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CABINET – 12TH FEBRUARY 2007

REPORT OF THE DIRECTOR OF RESOURCES

MEDIUM TERM FINANCIAL STRATEGY 2007/08 TO 2009/10

PART A

Purpose of Report

1. This report presents information on the County Council's proposed 2007/8 to 2009/10 Medium Term Financial Strategy (MTFS).

Recommendation

2. That the following be recommended to the County Council:-
 - a) That subject to the items below, approval be given to the MTFS which incorporates the recommended revenue budget for 2007/08 totalling £292,154,600 and includes the growth and savings for that year as set out in Appendix D.
 - b) That approval be given to the projected revenue budgets for 2008/09 and 2009/10, including the growth and savings for these years as set out in Appendix D and to the undertaking of such preliminary work, including consultation, as may be necessary towards achieving the savings specified for these years.
 - c) That the level of earmarked reserves as set out in Appendix L be noted.
 - d) That the amounts of the County Council's Council Tax for each band of dwelling and the precept payable by each billing authority for 2007/08 be as set out in Appendix N.
 - e) That the Chief Executive be authorised to issue the necessary precepts to billing authorities in accordance with the budget requirement above and the tax base notified by the District Councils, and to take any other action which may be necessary to give effect to the precepts.
 - f) That approval be given to the 2007/08 capital programme as set out in Appendix G.
 - g) That approval be given for planning and design purposes for the 2008/09 and 2009/10 capital programmes as set out in Appendix G subject to such arrangements the Council may make within the Financial Procedure Rules and Standard Financial Instructions to allow commencement before the planned programme year or the adoption of substitute schemes.

- h) That the financial indicators required under the Prudential Code set out in Appendix H be noted and that the following limits be approved:-

	<u>2007/08</u>	<u>2008/09</u>	<u>2009/10</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>
Authorised limit for external debt			
i) Borrowing	422	430	437
ii) Other long term liabilities	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>
TOTAL	<u>422.3</u>	<u>430.2</u>	<u>437.2</u>
Operational boundary for external debt			
i) Borrowing	382	390	397
ii) Other long term liabilities	<u>0.3</u>	<u>0.2</u>	<u>0.2</u>
TOTAL	<u>382.3</u>	<u>390.2</u>	<u>397.2</u>

- i) That the Director of Resources be given delegated authority to effect movement within the authorised limit for external debt between borrowing and other long term liabilities.
- j) That the following borrowing limits be approved for the period 2007/08 to 2009/10:-
- i) Upper limit on fixed interest exposures 100%
- ii) Upper limit on variable rate exposures 30%
- iii) Maturity of borrowing

	<u>Upper Limit</u>	<u>Lower Limit</u>
	<u>%</u>	<u>%</u>
Under 12 months	30	0
12 months and within 24 months	30	0
24 months and within 5 years	50	0
5 years and within 10 years	70	0
10 years and above	100	25

- k) That the Director of Resources be authorised to enter into such loans or undertake such arrangements as necessary to finance capital payments in 2007/08, subject to the above prudential limits.
- l) That the Treasury Management and Annual Investment Strategy, Capital Strategy, Reserves Policy and Risk Management Strategy set out in the Appendices to this report be approved.

Reason for Recommendations

3. To enable the County Council to meet its statutory requirements with respect to setting a Budget Requirement and Council Tax precept.

Timetable for Decisions

4. The County Council meets on 21st February to consider the MTFS (2007-2010), 2007/08 budget and 2007/08 to 2009/10 capital programmes. This will enable the budget to be set before the statutory deadline of the end of February.

Policy Framework and Previous Decisions

5. The MTFS takes account of the Medium Term Corporate Strategy and service planning framework. It also takes into consideration comments from Scrutiny Commission and the Scrutiny Committees following their review of the draft MTFS in the Autumn and the MTFS consulted upon in January.

Circulation Under Sensitive Issues Procedure

6. None.

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PART B

Medium Term Financial Strategy 2007/8 to 2009/10

7. The development of the MTFS has taken place over the last nine months and has involved both public consultation and scrutiny by the Scrutiny Committees and the Scrutiny Commission. The MTFS has close links with the Medium Term Corporate Strategy, the Local Area Agreement (LAA) and service plans. The main links to other strategies and plans are shown in Appendix P.
8. The MTFS has four key elements:-
 - Restrict Council Tax increases
 - Maximise efficiency savings
 - Improve high priority services
 - Minimise reductions in lower priority services
9. Nearly 90% of the respondents to the online surveys either agreed or strongly agreed with the approach outlined above. The main findings of the consultation are summarised in paragraph 15.
10. Even though the Government announced only a one year settlement pending the 2007 Comprehensive Spending Review (CSR) the County Council's strategy has been developed for the medium term (2007/8 to 2009/10). As has been the practice in previous years the revenue and capital planning processes have been integrated.
11. The key features of the proposed strategy are:-
 - Council Tax increase of 4.25% in 2007/8 with lower increases (4%) in later years
 - Cashable efficiency savings of at least 1½% per year (1.7% in 2007/8 with a total of £14.2m over the three year strategy).
 - Investment of £2.4m in key service improvements in 2007/8 (£10.3m over the three years of the strategy).
 - Service reductions and increased charges of £0.9m in 2007/8 and £3.9m planned over the three years of the strategy.
12. There is still a shortfall of £1.2m which will need to be found by reducing growth and/or further savings when the plan is reviewed following the publication of CSR07. In addition, within the overall efficiency savings total of £14.2m over £5m will need to be identified over the next two years. The majority of these savings relate to 2009/10.
13. The medium term revenue budget is summarised in Appendix A.

Formula Grant

14. The final formula grant settlement for 2007/8 was announced by the Government in mid January. The announcement confirmed the provisional cash increase of £0.6m (0.8%). The cash increase is the lowest of any upper tier authority in England and works out at 15p per person after allowing for population growth. This has been the subject of the 'Fair Share' campaign which has had favourable press coverage,

including editorial comment, and attracted the support of local Members of Parliament.

Budget Consultation

15. Budget consultation on the MTFs has been undertaken through two focus groups, one in Loughborough and one in Wigston, and a questionnaire. The questionnaire was sent to the County Council's Citizens' Panel and was also available on line and nearly 600 responses were received. The main messages from the consultation are:-
 - Significant support for the key elements of the strategy.
 - The respondents to the survey stated that the most important element of the strategy was to maximise efficiency savings (32%) followed by restricting Council Tax increases (28%).
 - Within the range of a 4% to 5% increase in the Council Tax the highest number of respondents stated that they supported a 4% increase.
 - Overwhelming support (93%) for the Fair Share campaign.
16. Details of the consultation were circulated through the Members' Information Service. Members of the public were also given the opportunity to comment on the draft budget following its publication in January.

Results of Scrutiny Process

17. The Scrutiny Committees and Scrutiny Commission received reports on the revenue budget and capital programme proposals. Copies are available on request from Mr Pitt, telephone 2656034. Attached in Appendix C are the comments arising from meetings of scrutiny bodies.

Changes to the Budget and Capital Programme proposed in January

18. The changes now incorporated in the proposed 2007/08 revenue budget are set out below:-
 - The council tax collection fund surplus has increased by £119,000 (one off) reflecting the final figures received from the District Councils.
 - The council tax income has increased by £377,000 (on-going) reflecting final tax base figures received from the District Councils.
 - Other minor changes in central budgets totalling a £17,000 decrease in revenue expenditure.
 - Inclusion of £36,000 additional expenditure to enable periodic Criminal Records Bureau rechecking for appropriate staff.
 - Minor changes to the capital programme to reflect the capitalisation of legal fees (£20,000).
 - Rephasing of capital expenditure within the Children and Young People (CYP) capital programme.

Schools

19. Most schools funding will come in the form of a ring fenced grant to local authorities known as Dedicated Schools Grant (DSG). This grant covers funding allocated directly to schools and funding that is retained by the local authority to support pupil led provision, such as early years and excluded pupils.
20. The key elements of the schools settlement are:-
- The increase in the Minimum Funding Guarantee for schools' budgets has been set at 3.7% for all schools in 2007/08. The DfES has calculated that this increase is sufficient to meet cost pressures schools are anticipated to encounter.
 - DSG includes funding streams targeted at DfES priorities including workforce reform, early years and personalised learning.
 - Overall the national increase in DSG is estimated at 5.8% in cash terms and 6.7% per pupil in 2007/08 (Leicestershire's comparable figures are 5% and 6.4%).
 - The indicative DSG for Leicestershire 2007/08 is £313m. Final allocations will not be known until May 2007 following the inclusion of the January 2007 pupil count.
21. Leicestershire will remain the lowest funded local authority in terms of DSG per pupil in 2007/08.

2007/8 Budget Summary

22. The proposed 2007/8 budget excluding DSG of £313m is summarised below in Table 1 and is set out in more detail in Appendix B.

Table 1

	2007/8 £m	% Increase
Services base budget including inflation	264.2	
Add growth	8.9	
Less savings	(6.8)	
	266.3	
Central Items	25.4	
Resources to be allocated	0.5	
Total Expenditure	292.2	3.8%
Funding		
Formula Grant	79.9	0.8%
Council Tax	212.3	4.25%*
	292.2	3.8%

* Council Tax increase excludes Council Tax base increase.

2007/8 Inflation and Other Changes

The budget is based on outturn prices and the following general inflation assumptions:-

Pay @ 3%

Additional employers' pension contributions @ 1.2% of pay

Running costs @ 2.5%

Overall inflation (excluding schools) is expected to be £8.2m. Where inflation exceeds the general inflation assumptions this is shown as a growth bid.

The budget includes the full year effect of growth and savings decisions taken as part of the budget setting process in previous years and takes account of budget transfers.

Growth

23. In total £8.9m (net of certain specific grants and excluding schools) has been included in the 2007/8 budget to meet demand and cost increases, reduced income and for service improvements.
24. Details of growth items are shown in Appendix D. The main growth items are summarised below:-
 - The majority of the growth is required to meet demand and cost pressures. The main pressures are within Adult Social Care (ASC) and Waste. In ASC growth is mainly required to meet high cost residential placements for people with learning disabilities. Waste growth is required for recycling credits to district councils and a £3 per tonne increase in the landfill tax.
 - Service improvements total £2.4m and include improvements to the learning disability service, services for children and implementing the Municipal Waste Management Strategy.

Savings

25. The budget includes savings of £6.8m comprising efficiencies of £4.7m (1.7%), other savings of £1.2m and service reductions/increased income of £0.9m. Appendix D shows the savings in detail. Cashable efficiency savings are above the Gershon cash efficiency target of 1.25%. The annual efficiency statement produced by the County Council will detail both cash and non cashable efficiencies which are required to total at least 2.5% of the budget. Non cash efficiencies mean that either a higher quality or volume of service can be provided with no increase in cost.

Central Items

26. The main change is that bank and other interest has increased by £1.3m reflecting higher cash balances and interest rates. Capital financing costs are expected to increase by £1.2m to reflect the increase in the capital programme and higher interest rates on certain loans.

Corporate

27. The County Council is expecting additional one-off funding from both the performance reward grant for the Public Service Agreement (PSA) and income from the Local Authority Business Growth Incentive (LABGI) scheme.
28. The final claim for the PSA with central government has been compiled and submitted. In overall terms £9m should be awarded, of which £6.5m will come to the County Council. The balance of funds will go to partner organisations. The grant is split 50:50 capital and revenue.
29. As previously approved, £4m of the PSA reward grant has been allocated within the Corporate Change Management programme. It is proposed that £1.25m of the balance of £2.5m should be earmarked in a capital reserve to finance waste infrastructure projects and the remaining £1.25m (revenue grant) allocated to the Corporate Change Management programme.
30. Over the initial five year period of the Corporate Change Management programme the total investment in services is forecast to be £18m, including nearly £8m for the Customer First programme which aims to improve the current provision and accessibility of customer services. Taking account of existing budgets there is a requirement for additional investment of circa £3m. In addition to service improvements, based on current projections, the Change Management Programme is also expected to generate cumulative efficiencies of £19m by 2011.
31. Further one off funding is likely to be received from LABGI. At this stage it is difficult to forecast with certainty the value. However in 2006/7 and 2007/8 this could be circa £3m. To address the need for additional investment, it is proposed at this stage these funds will also be earmarked for the Corporate Change Management programme.

Local Area Agreement (LAA)

32. The financial arrangements that govern the LAA are having an increasing influence on the budget as the County Council acts as the accountable body for the LAA.
33. In 2007/8 approximately £18.2m of LAA 'pooled' budget is forecast to be controlled by the County Council. These pooled budgets are usually former specific grants received by public sector organisations within the county that are now channelled through the LAA. The vast majority relate to former County Council grants, though an increasing amount relates to District Councils and other organisations including Police and Connexions. Appendix F shows the provisional LAA 'pooled' budget for 2007/08. This budget is subject to confirmation from the Government Office for the East Midlands (GOEM). The LAA also has specific budgets to meet certain targets set out in the LAA.
34. Those LAA pooled funds spent by the County Council are included within the budget. Funding spent by the other agencies is paid over to them as agreed in the protocol that governs the financial arrangements surrounding the LAA.

Capital Programme 2007/8 – 2009/10

Capital Programme Resources

35. The following table sets out the expected capital resources available to the County Council. These include resources made available by the Government for the main programme areas, third party contributions and discretionary resources generated by the County Council (principally capital receipts).

	<u>2007/08</u> <u>£000</u>	<u>2008/09</u> <u>£000</u>	<u>2009/10</u> <u>£000</u>
<u>Central Government</u>			
Children & Young People Main Programme	32,670	33,060	34,520
Local Transport Plan	15,050	14,490	15,280
Adult Social Care	410	410	410
PSA Grant	980	20	
	49,110	47,980	50,210
<u>Third Party Contributions</u>			
Other	230	100	
Major Developer contributions	250	2,660	4,020
<u>Capital Receipts</u>			
Forecast (including earmarked)	3,470	7,170	3,150
Revenue and Reserves	540		300
Unsupported borrowing		1,900	350
Resources b/fwd from 2005/06	3,490	3,920	
Total	57,090	63,730	58,030

36. The key issue with respect to the Prudential Code, the code of practice that all Authorities need to follow when entering into borrowing, is the revenue impact and affordability of borrowing. The projections below show the increase in the capital financing budget over the next three years.

	<u>2007/08</u> <u>£m</u>	<u>2008/09</u> <u>£m</u>	<u>2009/10</u> <u>£m</u>
Increase in the capital financing budget	£1.25	£0.65	£0.9

37. The formula grant (paragraph 14) is expected to increase by only £0.6m in 2007/08 which is significantly lower than the increase in capital financing costs and explains, in part, the tight financial position the County Council faces over the next three years.
38. The financing of the programme in 2007/08 to 2009/10 will also require the County Council to enter into limited borrowing which is not supported, even in theory, by Government grant and therefore has to be met from Council Tax. Over the three year period £2.25m of unsupported borrowing is expected to be required. In the final

year the basis of the MTFs is to commit only to new prudential borrowing for Invest to Save Schemes (schemes which generate savings in future years) and to smooth the cashflow from capital receipts.

39. Using improved Asset Management Planning, the County Council will seek to maximise capital receipts over the medium term in order both to minimise the need for prudential borrowing and to finance capital investment in priority services.

Capital Programme

40. The proposed programme is summarised in the table below and shown in detail in Appendix G.

	<u>2007/08</u> <u>£000</u>	<u>2008/9</u> <u>£000</u>	<u>2009/10</u> <u>£000</u>
Children and Young People*	33,570	38,760	36,890
Highways and Transportation	16,180	15,630	17,640
Waste Management	400	1,900	800
Community Services	1,680	2,800	590
Adult Social Care	1,640	1,710	160
Resources	2,120	1,560	940
Chief Executive's	500	100	100
Other Corporate	1,000	1,270	910
TOTAL	57,090	63,730	58,030

* CYP resources include devolved formula capital.

Children and Young People (CYP) Programme

41. The CYP Capital Programme will focus on five priority areas:-
- Completion of the replacement of intergrid schools. This includes completing both Oadby Gartree and Shepshed High and making a contribution to Enderby Brockington which is a Church of England (Voluntary Aided) school.
 - School re-organisation in the Vale of Belvoir and Melton Mowbray. The final stage of consultation following the review of school provision is underway and a report setting out the results will be considered by Cabinet in February. The funding package is dependent on capital grant from the DfES and the Learning and Skills Council. Confirmation of available funding should be received around the same time.
 - The Coalville area special school (£9.7m) largely funded by central government targeted capital grant.
 - The development of a further 24 Children's Centres and further funds for the extended schools programme.
 - The ongoing programme to replace mobile classrooms. This will be part funded by the early release of £4m capital grant.
42. The costs of many of the major 2007/08 and 2008/09 projects in the programme including the new or refurbished secondary schools and Children's Centres will be dependent on more detailed feasibility and design work. The programme is currently based on either available funding or initial estimates.

43. In addition to the main programme devolved formula capital will rise by £0.534m to £11.884m. These resources are allocated directly to schools, mainly on the basis of pupil numbers. This means a 1,200 place secondary school will receive £131,900 in 2007/08. A 240 place primary school will receive £33,620 in 2007/08.

Transportation

44. The key influence on the transportation capital programme is the second five year Local Transport Plan (LTP) (2006 – 2011). The final version was approved by the County Council in March.
45. The Plan has been produced and assessed as 'excellent' by the GOEM. This assessment along with the assessment of the five year delivery report for the first LTP, is important as up to 25% of an authority's integrated transport block allocation is dependent on the quality and delivery of LTPs. The 'excellent' rating means that the integrated transport block allocation is increased by 12.5% to £6.2m.
46. The majority of the LTP is for capital maintenance (£7.4m). This is a reduction of £2.2m (23%) compared with the 2006/7 allocation of £9.6m and of £2.4m against the indicative allocation for 2007/8 of £9.8m. Although there has been an average reduction across the East Midlands of around 10% the funds available nationally have not decreased. The reduction in Leicestershire is because the formula used to allocate the funding has been changed and funds have been top sliced for major maintenance schemes as well as being transferred to authorities which have been less effective than Leicestershire in improving the condition of their roads and bridges. This level of decrease will have a significant impact on maintenance programmes and therefore it is proposed that additional one off transitional support of £0.5m will be allocated from reserves in 2007/8. The impact of the reduction on the highways revenue budget is being evaluated. The allocation in future years will depend on CSR 2007 and a further review of the formula used to allocate maintenance funding. It is intended to make strong representations against the new formula which provides a perverse incentive to local authorities to lower performance.
47. In total LTP funds of £13.8m have been allocated compared with £15.8m in 2006/07 and the provisional allocation of £15.5m. A further allocation of £1.3m has been made for capital maintenance on the recently de-trunked A6 and A47.
48. The most significant project within the LTP is the park and ride scheme at Enderby. This is forecast to be completed by Summer 2010 at a cost of £9.2m. It will be financed by a combination of LTP, developers, County and City Council contributions and capital receipts.
49. The settlement does not include any funds for other major transportation schemes. The East Midlands Regional Assembly endorsed a proposed programme in the middle of January 2006 in line with the new Government process of regional funding allocations. The first five years of the programme include both the Earl Shilton by-pass and the Loughborough Town Centre Scheme. The long list of schemes includes, amongst others, a by-pass for Melton.

50. The Earl Shilton by-pass has received 'programme entry' approval from the Department of Transport. The next stage of the approval process ('conditional acceptance') is expected shortly. This means that funding will be made available if tenders are within the agreed funding limit. The Loughborough scheme is currently being considered by the Department for Transport and a decision on 'programme entry' is expected in the spring. The capital programme will need to be amended to take account of any approved schemes later this year.
51. The programme also includes other schemes funded from capital receipts and prudential borrowing. This includes the advance design work for the Loughborough Town Centre Scheme and street lighting column replacement. It will also allow work to proceed for advance design for the Melton Mowbray by pass.

Waste Management

52. The main demand over the medium term relates to waste infrastructure projects including modernising recycling and household waste sites (RHWS) at Sileby, Melton, Lount and Kibworth. Funding for Sileby and Lount has been included in the programme.
53. Subject to the development of business cases that show investment in RHWS and other waste infrastructure which will be financed by savings in the waste disposal budget, additional resources will be included in the programme for these projects. This will be from either LAA pooled funding, new waste infrastructure capital reserve or new prudential borrowing.

Adult Social Care

54. The focus of the programme continues to be improving Learning Disabilities services with respite facilities care in Wigston and Melton and further day care facilities in Charnwood, Hinckley and North West Leicestershire.

Community Services

55. The Medium Term Corporate Strategy priority to invest in 20 new or refurbished libraries should be complete by 2009. In addition a replacement library at East Goscote has been included in the programme.
56. Funding has also been included for repairs to the headstock at Snibston and a contribution of £0.1m to a planned Heritage Lottery Funded programme of work at Melton Carnegie Museum.

Resources and Chief Executives

57. The main focus is continuing the development of the ICT infrastructure to support the increasing number of services delivered to the public electronically. Resources continue to be allocated to meet the Disability Discrimination Act requirement to improve access to County Council buildings.
58. Resources have also been allocated to meet the potential cost of replacement sports facilities following the planned sale of land housing the existing facilities at County Hall.

Other Corporate

59. An allocation is included for the Corporate Change Management programme. This is for a variety of projects including Customer First. The programme is continuously being updated as new business cases are developed. As these are approved, new projects will be added to the programme financed from allocated capital resources.

Future Developments

60. A list of schemes under the title 'Future Developments' has been included in the programme. These are schemes where funding is not currently available and further feasibility work is required before the investment decision can be taken.

Robustness of Estimates and Adequacy of Reserves

61. The Local Government Act 2003 requires the Council's Chief Finance Officer (for Leicestershire this is the Director of Resources) to report on:-
- a) The robustness of the estimates included in the budget; and
 - b) The adequacy of the proposed financial reserves.

Robustness of Estimates

62. The Director of Resources provides detailed guidance notes for departments to follow when producing their budgets. As well as setting out certain assumptions such as inflation, these notes set a framework for the effective review and compilation of budget estimates. As a result, all estimates have been reviewed by appropriate staff in departments. In addition, each Departmental Head of Finance has identified the main risk areas in their budget and these have been evaluated by the Director of Resources. In producing the budget due account has been taken of the Risk Management Strategy set out in Appendix J.

County Fund

63. The forecast balance on the County Fund at the end of 2006/07 is £7.6m, which represents 2.6% of the budget (excluding schools' delegated budgets) and is lower than forecast last year. This assumes a small contribution from this year's underspend. At present it is assumed that the balance of underspend will be either treated as carry forwards for services or used to establish earmarked reserves for specific purposes. The policy continues to be to maintain a level of County Fund consistent with the inherent risks faced by the County Council.
64. The main risks faced by the Council over the medium term are:-
- Demand led budgets overspending, mainly those relating to waste and adults' and children's social care.
 - Non achievement of efficiency and other savings included in the budget. These total nearly £21m over the 3 year planning period and some have not been identified.
 - Non achievement of capital receipts that are factored into the capital programme.

- Lower than anticipated increase in the formula grant received from Government following publication of the CSR07 in the summer.
- Other unforeseen events.

65. If the County Council exceeds the risk assessed level it should be used in the first place to fund non recurring expenditure. The policy for both the County Fund and earmarked reserves is set out in Appendix K.

Earmarked Reserves

66. Other reserves and balances have been reviewed. Appendix L gives the details. The expected balances as at 31st March 2007 and 2008 have been estimated. The extent to which the balances will be used in the medium term has also been estimated where possible.

67. New earmarked reserves have been established to meet costs of the Landfill Allowance Trading Scheme (LATS) (£1m), recycling and waste initiatives scheme (£0.54m) funded from grant underspend, a new fund that will operate on a Spend to Save basis for energy efficiency schemes (£0.25m), restructuring consequences (£1m), civil parking enforcement (£0.4m) to meet the revenue set up costs, transitional funding for LTP maintenance (£0.5m) and a capital reserve for costs of developing major highway projects (£0.3m). As this final reserve will not be sufficient to meet all the costs of this feasibility work, it could be supplemented by underspends. In addition a capital reserve of £2m will be established mainly from PSA reward money to support waste infrastructure projects.

68. There is obviously a great deal of uncertainty in terms of the expected movement on the balance of some reserves over the medium term. For example, one of the largest reserves is for Insurance. The amount that will be required to settle claims in any one year varies significantly and therefore it is not possible to project forward balances with any certainty.

School Balances

69. Local Management of Schools allows schools and colleges to retain their accumulated balances in relation to delegated budgets.

70. Balances carried forward from 2005/06 totalled £20.6m of which the uncommitted sum as analysed by schools under the consistent financial reporting requirements of the DfES, totalled £9.9m. This is an increase from the uncommitted balance of £9.4m at 31st March 2005.

71. In part as a response to DfES guidance on schools balances the Schools (Funding) Forum has approved a scheme to restrict the level of the uncommitted balances to within certain limits over a three year period. Schools should not increase their level of uncommitted balances over this monitoring period, any such increase would be subject to a clawback arrangement.

72. Overall it is not expected that the level of uncommitted balances will change significantly over the next few years, as any possible clawback will not be operative until 2009/10.

Summary

73. Having taken account of the overall control framework, budget provisions included for inflation and growth to reflect spending pressures, assurance can be given that the estimates are considered to be robust and take account of the key factors that influence expenditure patterns.
74. Given the basis on which the budget is prepared, taking account of the main risks faced by the County Council, making an allowance for potential unforeseen eventualities and the continuing focus on financial control, the level of reserves including the County Fund is considered to be adequate.
75. The Cabinet and Scrutiny Commission receive regular revenue and capital monitoring reports as well as budget and outturn reports and external audit reports. In addition, further financial governance reports are considered by both the Corporate Governance Committee and Constitution Committee. This reporting enables members to satisfy themselves about both the financial management and standing of the County Council. These reports will continue but will be supplemented by performance indicators and targets set out in Appendix M.

Council Tax

76. The proposed budget for 2007/08 is based on a 4.25% Council Tax increase. This will result in Council Tax for a Band D dwelling increasing from £930.47 to £970.02.
77. The Government has made it clear that it expects average Council Tax increases to be less than 5%. It has been explicit in its threat to use its reserve powers to cap authorities that it considers have been excessive in their proposed Council Tax increase.

Medium Term Position

78. The MTFS takes account of the overall funding position, the main expenditure pressures and investment in corporate priorities over the next three years.
79. The first year of the Strategy, 2007/8, is based on firm estimates of central government funding. In future years, Government funding is assumed to increase by 1% per annum and Council Tax by 4%. The assumption regarding central government funding will need to be revisited following the publication of the CSR later this year. Initial indications are that settlements over the period of the MTFS will be tighter than expected given the public expenditure forecasts announced in the Chancellor's pre budget statement.
80. The main cost and demand pressures over the medium term continue to be Waste and Adults' and Children's Social Care. Other pressures include capital financing and inflation on highway maintenance. Forecasting expenditure over the medium term can be difficult, in particular legislation around Children's Services could result in higher costs in future years that are currently not featured in the projections.
81. The County Council continues to invest in the Medium Term Corporate Strategy priorities including Learning Disabilities, Libraries, Children's Services and Waste.

As in previous years a significant element of the investment in these priorities will take place through the capital programme.

82. The MTFS is based upon the County Council generating significant efficiencies over the next three years of £4.7m in 2007/8 and at least £4.25m per year in both 2008/9 and 2009/10. Where specific proposals have been identified these savings are listed in Appendix D. The Corporate Change Management programme will continue to develop projects that will assist in meeting these challenging savings targets over the life of the MTFS. In addition work is underway that will consider the scope for increasing income generation and rationalising grants.
83. In addition service reductions and increased income of circa £4m are required to restrict Council Tax increases over the medium term. The necessary steps will be taken to implement those savings in 2007 which have a longer lead time because of the need for scrutiny and consultation etc. These savings are included in Appendix D. The main new revenue savings for 2008/09 relate to extra care schemes and the capitalisation of structural maintenance. Income generation proposals are also included in the budget and are set out in Appendix D.
84. Even with these savings included in the projections there will be a budget shortfall of £1.2m by 2009/10 subject to decisions on the use of available resources in 2007/08. This will need to be addressed following publication of the CSR.

Investment Strategy 2007/08

85. An Investment Strategy must be approved in advance of each financial year by the full Council. Appendix O to this report sets out the combined Treasury Management and Investment Strategy for 2006/07.
86. The range of investment options for which approval is sought is identical to those approved last year, although there have been minor changes in the maximum limits available for long term loans. The Treasury Policy Statement lays out the types of organisation to which the Council is authorised to lend, and this is unchanged from that approved for 2005/2006.

Treasury Management Strategy 2007/08

87. Key elements of the Treasury Management Strategy can be summarised as follows:-
 - (i) Due to the historically attractive interest rates for borrowing that became available in 2005/06, the borrowing requirement for all the 2007/08 capital programme and part of the 2008/09 programme has already been taken.
 - (ii) It is possible that no further borrowing will be undertaken in 2007/08, although if rates become particularly attractive, consideration will be given to pre-financing part of future years capital programmes. We are currently awaiting the outcome of the CSR which may mean, in future years, that more capital expenditure is funded via direct grant and that there will be a much reduced requirement to borrow.

- (iii) The attractiveness of interest rates will be the key consideration in any borrowing decision, although it is accepted that the current portfolio profile would benefit from the introduction of some medium (5-20 year) debt. Unless rates available in these periods change quite significantly from their current levels, this 'gap' in the portfolio is likely to remain.
- (iv) Going forward it is likely that debt rescheduling exercises are more likely to save relatively small amounts of money, but will be carried out more regularly. This does not exclude the possibility of larger savings, but such savings would require a larger swing in interest rates than has been seen in recent years.
- (v) Borrowing and lending strategies must retain significant flexibility if long-term net interest costs are to be minimised.
- (vi) The credit ratings of the institutions to whom the Council will lend remain very high, and the risk of default is considered to be negligible.

Equal Opportunities Implications

- 88. Many aspects of the County Council's budget are directed towards the needs of disadvantaged people. Proposals will be subject to race equality impact assessments where necessary.

Background Papers

- 89. Revenue support grant settlement 2007/08.

Appendices

- A - Three Year Revenue Budget
- B - Summary Revenue Budget
- C - Comments on the Scrutiny Committees
- D - Growth and Savings
- E - Detailed Revenue Budget
- F - Local Area Agreement Pooled Funding Budget
- G - Capital Programme
- H - Prudential Indicators
- I - Capital Strategy
- J - Risk Management Strategy
- K - Reserves Policy
- L - Reserves
- M - Financial Management Performance Indicators
- N - Council Tax and Precept
- O - Treasury Management Strategy and Investment Strategy
- P - MTFS – Links to other plans and strategies