. Recommendations

| | | Paragraph Ref |
|---|---|---|
| 13.1 | The revised budget of £421.705 million for 2007/08 be approved. | 4.1 |
| 13.2 | The Annual Budget of £452.730 million for 2008/09 be approved. | 5.18 |
| 13.3 | The Cabinet be authorised to make allocations from the General Contingency for 2008/09. | 5.14 |
| 13.4 | The County Council's Council Tax for 2008/09 for the various bands of property shall be: | 8.3 |

| BAND | 2008/09 £ |
|---|---|
| A | 772.29 |
| B | 901.00 |
| C | 1,029.72 |
| D | 1,158.43 |
| E | 1,415.86 |
| F | 1,673.29 |
| G | 1,930.72 |
| H | 2,316.86 |

| | | |
|---|---|---|
| 13.5 | The County Precept for the year ending 31 March 2009 shall be £292,306,665 and shall be applicable to the whole of the District Council areas as General Expenses. | 9.1 |
| 13.6 | The County Precept for 2008/09 shall be collected from the District Councils in the proportions set out in paragraph 9.1 with the payment of equal instalments on the following dates: | 9.2 |

| **2008** | **2008** |
|---|---|
| 23 April | 17 October |
| 23 May | 21 November |
| 04 July | **2009** |
| 07 August | 05 January |
| 15 September | 09 February |
| | 13 March |

| | | |
|---|---|---|
| 13.7 | The Capital Programme for 2008/09 – 2011/12 be approved at total amounts of: | 10.10 |

| | |
|---|---|
| 2008/09 | £142 million |
| 2009/10 | £84 million |
| 2010/11 | £75 million |
| 2011/12 | £75 million |

to be financed as set out in the report.

| | | | |
|---|---|---|---|
| 13.8 | Variations to the Capital Programme be approved in accordance with the procedures set out within section 4 of the Authority's Financial Regulations. | | 10.13 |
| 13.9 | (a) | The authorised limit on total external borrowings be set at £341 million for 2008/09, £341 million for 2009/10 and £338 million for 2010/11. | 10.14 |
| | (b) | The Prudential Indicators shown in paragraph 10.14 be approved. | 10.14 |
| | (c) | The limit on short-term borrowings be set as £35 million for 2008/09. | 10.14 |
| | (d) | The limit of interest payable at variable rates be set at 25% of total interest payable in 2008/09. | 10.14 |
| | (e) | The Strategic Director of Resources be authorised to raise loans in 2008/09 within the limits of total external borrowings. | 10.14 |
| | (f) | Approval be given for Strategic Directors to appoint private consultants when necessary in 2008/09 in connection with the Capital Programme and for the Strategic Director of Resources to pay the consultants fees. | 10.15 |
| | (g) | The principles underlying the Medium Term Financial Strategy, as set out in section 11 of the report, be re-endorsed. | 11 |
| 13.10 | The report on the Annual Budget for 2008/09, the Capital Programme 2008/09 – 2011/12 and the Medium Term Financial Strategy 2008/09 – 2011/12 be approved and adopted. | | |

**Cllr David Kirkham**
Leader of the
Council

**Cllr Chris Baron**
Cabinet Member for
Finance & Property

**Cllr Michael Storey**
Deputy Leader
of the Council

**Cllr John Stocks**
Cabinet Member
for People & Performance

**Background Papers Available for Inspection**

Budget Book 2008/09

**Head of Legal Services Comments (JMF 11/02/08)**

The function of approving and adopting the budget and policy framework for the Council is reserved to Full Council under the constitution. Once approved by Full Council it is the responsibility of Cabinet to implement it.

The Budget and Policy Framework Procedure Rules set out the process for developing the budget. Full Council must consider the proposals of the Cabinet set out in this report and may adopt them, amend them or refer them back to Cabinet for further consideration, or substitute its own proposals in their place.

**Strategic Director of Resources Comments (AS 08/02/08)**

The budget proposed has been prepared taking into account the major strategic objectives of the Council and reflects all significant cost variations that can be anticipated. There is an adequate provision for inflation on salaries and running costs, and to the extent that those may be insufficient or that other unexpected events arise there are appropriate County Fund Balances.

The budget is in my opinion robust and meets the requirements of the Local Government Finance Act 1992, the Local Government Act 2003 and the CIPFA Prudential Code.

**APPENDIX A**

# REPORT OF THE STRATEGIC DIRECTOR OF RESOURCES

## BUDGET 2008/09

## RISK ASSESSMENT AND IMPACT ON COUNTY FUND BALANCES AND RESERVES

### A. Introduction

1. The revenue budget and capital programme that make up the Medium-Term Financial Strategy are closely aligned to the five priorities in the Strategic Plan "All Together Better" and so all major policies and objectives have been reflected in the budget. The Strategic Plan objectives are supported by a wide range of specific strategies and plans aimed at achieving the desired outcomes and targets within the Strategic Plan. Each of these strategies or plans links into the departmental business planning process of the Council, and where additional resources are needed to achieve the outcomes this has been addressed as part of the annual budget bids round. Each additional budget pressure or new initiative is supported by a Business Case which amongst together things examines how the proposals link to the Strategic Plan and the Community Strategy , identifies improved service outputs that will result from the expenditure and assesses how the proposal will impact upon the Comprehensive Performance Assessment. All new revenue funding bids that emerge from the Council's strategies have been assessed via this process. There is a similar process for capital schemes. In this way all of the financial implications of the Councils various strategies and plans are reflected in the annual budget and Medium Term Financial Forecast. The budget preparation process involves Members, Strategic Directors and the appropriate budget managers in order that all Strategic Plan objectives are appropriately resourced. Where there is uncertainty as to the timing or level of expenditure, monies have been set aside in specific reserves. The levels of reserves are reviewed annually as part of the budget/closedown process to ensure they are adequate for the purpose for which they were established. As a consequence of the Council's robust financial planning there is therefore a LOW RISK of any significant unplanned expenditure, but nevertheless it is prudent to have a level of County Fund Balances that are adequate to meet unforeseen events.

2. The budget includes a three year forward look of possible future Council Tax increases and this forecast is reviewed on an annual rolling basis.

## B. Revenue Budget

### 1. Portfolio Budgets

1.1 Recent history suggests there is a HIGH RISK that portfolios will underspend by the year end. Carry forward arrangements allow Portfolios to rearrange any timing issues etc. that arise, while budget monitoring arrangements continue to be improved to identify variances early and implement corrective action , where necessary.

1.2 Social Care budgets in particular have been subject to variations in demand, so there remains a MEDIUM RISK that the Social Care spending will vary from budget.

### 2. Employees Cost

2.1 Over 50% of gross revenue expenditure is spent on employees' costs, including pay, National Insurance and pensions contributions.

2.2 The cost drivers for basic pay are the number of people employed and the rates of pay.

2.3 The County Council accepts the national pay negotiating arrangements and implements the pay awards that are agreed. The pay award for APT&C staff for 2008/09 has yet to be settled, however, an increase of 3.0% has been provided. Schools will have to meet the increased costs of the teachers pay award from their overall increase of 3.1% for 2008/09, which are now wholly funded through the Dedicated Schools Grant. Risks in respect of pay awards during 2008/09 are therefore considered LOW RISK.

2.4 Cabinet Members and Strategic Directors have a responsibility to ensure that budgets are managed within the resources made available. The County Council has a consistent track record of doing this and the external Auditors have stated their satisfaction with our budget management arrangements. It is not likely that managers will create budget problems by employing more staff than there is budget cover for. However, all departments will have made assumptions about vacancy rates when preparing their budgets and careful budget monitoring throughout the year will be needed to ensure that these assumptions are realistic.

2.5 The cost of National Insurance is dependent on the numbers and pay of people employed and the employer's contribution rates. The Government have already set these rates for 2008/09 and so the risk of a variation for next year at this stage is MINIMAL.

2.6 The cost of employers' pension contributions is also dependent on the numbers and pay of people employed, and also on whether people opt to join the Pension Scheme and the level set by the Actuary for employers' contributions. The Actuary has not yet finalised the contribution rates for 2009/10 and beyond, but for 2008/09 an employers' contribution rate of

16.1% has been set. This is an increase of 0.6% from the 2007/08 figure. The full results of the valuation will be known before the end of March 2008. There is still an outstanding issue of part timers being allowed to back-date their entry into the Scheme, and incur extra employers' contributions, but this will be dependent on the numbers of part-time staff who take up this option.

**3. Other Running Costs**

3.1 These items make up 40% of gross revenue expenditure. This proportion has risen in recent years because of the higher level of payments to third parties, for instance, for the provision of nursing and residential care for older people. The cost drivers are the levels of demand that have to be met, the quality of goods and services that are purchased and the prices that are negotiated for these.

3.2 The budget management arrangements in place have generally avoided any significant net overspendings on running costs.

3.3 It is expected that the track record in sound financial management will ensure that significant overspendings are avoided. This confidence is enhanced by the recognition within the budget for 2008/09 of anticipated budget problems including:

- Direct payments to the carers of disabled children
- Additional funding for the costs of care of older people and those with mental health, learning disabilities and physical disabilities where service user numbers are growing
- Increasing fees for care in independent care homes
- Above inflation costs of highway maintenance
- Additional remedial drainage works
- Changes to the eligibility criteria for social care

3.4 All non-pay budgets have been increased by an allowance for inflation.

3.5 Savings of £7.827 million have been targeted in Portfolio Budgets from efficiencies, increased income and deleting lower priority items. There is a risk that these savings might not be fully achieved within the 2008/09 financial year.

3.6 In 2007/08 the Council incurred significant costs in relation to the June/July floods. Cabinet agreed a contingency allocation of £1.21 million to cover a range of immediate costs. No funding was received from the Bellwin Scheme as the financial threshold was not exceeded. However, the Council did receive £858,000 of Flood Recovery Grant to assist with the costs of temporary accommodation for schools affected by the floods and to fund additional activities for children and young people. Since the floods the Council's insurance arrangements for schools have been reviewed and additional cover has been arranged so that the Council is better protected in the future.

3.7 The conclusion is that it should continue to be possible to manage running cost within available budgets but the level of changes required means there is a MODERATE RISK of some support being needed from County Fund balances.

**4. Capital Charges**

4.1 The cost drivers here are the levels of capital expenditure and interest rates.

4.2 The Capital Programme traditionally underspends although in recent years the County Council has been spending over 90% of its budgeted programme. This is becoming more difficult to achieve, as capital programmes get larger and technical resources to deliver the programme become stretched. Hence, the likelihood of planned capital expenditure exceeding the budgeted amounts is minimal.

4.3 The Bank of England Base Rate has increased twice and then decreased twice, at 0.25% each time, by February 2007 to end of the period as it started. Although most economists are expecting further declines in the Base Rate later in the year, Money Market rates are not currently reflecting this as they are still affected by lack of liquidity originally caused by the US “Sub-Prime Crisis” last year. Long Term Borrowing Rates from the PWLB have been relatively high most of the year but have recently declined to more reasonable levels around 4.5% and it is possible to borrow elsewhere long term close to 4%. Whilst some movement in interest rates is inevitable, the likelihood of major variations in long term rates in 2008/09 is thought to be possible but unlikely. This would only affect the cost of new borrowing, because most of our long-term borrowing is at fixed rates of interest that is covered in the budget for 2008/09.

4.4 The possibility of an overspend on capital charges is regarded as LOW RISK.

**5. Income**

5.1 Income can be categorised into:

- Revenue Support Grant and National Non-Domestic Rates
- Precept Income – Council Tax
- Specific Grants
- Fees and Charges

5.2 The income from Revenue Support Grant is fixed and certain for the year.

5.3 District Councils are committed to making precept payments to the County Council on the due dates, irrespective of whether they have actually collected Council Taxes at that time. In practice, they tend to be prudent about their collection rates, and pay over the extra amounts they collect in the following year.

5.4 The amounts of specific grants received will depend on whether the grant conditions have been fulfilled. Since there are direct or indirect links with expenditure being incurred, there is little scope for a net overspending to take place, provided that external Auditors can be satisfied.

5.5 The major items of income, grants and Council Tax, are regarded as LOW RISK.

5.6 The income from fees and charges is potentially more volatile because it depends on customer demand and ability to pay for items like School Meals, charges for Home Care and Residential Accommodation, and services provided to other organisations.

5.7 The net cost of school meals is now managed within Individual School Budgets, and so the risk of any income shortfalls rests on Schools' balances rather than County Fund balances. The total level of Schools' balances is greater than County Fund balances.

5.8 Arrangements are in place for monitoring the level of debt on Adult Services residential charges for older people. Where appropriate, the outstanding debt is secured on property.

5.9 Where services are provided to external organisations, this should be backed up with a service level agreement and a commitment to pay for the services provided.

5.10 Other sources of income, like library fines and country park income can be more volatile but variations are not likely to be material.

5.11 The conclusion is that material variations affecting County Fund balances from income shortfalls are likely to be LOW RISK. Furthermore, our accounting practice is to create a Provision for doubtful debts for debts that are more than six months old.

## C. Capital Expenditure and Financing

### 1. Expenditure

1.1 The Capital Programme is approved as part of the budget each year. Schemes are selected according to prioritisation criteria that link to the Strategic Plan and to issues like condition, sufficiency and suitability. All major capital schemes are subject to full project appraisal. The financing costs of the approved programme are integrated with the revenue budget. Variations can only be made after consultation within the Corporate Asset Management Group, the Finance Member Reference Group and approved by the Cabinet Member for Finance and Property, Cabinet, or County Council depending on the size of the variation.

1.2 The level of capital expenditure is monitored throughout the year and regular reports made to the Cabinet Member for Finance & Property and the Cabinet. Schemes are managed to recognised project management standards. However, unanticipated delays in schemes can result in slippage within the Capital Programme.

1.3 There is still a considerable backlog of maintenance work on the County Council's building stock. Some of this might be more effectively tackled by replacement with new buildings, rather than trying to patch-up old buildings. Where this approach is preferred, there could be preparatory costs involved in land assembly and design works. This might require an increase in the overall level of the Capital Programme.

1.4 There is some uncertainty about the National Water Sports Centre at Holme Pierrepont. The County Council may have to incur additional costs before its long term future is secured.

1.5 Other uncertain potential future commitments include any additional capital expenditure arising from the current review of older persons' residential accommodation and any contributions that the County Council needs to make to Net Phase 2 or Building Schools for the Future

## 2. Financing

2.1 Capital expenditure is financed from:

- Borrowing
- Capital Grants and Contributions
- Capital Receipts
- Revenue and Reserves

2.2 Local Authorities can set their own borrowing limits at levels they regard as affordable, prudent and sustainable. Some borrowing continues to be supported through the Revenue Support Grant process, but the financing costs of other discretionary borrowing has to be met from the Council's own resources. However, there is certainty about the amounts of borrowing that can take place within the limits set by the Council.

2.3 Capital grants are known in advance of expenditure being incurred and the Government has announced provisional capital support to local authorities for the three year period 2008/09 to 2010/11.

2.4 The current capital programme is constructed on the basis of receiving substantial developer contributions in respect of the Mansfield and Ashfield Regeneration Route (MARR) and the A612 Gedling Transport Improvement Scheme. There is a risk that not all of the anticipated contributions will be received. Any shortfall would need to be financed from other sources.

2.5 Income from capital receipts depends on completed sales of land and property. It is therefore vulnerable to market conditions and resolution of planning and legal requirements. The County Council anticipates raising

£24 million from capital receipts in 2008/09. There has to be an element of risk that this may not be achieved, but the risk has been addressed by:

- Identifying the land and property that should realise the anticipated amount.
- Preparatory work to ensure that a number of major sales are ready to be progressed.
- Regular monitoring of progress by the Cabinet Member for Finance & Property, the Strategic Director of Resources and the Service Director (Corporate Property).

If the capital receipts target is not achieved, it should be possible to cover any shortfall by borrowing within the limits set. This would incur additional financing costs. There are some significant disposals anticipated in 2008/09 which are subject to gaining planning approval.

2.6 The use of revenue contributions to support the capital programme is kept to a minimum.

2.7 The likelihood of County Fund Balances being required to finance the Capital Programme is regarded as LOW RISK but there is a MODERATE RISK of additional financing costs.

## D. Risk Management Measures

1. The Council has developed a strategic approach to risk management that seeks to identify potential higher risks at an early stage so that remedial action can be taken.

2. The external Auditors review our financial arrangements each year. We have received a score of 3 out of 4 in the Use of Resources in 2007 and the Annual Audit and Inspection Letter on the 2007/08 Accounts has concluded that the overall financial position of the Council is healthy. In particular the external auditor highlighted that:

   - The accounts were submitted for audit on a timely basis and an unqualified Audit opinion was provided
   - The Council's financial strategy continues to reflect the response of the Council to meet its future challenges
   - The Council has very healthy balance and reserves, and continues to set a balanced budget which is actively monitored with variances investigated throughout the year
   - Significant business risks continue to be well managed
   - There are strong arrangements in place to maintain a sound system of internal control, including the Audit Committee

- The Council continues to have very good arrangements in place to manage and improve value for money

3. Insurance arrangements are in place to cover various specified risks. These are a mixture of risks placed with external insurers and covered by internal insurance, provisions and reserves.

## E. County Fund Balances

1. The level of County Fund Balances at the end of recent years has been:

| | £000 |
|---|---|
| 1999/2000 | 5,350 |
| 2000/2001 | 5,630 |
| 2001/2002 | 6,629 |
| 2002/2003 | 6,109 |
| 2003/2004 | 8,186 |
| 2004/2005 | 7,294 |
| 2005/2006 | 12,462 |
| 2006/2007 | 19,502 |

These levels of working balances have been sufficient to deal with unforeseen events that have happened in those years. It has been possible to increase County Fund Balances such that they are close to the 5% of the non-schools budget suggested by the Audit Commission. As such a full risk assessment is less important, but has been undertaken as good practice.

2. The level of County Fund balances at 31 March 2009 is estimated at £23.364 million

3. The budget presented to the County Council includes a three-year projection which incorporates the major items of likely additional expenditure.

## F. Recommendations

1. The level of proposed County Fund balances in 2008/09 be regarded as acceptable cover for any reasonable level of unforeseen events.

2. The report be noted.

**ARTHUR DEAKIN**
**STRATEGIC DIRECTOR OF RESOURCES**

**APPENDIX B**

# REPORT OF THE DIRECTOR OF RESOURCES

## FINANCING CAPITAL EXPENDITURE BY BORROWING AND THE PRUDENTIAL CODE INDICATORS

### 1. Purpose of the Report

1.1 To outline the prudential indicators and to suggest how expenditure will be financed by borrowing in an affordable, prudent and sustainable way.

### 2. Information and Advice

2.1 The Local Government Act 2003 enables local authorities to determine their programmes for capital investment and associated borrowing requirements, provided they have regard to the Prudential Code for Capital Finance in Local Authorities developed by CIPFA and also take advice from the Section 151 Officer.

2.2 The Executive Summary of the Code states that "The key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable – or, in exceptional cases, to demonstrate that there is a danger of not ensuring this, so that the local authority concerned can take timely remedial action. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code also has the objectives of being consistent with and supporting local strategic planning, local asset management planning and proper option appraisal."

2.3 The Code sets out a number of prudential indicators designed to support and record local decision making and it is the duty of the Strategic Director of Resources (The Council's Section 151 Officer) to ensure that this information is available to Members when they take decisions on the County Council's capital expenditure plans and annual budget. Key issues to be considered are:

- Affordability – implications for Council Tax
- Prudence and sustainability – implications for external borrowing
- Value for money – option appraisal
- Stewardship of assets – asset management planning
- Service objectives – within the Council's Strategic Plan
- Practicality – whether the capital plans are achievable

## 3. Prudential Indicators

### 3.1 Affordability

3.1.1 The Code requires the Council to be aware of the impact of financing capital expenditure on its overall revenue expenditure position and on its Council Tax requirements.

3.1.2 The costs of financing capital expenditure are:

- Interest payable to external lenders less interest earned on investments
- Amounts set aside for repayments of amounts borrowed

The relevant figures from the 2006/07 accounts are:

| | |
|---|---|
| Interest Payable | 16,540 |
| Interest on Investments | (3,588) |
| Amounts set aside for Repaying Debt | 14,628 |
| **Capital Financing Costs** | **27,580** |
| **Net Revenue Stream** | **405,455** |

Capital financing costs were therefore 6.8% of the County Council's net revenue stream. The estimated proportions for the following years are:

| | |
|---|---|
| 2007/08 | 6.7% |
| 2008/09 | 6.9% |
| 2009/10 | 7.0% |
| 2010/11 | 6.5% |

Whilst the proportion of capital financing costs to net revenue stream needs to be kept under review the current projections are both relatively low and stable.

3.1.3 Assuming the continuation beyond 2010/11 of government capital support through supported borrowing and capital grants, the forecast levels of capital expenditure and sources of finance for the next four years are:

| | **2008/09 £m** | **2009/10 £m** | **2010/11 £m** | **2011/12 £m** |
|---|---|---|---|---|
| **Capital Expenditure** | **142** | **84** | **75** | **75** |
| **Funded From:** | | | | |
| Supported Borrowing | 22 | 18 | 15 | 15 |
| Other Borrowing | 47 | - | - | - |
| Capital Grants etc. | 49 | 42 | 45 | 45 |
| Capital Receipts | 24 | 24 | 15 | 15 |
| **Total** | **142** | **84** | **75** | **75** |

This table demonstrates that as well as using borrowing as a source of finance, it continues to be important to use external grants and contributions and capital receipts raised locally. A figure of £47 million in 2008/09 is proposed to make use of the flexibilities on borrowing levels that are available under the Prudential Code. This is larger than previously envisaged because of significant levels of slippage from prior years.

3.1.4 The County Council's external debt per head of population at the end of 2005/06, the last year for which comparative figures are available, was £299. This was £173 per head or 37% below the average for shire counties.

3.1.5 The impact of financing new borrowing on Council Tax levels needs to be assessed. The estimated levels of new borrowing in this year and the next 3 years, and the associated cumulative financing costs are:

| | 2007/08 £m | 2008/09 £m | 2009/10 £m | 2010/11 £m |
|---|---|---|---|---|
| Borrowing Supported through RSG | 25 | 22 | 18 | 15 |
| Borrowing not supported through RSG | 40 | 47 | - | - |
| **Total** | **65** | **69** | **18** | **15** |
| Estimated Gross Financing Costs | | £1.79m | £5.61m | £7.27m |
| Council Tax impact (Band D) | | £7.17 | £22.44 | £29.06 |
| Estimated Financing Costs (based on 35% of financing funded through grant) | | £1.17m | £3.65m | £4.72m |
| Council Tax impact (Band D) adjusted for grant | | £4.66 | £14.59 | £18.89 |

The Band D Council Tax for 2007/08 was £1,124.69. After applying a 35% grant contribution capital financing would increase Council Tax by up to £4.66 in 2008/09, equivalent to an increase of 0.4%. The cumulative amounts for 2009/10 and 2010/11 are £14.59 and £18.89 respectively, equivalent to 1.3% and 1.7% based on the levels of borrowing outlined in the table above.

**3.2 Prudence and Sustainability**

3.2.1 One of the features of the Prudential Code arrangements is the need to calculate the "Capital Financing Requirement". This figure covers capital expenditure which has not yet been permanently financed through the revenue account. It is derived by consolidating a number of Balance Sheet items.

| | £m |
|---|---|
| Fixed Assets | 1,512 |
| Fixed Asset Restatement Reserve | (625) |
| Capital Financing Account | (272) |
| Government Grants Deferred | (223) |
| **Capital Financing Requirement*** | **392** |

* As at 31 March 2007

The Code states that "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. This is a key indicator of prudence".

The Capital Financing Requirement needs to be rolled forward to the estimated position at the end of 2007/08:

| | £m |
|---|---|
| Capital Financing Requirement 2006/07 | 392 |
| Add: | |
| Borrowing 2007/08: - Supported | 25 |
| - Unsupported | 40 |
| Less: | |
| Amounts set aside for repayment of debt 2007/08 | (16) |
| **Estimated Capital Financing Requirement 2007/08** | **441** |

3.2.2 The additional Capital Financing Requirements for the next 3 years are:

| | **2008/09** | **2009/10** | **2010/11** |
|---|---|---|---|
| | **£m** | **£m** | **£m** |
| Borrowing supported by RSG | 22 | 18 | 15 |
| Other Borrowing | 47 | - | - |
| Amounts set aside for Repayment of Debt | (17) | (18) | (18) |
| **Additions (net)** | **52** | **-** | **(3)** |

As such there is a requirement to ensure that borrowing in 2008/09 does not exceed £490 million i.e. preceding year plus current plus next two years. On past experience, this will not cause any problems.

The Government is currently consulting on proposed changes to the guidance on Minimum Revenue Provision, which determines the amounts required to be set aside for the repayment of debt. The figures included in the above table are based upon best estimates of debt repayment on the assumption that the proposed changes are enacted. A report will be made to County Council outlining the impact of the final changes once these are known.

3.2.3 The Local Government Act 2003 requires the County Council to set an "Authorised Limit" for its total external debt for 2008/09 and for the following two years. There is also a requirement to set an "Operational Boundary" for next year and the following two years. It is recommended that the Operational Boundary should be assessed initially, and then an Authorised Limit set that is higher than this.

If it appears that the "Authorised Limit" might be breached, the Strategic Director of Resources has a duty to report this to the County Council for appropriate action to be taken.

3.2.4 The "Operational Boundary" for external debt for the next 3 years can be built up from the existing levels of external debt shown in the Balance Sheet at 31 March 2007, which was £254.760 million.

3.2.5 This figure can be rolled forward to provide Operational Boundaries for 2008/09 and subsequent years.

| | **£m** |
|---|---|
| External borrowing at 31 March 2007 | 255 |
| Net repayment of borrowing in 2007/08 | (16) |
| **Estimated external borrowing at 31 March 2008** | **239** |
| Capital expenditure financed by borrowing 2008/09 | 69 |
| Amounts set aside for repayment of debt | (17) |
| Contingency for unforeseen borrowing | 30 |
| **Operational Boundary 2008/09** | **321** |
| Capital expenditure financed by borrowing 2009/10 | 18 |
| Amounts set aside for repayment of debt | (18) |
| **Operational Boundary 2009/10** | **321** |
| Capital expenditure financed by borrowing 2010/11 | 15 |
| Amounts set aside for repayment of debt | (18) |
| **Operational Boundary 2010/11** | **318** |

The contingency for unforeseen borrowing is available to cover any temporary cash flow issues that might arise, and also for increases in the capital programme that require financing by borrowing. This has been increased to £30 million from the previous £20 million in order to provide for any additional borrowing requirement arising from the use of the pay review reserve.

3.2.6 The Authorised Limit should not need to be varied during the year, except in exceptional purposes. It is proposed to add a further £20 million to the Operational Boundaries to provide this cover. The suggested Authorised Limits are:

| | |
|---|---|
| 2008/09 | £341 million |
| 2009/10 | £341 million |
| 2010/11 | £338 million |

Both the Authorised Limits and Operational Boundaries are less than the Capital Financing Requirement because best practice in treasury management means that actual borrowing is below the notional underlying borrowing requirement.

3.2.7 Another prudential indicator is that the County Council has adopted the CIPFA Code of Practice for Treasury Management. The County Council has previously received reports on the operation of this Code, and a further report is due to be made to Council. This will set out how the Council will respond to:

- Minimising exposure to interest rate variations.
- The maturity structure of borrowing i.e. phasing of repayments of existing loans from PWLB.

### 3.3 Value for money – option appraisal

3.3.1 The County Council's Capital Programme is monitored by the Corporate Asset Management Group, which is a cross-service group of Officers with a finance, service and property management background. Proposals for new capital schemes are prioritised by this group, using a set of corporately agreed prioritisation criteria, and presented to Cabinet Members. The prioritisation process requires that various options have been considered by the sponsoring department before they submit their preferred option.

### 3.4 Stewardship of Assets

3.4.1 The Council has approved its Asset Management Plan, which sets out the condition of its assets and the arrangements for managing these effectively. The Council's Corporate Property Strategy enhances these arrangements, including increasing the awareness that efficient use of property is an important element of maximising the value obtained from the Council's overall resources.

### 3.5 Service Objectives

3.5.1 The option appraisal of proposed capital schemes undertaken by the Corporate Asset Management Group considers, amongst other factors, the following:

- How the proposal links with the Council's plans, e.g. Strategic or Community Plan.
- How the proposal will improve the Council's CPA performance or service block best value performance indicators.
- The service improvements expected to be delivered from the investment.
- The extent that the proposal will impact across the Council's taxpayers.
- Details of any consultation that has influenced the proposals.

### 3.6 Practicality

3.6.1 The capital programme is monitored throughout the year to ensure that:

- Any slippage on major schemes is identified as soon as possible.
- Variations to the capital programme are reported to Cabinet on a regular basis.
- Funding sources, particularly capital receipts, are available when required.

## 4. Summary of Prudential Indicators

| | 2008/09 £m | 2009/10 £m | 2010/11 £m |
|---|---|---|---|
| Estimated capital expenditure | 142 | 84 | 75 |
| Estimated capital financing requirement | 493 | 493 | 490 |
| Authorised limit for external debt | 341 | 341 | 338 |
| Operational boundary for external debt | 321 | 321 | 318 |
| Financing costs as a percentage of net revenue stream | 6.9% | 7.0% | 6.5% |
| Impact of capital investment on Council Tax | £4.66 | £14.59 | £18.89 |

## 5. Recommendation

That this information is taken into account when County Council takes its decisions on the budget.

**ARTHUR DEAKIN**
**STRATEGIC DIRECTOR OF RESOURCES**