

MANCHESTER CITY COUNCIL

REPORT TO EXECUTIVE

REPORT FOR RESOLUTION

DATE: 14 FEBRUARY, 2007

SUBJECT: MEDIUM FINANCIAL PLAN 2007/8 TO 2009/10, REVENUE BUDGET 2007/8, CAPITAL STRATEGY AND BUDGET 2007/8 TO 2009/10 AND TREASURY MANAGEMENT STRATEGY REPORT

REPORT OF: CITY TREASURER AND CHIEF EXECUTIVE

PURPOSE OF REPORT

The report presents for members approval:

- The Medium Term Financial Plan for the 3 years 2007/8 to 2009/10
- The Revenue budget for 2007/8
- The three year Capital Programme 2007/8 to 2009/10 (including the Capital Strategy for 2007/8 to 2009/10)
- The Treasury Management Strategy Report.

Members are asked to note that as the above documents are all inter linked and based on the same underlying assumptions, any amendments to, or non acceptance of, key recommendations on one report may impact on the others.

RECOMMENDATIONS

To approve the following recommendations:

Annex 1 - Medium Term Financial Plan 2007/8 to 2009/10 and Revenue Budget 2007/8

1. Note the results of the final RSG settlement for Manchester for 2007/8 and the resultant resources available to fund expenditure in that year.
2. Note the outcome of the budget consultation process (details of responses shown in appendix 5).
3. Approve the three year financial plan as outlined in the report including:
 - a. the contingency sum of £8.882m in 2007/8, £8.797m in 2008/9 and £10.626m in 2009/10 including the sums identified in section 3.3.2
 - b. Departmental Cash Limit Budgets totaling £356.352m, £370.903m and £383.171m (as identified in Appendix 1)

- c. Corporate Budget requirements of £95.234m for 2007/8, £100.271m in 2008/9 and £105.752m for 2009/10 (as outlined in paragraphs 3.2 and 3.4 of this report subject to final notification of Levies from other bodies)
 - d. The utilisation of the SIF in 2007/8 as proposed in paragraph 6.4.5
4. Approve the proposed utilisation in 2007/8 of £2.384m (as per paragraph 2.2.6) of the surplus from the on street parking reserve after determining that any surplus from on-street parking is not required to provide additional off street parking in the authority.
5. Note the currently estimated funding requirement in 2007/8 before Council Tax increases as identified in paragraph 4.1 and determine which of the options discussed in paragraph 4.3 of the report members wish to adopt.
6. Note the position on reserves as identified in the report and in Appendix 4 and subject to final decisions on how the funding requirement in 2007/8 is to be bridged.
7. Approve delegated authority to the City Treasurer to amend departmental cash limit budgets to take account of savings arising from the Manchester Improvement Programme before 1 April 2007 and throughout the year.
8. Approve that delegated authority be given to the City Treasurer and Chief Executive, in consultation with the Executive Member for Finance and Human Resources and the Leader of the Council to draft the recommended budget resolution for budget setting council in accordance with the legal requirements outlined in the report from the City Solicitor elsewhere on the agenda and taking into account the decisions of Executive. Members are specifically requested to identify the level of increase to the Council Tax they wish to recommend to Council and an indicative increase to the Council Tax for 2008/9 and 2009/10 to enable the Medium Term Financial Plan to be completed. Depending on the decisions taken by the Executive, the City Treasurer will, at the meeting, be able to advise on the final Net Budget Requirement for 2007/8 and the consequent Council Tax increase to be recommended to Council.
9. Approve the target trading surpluses (losses) for the trading services as outlined in section 9 of the report.
10. Approve that the trading loss predicted by HATs in 2007/8 be met from reserves in 2007/8 to be repaid from above target surplus in 2008/9.
11. Approve the Prudential Indicators for 2007/8 to 2009/10 as presented in Appendix 3 subject to any final adjustments that may be made arising

from recommendations above.

Approval of the Medium Term Financial Plan for the next three years as outlined in the report is subject to the need to reassess budgets for 2008/9 and 2009/10 on an annual basis as part of a three year budget rolling programme to take account of potential changes to needs.

Annex 2 - Three Year Capital Programme 2007/08 to 2009/10 (including Capital Strategy)

1. Note that the capital strategy has been updated and to agree the amended version as presented in Appendix D
2. Note the capital programme report as presented.
3. Agree to reserving resources towards future phases of BSF 2 and Academies.
4. Approve the three year capital programme 2007/08 to 2009/10 as presented in Appendix C.
5. Delegate authority to;
 - (a) The Chief Executive in consultation with the Leader and Executive Member for Planning and Environment for the approval of the list of schemes to be undertaken under the Transport capital programme.
 - (b) The Head of Engineering to implement these schemes after consultation with the Executive Member for Planning and Environment on the final details and estimated costs.
6. Agree that the level of over programming for Housing to enable target spend to be achieved in full in 2007/08 be set at £10,700,000.
7. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to approve spend to save schemes provided that the schemes are financed from additional income and / or savings within existing revenue budget limits for the lifetime of the loan period. Unsupported borrowing of up to £5,000,000 each year be approved for this initiative and note that the revenue savings from spend to save schemes will fully offset the cost of borrowing (including provision for loan repayment) so that the long term net effect on the City Council's revenue budget is nil.
8. Delegate authority to Director of Housing to accelerate schemes when necessary from 2008/09 to 2007/08 subject to resource availability.

9. Delegate authority to the City Treasurer in consultation with Executive Member for Finance and Human Resources to agree and approve where appropriate the following:
 - (a) The programme of schemes for the delivery of the corporate asset management programme.
 - (b) Financial management decisions relating to temporary unsupported borrowing and the investment of surplus resources.

10. To note the programme delivery requirement to commit expenditure on capital projects prior to capital expenditure approval and to agree that financial regulations be amended to enable authorisation of capital expenditure in advance of main project capital expenditure approval as follows:

The City Treasurer, upon application, will be permitted under delegated powers to authorise capital expenditure of up to £10,000, and in special circumstances expenditure up to £50,000, on individual projects within the capital budget but prior to capital expenditure approval being requested, in consultation with the Executive Member for Finance and Human Resources.

11. That authority be delegated to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the 3 year capital programme 2007/08 to 2009/10 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project

12. Note that the formal capital programme contained within the budget book will contain presentational amendments to the detail contained in Appendix C due to departmental reorganisations, but these adjustments will not alter the overall total of the approved capital budget.

Treasury Management Strategy Statement and Borrowing Limits 2007/8 (Annex 3)

To note the proposed Treasury Management Strategy Statement and approve:-

- 11.1 The Prudential Indicators referred to in section 3 and listed in Appendix 3 to Annex 1 of this report.
- 11.2 The Borrowing Requirements listed in section 5.
- 11.3 The Borrowing Strategy outlined in section 7.
- 11.4 The Annual Investment Strategy detailed in section 10.

Resolution covering both Revenue and Capital reports:

Both the Revenue and Capital budget reports include the use of Grant resources. At this stage an assumption has had to be made on the split of some of these resources between Revenue and Capital and members are asked to:

1. Approve that delegated authority be given to the City Treasurer and Chief Executive in consultation with the Executive Member for Finance and Human Resources to amend this split in the light of changing requirements.

Financial Consequences for the Revenue and Capital Budget

This report seeks approval to a Medium Term Financial Plan for 2007/8 to 2009/10 and a draft revenue budget for the Council for 2007/8. It also seeks approval to a revised capital strategy, a three year capital programme for 2007/8 to 2009/10 and a Treasury Management Strategy. These reports together underpin the detailed financial spend of the Council for the coming year and provide a framework for Revenue and Capital planning for the following two years.

Contact Officers

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Background Documents

RSG provisional and final settlement papers
Budget Consultation Document
Budget Consultation Responses

Wards affected:

All

Implications for:

Anti-poverty Equal Opportunities Environment Employment

The Revenue and Capital budgets provide funding to enable Council Services to continue to support the achievement of all the above areas

1. The Local Government Act 2003 introduced the Prudential Borrowing framework which for 2004/5 onwards replaced the previous controls on an authority's borrowing. The new system relies on establishing local values for a number of nationally prescribed indicators which can be used to identify whether an authority is acting "prudently" and that its capital spending proposals are affordable in the long term within the resources available to the authority. These indicators need to be approved by members as part of the budget setting process.
2. In support of the principal of prudent decision making, the Act also requires the Chief Financial Officer to report on his assessment of the "robustness" of the proposed estimates and the adequacy of the level of general reserves that will be held by the authority. To support this the act requires details of specific reserves held by the authority to be reported, including the size of the reserve, what the reserve is held for, who can authorise the use of the reserve and what plans there are for movements in to and out of these reserves.
3. The introduction of the prudential framework in 2004/5 means that the Revenue and Capital Budgets and the Council's Treasury Management Strategy are now more closely linked than previously through the prudential indicators and as such have to be considered together. In addition, in order to aid future forward planning and comply with best practice, it is necessary to agree a Medium Term Revenue Plan and a Capital Strategy which provide a framework for future planning. The Government are in the process of introducing three year financial settlements for Councils (the current settlement is for the two years 2006/7 and 2007/8). In future years this should enable more accurate budgeting over more than one year.
4. The Annexes and appendices to the report are presented in the following order:
 - **Annex 1** – Medium Term Financial Plan 2007/8 to 2009/10 and Revenue Budget 2007/8
Appendices to Annex 1:
 1. Departmental Budget Totals (Summary)
 2. Summary of spend from LAA resources
 3. List of Prudential Indicator's
 4. List of specific reserves
 5. Feedback from Budget Consultation exercise
 - **Annex 2** – Three Year Capital Programme 2007/08 to 2009/10 (including Capital Strategy)
 - Appendix A - Housing Investment Programme 2007/10
 - Appendix A (i) - Housing Capital Investment Table

- Appendix B Transport Capital Programme
- Appendix C Detailed Three Year Capital Programme
- Appendix D Capital Strategy

- **Annex 3** - Treasury Management report
 - *Appendix A – Interest Rate Forecasts*
 - *Appendix B – Glossary of terms*

5. Each annex contains a list of detailed recommendations, however, members need to bear in mind that any amendments to, or non acceptance of, key recommendations on one report may impact on the others.

MANCHESTER CITY COUNCIL

REPORT FOR RESOLUTION/INFORMATION

COMMITTEE: EXECUTIVE
FINANCE AND GENERAL PURPOSES OVERVIEW AND
SCRUTINY COMMITTEE
CITY COUNCIL

DATE: 14th FEBRUARY 2007
26th FEBRUARY 2007
7th MARCH 2007

SUBJECT: LEGAL BACKGROUND TO SETTING OF BUDGET AND
COUNCIL TAX

REPORT OF: THE CHIEF EXECUTIVE AND THE CITY SOLICITOR

PURPOSE OF REPORT

To assist all members of the Council in consideration of the complex legal background to their budgetary and Council Tax decisions and in particular to set out the legal factors and requirements which Members of the City Council need to consider in reaching decisions on the budget and Council Tax.

The Report is structured as follows:-

Parts 1 - 2 deal with the principles of Council Tax setting and the general legal duties of the City Council in decision-taking.

Parts 3 - 5 deal with calculating the budget requirement and "capping".

Part 6 deals with calculating the City Council element of the Council Tax.

Part 7 deals with setting the overall Council Tax

RECOMMENDATIONS

That the Executive, the Finance and General Purposes Overview and Scrutiny Committee and the City Council take this advice into account and follow its principles in reaching decisions in relation to the budget and Council Tax for 2007/08.

Financial Consequences for the Revenue Budget

The calculation of the budget requirement effectively sets the revenue budget for 2007/08.

Financial Consequences for the Capital Budget

Capital expenditure can be financed out of the revenue budget, if Members so determine.

CONTACT OFFICERS

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Rodney Lund	Assistant City Solicitor	0161 234 4019

BACKGROUND DOCUMENTS

Report of Head of Financial Management and Decision of the City Treasurer on the Council Tax Base 2007/08.

Wards affected: All

Implications for:

Anti-poverty	Employment	Equal Opportunities	Environment
Yes	Yes	Yes	Yes

LEGAL BACKGROUND TO REVENUE BUDGET AND COUNCIL TAX

1. INTRODUCTION

- 1.1 The Council Tax is basically a tax on property with a personal element in the form of a discount in respect of dwellings with less than two relevant residents. All dwellings are listed in one of eight valuation bands and the amount of Council Tax payable in respect of each dwelling (before discounts and other reductions) is in a set proportion between each band. The Headline Tax is calculated for Band D and the tax in the remaining bands is worked out as a proportion of this amount. The lowest Band (A) is two-thirds of Band D and the highest Band (H) is twice Band D and three-times Band A. The proportions are as follows:-

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

- 1.2 There are three main stages in setting the Council Tax:-

STAGE 1 -	The Council calculates its own budget requirement, i.e. its net revenue expenditure - this is the amount which is subject to capping by the Secretary of State.
STAGE 2 -	The Council then calculates the Manchester City Council element of the Council Tax for all bands based on a calculation for Band D - this will take account of the Council Tax base calculated at an earlier stage.
STAGE 3 -	Finally, the Council sets the Council Tax for the area, being the aggregate of the City Council element of the tax and the element of the tax calculated by the Police Authority and the Fire and Civil Defence Authority.

2. THE COUNCIL'S LEGAL DUTIES

- 2.1 In coming to decisions in relation to the revenue budget and the Council Tax the City Council - and Councillors - have various legal duties, namely:-
- The Council must act in accordance with its statutory duties and responsibilities.
 - The Council must act reasonably.
 - The Council must not act in breach of its fiduciary duty to its ratepayers and Council Tax payers.

2.2 Reasonableness

The Council must act in accordance with the principles set out in the case of Associated Provincial Picturehouses Limited -V- Wednesbury Corporation, that is, it must take into account relevant considerations, it must not have regard to irrelevant considerations, and it must not reach a decision which is unreasonable in the sense that it is so irrational that no reasonable authority could have reached it.

2.3 Fiduciary Duty

Fiduciary duty is hard to define. In Roberts -V- Hopwood (1925), it was said that a local authority charged with the administration for definite purposes of funds contributed in whole or in part by ratepayers owes a duty "to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those (ratepayers)" towards whom the authority "stands somewhat in the position of trustees or managers of the property of others". The same principle applies in relation to Council Tax payers.

Fiduciary duty will probably include the following considerations:-

- (a) Prudent use of the Authority's resources, including the raising of income (such as rents and other charges) and the control of expenditure;
- (b) Awareness of the financial consequences of any proposal of Council Tax payers and Ratepayers;
- (c) Financial prudence both in the short and long term;
- (d) Striking a fair balance between the interests of Council Tax payers and ratepayers on the one hand, and the community's interest in adequate and efficient services on the other hand;
- (e) Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

2.4 Statutory Duty

As part of the budget and the Council Tax fixing process, the Council is required by the Local Government Finance Act 1992 to make various specific calculations and decisions:-

- (a) it must calculate its budget requirement in accordance with Section 32 of the Act;
- (b) it must calculate the City Council element of the Council Tax - first for Band D and then for all bands - in accordance with Sections 33 to 36;

- (c) it must set the overall Council Tax for each band in accordance with Section 30.

These requirements will now be analysed in greater detail.

3. **STAGE 1 - THE COUNCIL'S BUDGET REQUIREMENT**

3.1 Section 32 of the LGFA 1992 requires the Council to make three calculations, in effect -

- (i) an estimate of the Council's gross revenue expenditure - Section 32(2);
- (ii) an estimate of anticipated income - Section 32(3)
- (iii) a calculation of the difference between (i) and (ii) above, (i.e. net revenue expenditure) - Section 32(4).

3.2 More specifically, in its Section 32(2) calculation of gross expenditure the Council should include -

- (a) estimated revenue account expenditure to be incurred during the year;
- (b) an appropriate allowance for contingencies (i.e. an allowance for unforeseen events);
- (c) any raising of reserves for future years (e.g. payments into special funds);
- (d) any estimated revenue account deficit for previous years not already provided for;
- (e) an estimate of certain amounts to be transferred to the collection fund pursuant to a direction of the Secretary of State (e.g. any estimated shortfall in collection of National Non-Domestic Rates (NNDR) in excess of allowance for non-collection).

3.3 The Section 32(3) calculation is the aggregate of the sums to be set off against gross expenditure, namely -

- (a) estimated income from fees, charges and most specific grants (but excluding Revenue Support Grant (RSG) redistributed NNDR and additional grant for previous years)
- (b) an estimate of certain transfers from the collection fund to the general fund e.g. allowance for costs of collecting business rates;
- (c) any amount of reserves/balances intended to be used towards meeting revenue expenditure.

- 3.4 Section 32(4) then requires the calculation under Section 32(3) to be subtracted from that under Section 32(2) to produce a calculation of estimated net expenditure known as the budget requirement.
- 3.5 These calculations must be made before 11th March, although they are not invalid merely because they are made on or after that date. However, until the calculations are made any purported setting of the Council Tax will be treated as null and void.
- 3.6 It should be noted that the general fund has to stand the cost of any temporary lending to the collection fund to cover late payments/non-collection.
- 3.7 In making the Section 32 calculations, the Council will need also to calculate the level of financial reserves which it proposes to leave in balances.
- 3.8 As Members will be aware, School Budget related expenditure was previously part of the budget requirement and was financed through RSG, NNDR and council tax. Since 2006/07, however, such expenditure has been financed through a ring-fenced Dedicated School Grant (DSG). Schools expenditure calculated under Section 32 (3)(a) will be offset by the DSG which will be included in the calculation under Section 32 (3)(a), thereby reducing both the amount of the budget requirement and the amount of RSG received. An incidental effect of the reduction in the budget requirement is to increase the proportion of the budget requirement financed by council tax.

4. **THE LEVEL OF THE BUDGET REQUIREMENT**

4.1 The level of the Section 32 calculations, and in particular the calculation of the budget requirement is of crucial importance both legally and financially. In particular -

- the amount of the budget requirement must be sufficient to meet the Council's budget commitments and thereby ensure a balanced budget.
- the amount of the budget requirement must leave the Council with adequate financial reserves.
- the level of the budget requirement must not be unreasonable having regard to the Council's fiduciary duty to its Council Tax payers and ratepayers.
- the amount of the budget requirement may determine whether or not the Council is designated for "capping".

4.2 Adequacy of Budget Requirement and Financial Reserves

As has been seen, Section 32 requires the Council to calculate its gross expenditure under 5 separate headings and its offsetting income under three

headings. Beyond that, the Act offers no guidance as to the detail in which the estimates are to be formulated.

- 4.3 However, the Local Government Act 2003 requires the Chief Finance Officer to report to the authority on the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. This will include estimates and reserves used for the purpose of the Executive's recommendations to Council and for the purpose of any amendments to those recommendations. The Council has a statutory duty to have regard to the Chief Finance Officer's report when making decisions about the Section 32 calculations .
- 4.4 If the calculation of the budget requirement is insufficient to meet budget commitments, there are obvious practical as well as legal consequences for the Council. It is appropriate at this point to mention the duties imposed on the Council and the City Treasurer as Chief Finance Officer of the Authority.
- 4.5 Section 28 of the Local Government Act 2003 imposes a statutory duty on the Council to monitor during the financial year its expenditure and income against the budget calculations. If the monitoring establishes that the budgetary situation has deteriorated, the Council must take such action as it considers necessary to deal with the situation. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or to finance the shortfall from reserves.
- 4.6 Under Section 114 of the Local Government Finance Act 1988, where it appears to the Chief Finance Officer that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure, the Chief Finance Officer has a duty to make a report to the Council.
- 4.7 The report must be sent to the District Auditor and every member of the Council and the Council must consider the report within 21 days at a meeting where it must decide whether it agrees or disagrees with the views contained in the report and what action (if any) it proposes to take in consequence of it. In the intervening period between the sending of the report and the meeting which considers it, the authority is prohibited from entering into any new agreement which may involve the incurring of expenditure (at any time) by the authority, except in certain limited circumstances where expenditure can be authorised by the Chief Finance Officer. Failure to take appropriate action in response to such a report may lead to the intervention of the District Auditor.

4.8 The Level of Section 32 Calculations

The next issue relates to the reasonableness of the level of expenditure calculated under Section 32. There were a series of cases in early 1980's where

Plaintiffs sought to challenge the legality of the rate by arguing that a local authority was in breach of its fiduciary duty and acting unreasonably by over-spending. Although such an argument succeeded in the "Fares Fair" case (R -V- GLC, ex parte, London Borough of Bromley), the Courts restricted the ambit of that decision in subsequent cases. Whilst the Courts have avoided saying that a high level of expenditure will never be unreasonable, it does now seem that expenditure levels will not be regarded as unreasonable provided that they can be justified, are not irrational and the Authority is taking into account all relevant considerations, including the fiduciary duty to those paying the tax (R -V- Waltham Forest LBC., ex parte Baxter).

4.9 In reaching decisions on expenditure levels Councillors must not fetter their discretion by treating as decisive a proposal or proposals in their election manifesto. Each decision must be reached anew in the light of all known factors, but members may properly take into account their election manifesto when deciding between lawful options.

5. **"CAPPING"**

5.1 Part II of the Local Government Act 1999 instituted a new and rather complicated regime in relation to "Capping" of expenditure. Nevertheless, the Secretary of State still retains wide reserve powers where in his/her opinion the amount calculated by an authority as its budget requirement is excessive.

5.2 The Secretary of State must first decide if the budget requirement is excessive. S/he will determine a set of principles which will be used to decide this and the principles must include a comparison with the budget requirement of previous years. Manchester's budget requirement in 2006/07 was £415.760m.

5.3 The Minister for Local Government has indicated that he would expect to see Council tax increases of less than 5%.

5.4 If the Secretary of State decides the budget requirement is excessive, s/he may designate the authority "in-year" (i.e. for that financial year), or s/he may exercise a range of alternative powers.

5.5 Where an authority is designated for capping "in-year", the legislation provides for the following procedure. The Secretary of State must notify the authority in writing that it has been designated, the principles applied and the amount which s/he proposes should be the maximum amount for the budget requirement. The authority then has 21 days to accept the maximum amount or to challenge it and put forward an alternative which will have to be considered by the Secretary of State. If s/he still considers that the authority should be capped "in-year", s/he may fix an amount which is the same, or greater or smaller than, that stated in the original notice. The authority will then be required to make substituted calculations to comply with the expenditure limitation. If the original council tax demands have already been prepared or sent out, the authority would have to prepare and send out revised demands - thereby delaying the receipt of council tax income and incurring additional in-

terest charges. It would then have to make cuts in expenditure with immediate effect without any "breathing space" to mitigate their impact.

5.6 However, Part II of the 1999 Act gives the Secretary of State alternative powers:

- * S/he may cap an authority for the following year, thereby avoiding the re-billing costs of "in-year" capping.
- * S/he may cap an authority over a number of years, starting either in-year or the following year, and enabling expenditure to be reduced over longer periods.
- * S/he may decide not to designate an authority but to set a notional (lower) budget requirement for the year under consideration which will be taken into account instead of the actual budget requirement for the purpose of any future comparisons with that year's budget.

6. **STAGE 2 - CALCULATING CITY ELEMENT OF COUNCIL TAX**

6.1 Having calculated its budget requirement, the Council is then required to calculate its own element of the Council Tax first for Band D (Section 33) and then for all 8 bands as a proportion of the Band D calculation (Section 36). The City element of the Council Tax has to finance that part of the budget requirement which cannot be financed by RSG and redistributed non-domestic rates, plus the Council's share of the deficit on the collection fund.

6.2 The Section 33 Calculation

The City Element of the Band D Council Tax is known as the basic amount of Council Tax. This is calculated by applying the following formula -

$$\frac{R-P}{T}$$

where -

R is the budget requirement

P is the aggregate of RSG redistributed non-domestic rates and additional grant for previous years, reduced by the estimated collection fund deficit (or increased by any estimated surplus)

T is the Council Tax base.

6.3 Collection Fund Deficit

Any deficit on the collection fund from preceding years has to be financed through the Council Tax. Such a deficit is shared "pro rata" with the precepting authorities (with the exception of any poll tax legacy which is the responsi-

bility of the City Council alone), The required calculations had to be made on 15th January and the appropriate shares of the deficit notified to the precepting authorities.

6.4 Council Tax Base

The Council Tax base is basically the Band D - equivalent number of properties in the City adjusted to take account of discounts etc and multiplied by the estimated collection rate. The City Treasurer acting under delegated powers has calculated the council tax base for 2007/08 to be 115,368, an increase from 113,916 in 2006/07.

6.5 The Section 36 Calculation

Having calculated the basic amount of Council Tax (i.e. the City element of the Band D tax) the Council is then required to convert it into a City element for all Bands by multiplying it by the formula N/D where -

N is the proportion for the band as set out below and D is 9.

6.6 The proportions for each band are as follows:-

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

6.7 The Council's demand on the Collection Fund

One further calculation to be made is of the amount to be transferred from the collection Fund to the General Fund during the year, i.e, the Council's demand on the Collection Fund. In effect, this amount will be that part of the budget requirement not financed by RSG and redistributed NDR, plus the Council's share of the Collection Fund deficit. Another way of putting this is the formula set out in Section 97(1) of the Local Government Finance Act 1988, namely -

$B \times T$

Where -

B is the basic amount of Council Tax calculated under Section 33 (i.e the City element of Band D, and

T is the Council Tax base.

7. **STAGE 3 - SETTING THE COUNCIL TAX**

7.1 The final part of the process is for the Council as billing authority to set the overall Council Tax for each band. Whereas the billing authorities and major precepting authorities calculate their own budget requirements, their

own basic amounts and amounts for each band, the setting of the Council Tax is solely the responsibility of the City Council as billing authority.

- 7.2 Section 30 of the 1992 Act provides that the amounts set for each band will be the aggregate of the City element for each band calculated under Section 36 and the amount calculated for each band by each of the major precepting authorities.
- 7.3 The Council Tax must be set before 11th March (i.e no later than 10th March), although it is not invalid merely because it is set on or after that date.
- 7.4 The Council Tax cannot be set before 1st March unless all precepting authorities have issued their precepts; nor can it be set before the Council has made the other required calculations. Otherwise, any purported setting of the tax will be treated as not having occurred.
- 7.5 The City Council has a clear legal duty to set a Council Tax and a resolution not to set a Council Tax would be unlawful, being in breach of Section 30, LGFA 1992. So would be a resolution to set a Council Tax which deliberately did not balance the various calculations.
- 7.6 A draft resolution for setting the Council Tax is attached at Appendix 1.

8. **CONSTITUTIONAL ARRANGEMENTS**

- 8.1 Members should note that under the Council's constitutional arrangements, the functions of calculating the budget requirement and the City element of the Council Tax and the function of setting the Council tax are the responsibility of the full Council. The function of preparing estimates and calculations for submission to Council is the responsibility of the Executive.
- 8.2 The Council's Constitution provides a procedure for the resolution of any conflict between the Executive and the Council which gives effect to the Local Authorities (Standing Orders) (England) Regulations 2001. However, this only applies where the estimates and calculations are prepared by the Executive before 8th February. That will not happen this year and any conflict can be resolved through the scrutiny process. The Budget and Policy Framework Rules provide that where the Finance and General Purposes Overview and Scrutiny Committee has any objection to the estimates and calculations prepared by the Executive, it will report such objections to the Council, the Leader and the Executive Member for Finance and Human Resources. The Leader and/or the Executive Member will report to the Council whether they agree or disagree with any objection of the Overview and Scrutiny Committee.

9. **RECOMMENDATIONS**

The Executive, the Finance and General Purposes Overview and Scrutiny Committee and the City Council are asked to take this advice into account

and to follow its principles in reaching decisions in relation to the budget and Council Tax for 2007/08.

Howard Bernstein
Chief Executive

Susan Orrell
City Solicitor

APPENDIX 1

COUNCIL TAX **DRAFT RESOLUTION** **SETTING THE AMOUNT OF COUNCIL TAX FOR THE COUNCIL'S AREA**

RESOLVED

1. That the estimates prepared by the Executive at its meeting on 14th February 2007 be [approved/amended as follows]
2. That it be noted that the City Treasurer acting under delegated powers has determined the amount of [115,368] as the Council Tax base for Manchester for the year [2007/08] in accordance with Section 33(5) of the Local Government Finance Act 1992 and regulations 3 and 5 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992, as amended.
3. That the following amounts be now calculated by the Council for the year [2007/08] in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-
 - (a) £ being the aggregate of the amounts which the Council estimates for the items set out in the Section 32(2)(a) to (e) of the Act.
 - (b) £ being the aggregate of the amounts which the Council estimates for the items set out in Section 32(3)(a) to (c) of the Act.
 - (c) £ being the amount by which the aggregate at 3(a) above exceeds the aggregate at 3(b) above, calculated by the Council, in accordance with Sections 32(4) of the Act, as its budget requirement for the year.
 - (d) £ being the aggregate of the sums which the Council estimates will be payable for the year into its general fund in respect of redistributed non-domestic rates, revenue support grant or additional grant reduced by the amount of the sums which the Council estimates will be transferred in the year from its general fund to its collection fund in accordance with the formula set out in Section 33(3) of the Local Government Act 1992, as amended.
 - (e) £ being the amount at 3(c) above less the amount at 3(d) above, all divided by the amount at 2 above, calculated by the Council in accordance with Section 33(1) of the Act, as the basic amount of its Council tax for the year.
 - (f) Valuation Bands

A B C D E F G H

£

being the amount given multiplying the amount at 3(e) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation band D, calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

4. That it be noted that the following amount to be transferred by the Council for year [2007/08] from its collection fund to its general fund in accordance with Section 97(1) of the Local Government Finance Act 1988:-

£ being the amount given by multiplying the amount at 3(e) above by the amount at 2 above.

5. That it be noted that for the year [2007/08] the major precepting authorities have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

Precepting authority Valuation bands

A B C D E F G H

GM Police Authority £

GM Fire and Civil
Defence Authority £

6. That, having calculated the aggregate in each case of the amounts at 3(f) and 5 above, the Council, in accordance with Section 30(2) of the Local Government Finance Act 1992 hereby sets the following amounts as the amounts of Council Tax for the year [2007/08] for each of the categories of dwellings shown below.

Valuation bands

A: B: C: D: E: F: G: H:

ANNEX 1

Medium Term Financial Plan 2007/8 to 2009/10 And Revenue Budget 2007/8

Purpose of Report

To outline for members the proposed revenue budget for 2007/8 and indicative revenue budget position for 2008/9 and 2009/10. To inform members of the responses so far received to the budget consultation process, and to report for approval of members the Prudential Indicators for 2007/8 to 2009/10.

Recommendations

Members are recommended to:

1. Note the results of the final RSG settlement for Manchester for 2007/8 and the resultant resources available to fund expenditure in that year.
2. Note the outcome of the budget consultation process (details of responses shown in appendix 5).
3. Approve the three year financial plan as outlined in the report including:
 - a. the contingency sum of £8.882m in 2007/8, £8.797m in 2008/9 and £10.626m in 2009/10 including the sums identified in section 3.3.2
 - b. Departmental Cash Limit Budgets totaling £356.352m, £370.903m and £383.171m (as identified in Appendix 1)
 - c. Corporate Budget requirements of £95.234m for 2007/8, £100.271m in 2008/9 and £105.752m for 2009/10 (as outlined in paragraphs 3.2 and 3.4 of this report subject to final notification of Levies from other bodies)
 - d. The utilisation of the SIF in 2007/8 as proposed in paragraph 6.4.5
4. Approve the proposed utilisation in 2007/8 of £2.384m (as per paragraph 2.2.6) of the surplus from the on street parking reserve after determining that any surplus from on-street parking is not required to provide additional off street parking in the authority.
5. Note the currently estimated funding requirement in 2007/8 before Council Tax increases as identified in paragraph 4.1 and determine which of the options discussed in paragraph 4.3 of the report members wish to adopt.
6. Note the position on reserves as identified in the report and in Appendix 4 and subject to final decisions on how the funding requirement in 2007/8 is to be bridged.

7. Approve delegated authority to the City Treasurer to amend departmental cash limit budgets to take account of savings arising from the Manchester Improvement Programme before 1 April 2007 and throughout the year.
8. Approve that delegated authority be given to the City Treasurer and Chief Executive, in consultation with the Executive Member for Finance and Human Resources and the Leader of the Council to draft the recommended budget resolution for budget setting council in accordance with the legal requirements outlined in the report from the City Solicitor elsewhere on the agenda and taking into account the decisions of Executive. Members are also requested to identify an indicative level of increase to the Council Tax for 2008/9 and 2009/10 to enable the Medium Term Financial Plan to be completed. Depending on the decisions taken by the Executive, the City Treasurer will, at the meeting, be able to advise on the final Net Budget Requirement for 2007/8 and the consequent Council Tax increase to be recommended to Council.
9. Approve the target trading surpluses (losses) for the trading services as outlined in section 9 of the report.
10. Approve that the trading loss predicted by HATs in 2007/8 be met from reserves in 2007/8 to be repaid from above target surplus in 2008/9.
11. Approve the Prudential Indicators for 2007/8 to 2009/10 as presented in Appendix 3 subject to any final adjustments that may be made arising from recommendations above.

Approval of the Medium Term Financial Plan for the next three years as outlined in the report is subject to the need to reassess budgets for 2008/9 and 2009/10 on an annual basis as part of a three year budget rolling programme to take account of potential changes to needs.

1. Background

- 1.1 This year saw the introduction for budget planning purposes of the new business planning model whereby each head of service produced a three year business plan for their service. These business plans were seen as useful to service heads in formulating their budget requirements and have formed the basis of determining the cash limit targets being set for each of the services as shown in Appendix 1. The figures contained in appendix 1 for the two years 2008/9 and 2009/10 are subject to review through the annual budget and business planning process.
- 1.2 Initial budget projections based on business plans were reported to Executive in December and this showed an estimated funding requirement of some £7.602m. Heads of Services were requested to identify 2% further efficiency savings subject to members agreement and in addition some one-off expenditure has been identified that could be met from reserves. Corporate budgets have been re-examined to identify scope for further reducing the call on resources.
- 1.3 Work has also continued to identify the Medium Term Financial position facing the council over the next three years. The rest of this report considers the estimated three year position facing the Council and puts forward for recommendation a three year medium term financial plan covering the years 2007/8 to 2009/10 and proposes a budget for 2007/8.

2. Resources available based on final settlement

2.1 Government Resources 2007/8

General Grant (RSG)

- 2.1.1 At the time the final settlement for 2006/7 was announced, the Government also announced an indicative settlement for 2007/8 of £305.923m. This was a first step towards the introduction of three year settlements that will match to the three year spending reviews. The figure of £305.923 was confirmed as the settlement for 2007/8 when the final settlement was announced in January.
- 2.1.2 Current indications are that the position moving forward from 2007/8 that will be announced in the spending review 2007 are likely to be less generous than has been the case in recent years. The operation of the floor methodology also means that the scope for growth in general government funding is likely to be low. It has therefore been assumed that these resources will see growth of just 3% in each of the two years after 2007/8. This gives general government grant of:

2007/8	£305.923,000
2008/9	£315,101,000
2009/10	£324,554,000

2.1.3 These figures do not include monies that will be received from external funding streams including Housing Market Renewal Fund (HMRF) and Neighbourhood Renewal Fund (NRF) as the use of these is determined through other mechanisms. Further details of NRF grant is contained below.

Government Grant (DSG)

2.1.4 The Dedicated Schools Grant (DSG) was introduced in 2006/7 and pays for much of the costs of schools and pupil based education services. The grant received in 2006/7 was £257.322m. In November the DfES announced an indicative DSG figure for 2007/8 of £274.611. However, this does not take account of updated pupil numbers. Updated pupil data will be available soon, however based on our current knowledge our own estimate for DSG is £272.436m. Once pupil numbers on which the final DSG grant will be set are known, it will be possible to calculate the DSG with more certainty and these figures will be included in the final draft budget resolution (the S32 statement) submitted to the budget meeting Council. The final DSG grant will not be confirmed by the DfES until May/June.

Local Area Agreement (LAA) Funding

2.1.5 It has been announced that Manchester will receive grant funding through the LAA totalling £44.222m split as follows:

Neighbourhood Renewal Fund (NRF) Grant	£29.881m
Safer Stronger Communities Fund (SSCF) Grant	£2.271m
Children's Block Grants	£12.070m

2.1.6 This has been fully allocated to projects for 2007/8 in accordance with the Council's priorities as identified in its strategic plan. A breakdown of proposed spend from all LAA resources and the Service Improvement Fund is attached as Appendix 2.

2.1.7 The future of the NRF after 2007/8 is uncertain and as such represents a considerable risk to the budget in future years if it should cease as a significant proportion of the grant is utilised to support staff costs. It has been agreed that no new staff should be appointed supported by NRF and that officers will seek to reduce the number of staff overall supported through this grant.

2.1.8 For 2008/9 and 2009/10 it is assumed that any loss or reduction in grant can be compensated for by reduction of costs and therefore there will be a neutral impact on the budget position. Officers will continue to monitor the situation carefully to ensure that potential budget problems in future years are minimised.

2.2 Other Resources

Council Tax:

2.2.1 The budget for 2006/7 included budgeted Council Tax receipts of £120.248m. The Council continues to experience growth in the Council Tax base of the city (117,722 band D equivalent properties for tax setting purpose for 2007/8 - up from 116,241 in 2006/7) and further growth of 1% a year thereafter is also assumed. The Collection Fund is expected to be in surplus at the end of 2006/7 and this is built into the resource projection for 2007/8.

2.2.2 Before any increase in the Council Tax is determined, therefore the receipts from Council Tax for the next three years are estimated as :

	£m
2007/8	122.998
2008/9	122.439
2009/10	122.653

Dividends:

2.2.3 The City Council receives dividends from the airport and the parking joint venture company. Airport dividends, when received, are placed in a reserve and then reserves are released in the following year to support the revenue budget. This is considered to be a prudent mechanism which gives the Council some protection if anticipated dividend levels are not achieved. The estimated figures to be utilised in support of the budget are:

	2007/8 £'000	2008/9 £'000	2009/10
Airport	3,550	3,710	3,870
Parking Joint Venture	1,500	1,500	1,500

Airport dividends not required to support the Revenue Budget are transferred into the Capital Fund.

Trading Reserves:

- 2.2.4 With the transfer of City Works to Manchester Working and the generally difficult trading position facing many of the trading accounts due to the impact of job evaluation, it has not been assumed that any contribution from this source will be available to support the budget in future years. Further details of the trading services including targets for 2007/8 are contained in section 9 of the report.

Parking Reserve

- 2.2.5 In 2006/7 it is estimated that a sum of £1.641m will be paid into the Parking reserve from the surplus on the decriminalised parking enforcement service. In accordance with statute, this sum has to fall into the parking reserve and subject to there being no requirement to fund any further off street parking, this reserve is available to fund certain types of expenditure. Some £1.994m will be utilised from the reserve in 2006/7 to fund various environmental and transport related projects in line with the budget approval for 2006/7. This means that the balance on the reserve at 31 March 2007 is expected to be £2.7m. Contributions will continue into the fund in each of the next three years.
- 2.2.6 Officers therefore advise that, as there is no foreseen requirement in the next three years to provide additional off street parking, and no requirement for financial support to existing off street parking, the following items be funded from the reserve:

	2007/8	2008/9	2009/10
- support for Metro shuttle	330	340	350
- highways and environ'l improvement works	2,054	2,234	2,300
Total calls on reserve	<u>2,384</u>	<u>2,574</u>	<u>2,650</u>

This represents a continuation of the works agreed as part of the budget process for 2006/7.

- 2.2.7 The Executive is asked to agree to this proposal, subject to annual review as part of the budget process to ensure that the surplus income from parking is sufficient to sustain this level of expenditure.

2.3 Total all Resources:

- 2.3.1 Based on all the above, the level of resources available to support the Council's revenue budget over the next three years compared to 2006/7 can be summarised as:

	2006/7	2007/8	2008/9	2009/10
	£'000	£'000	£'000	£'000
Government Support	295,512	305,923	315,101	324,554
Council Tax receipts	120,248	122,998	122,439	122,653
NCP Dividends	1,500	1,500	1,500	1,500
Airport dividends	3,450	3,550	3,710	3,870
Trading Reserves	250	0	0	0
Parking Reserves	1,994	2,384	2,574	2,650
Amending Order Grant	2,744	0	0	0
Total Resources	425,698	436,355	445,324	455,227

For the purposes of the above table LAA resources have been excluded as these are assumed to be matched to spend. The Council Tax receipts figures do not assume any increase in the Council Tax.

3. Calls against Resources

3.1 Departmental Requirements:

- 3.1.1 Attached as appendix 1 are the proposed cash limit budget totals for all departments split over Business Plan areas. Some costs of the Corporate Services and Chief Executive's department are met on behalf of the Council as a whole and as such are not included within individual business plan totals. In addition some areas of the Environmental Services department budget have not yet been allocated to business plans. These costs are shown as "Outside business plans" in the table in appendix 1. The budget requirements total:

	£m
2007/8	356.864
2008/9	371.426
2009/10	383.705

- 3.1.2 The main assumptions used to formulate the departmental budget proposals are:

- That pay awards for all staff will be 2.25% a year
- National insurance rates will remain unchanged
- No increase in Pension Rates (but see item in contingency in paragraph 3.3.2 below)
- Inflation on utilities and some insurances will increase more than the standard level of inflation over the next three years but within a general (non pay) inflation figure of 2.25% a year
- That departments will achieve the agreed efficiency savings put forward as part of the 2% efficiency exercise undertaken
- That increased resources (above inflation) will be made available to Children's and Adult Social Care services to meet increasing demands on those services amounting to a total of £15.373m in 2007/8, £6.383m in 2008/9 and £4.23m in 2009/10.

3.1.3 Although not yet built into the figures above or into departmental service and budget strategies, it is anticipated that during the three years covered in this report, significant savings will accrue as a result of the Manchester Improvement programme. This has been assessed at a corporate level and it is considered that savings can be achieved of £15.4m in 2007/8 rising to £22.6m in 2008/9 and £30m in 2009/10. These targets are challenging but are considered achievable. To free up this level of savings, however, will require robust management action.

3.1.4 The table below identifies the main areas where these savings are expected to accrue over the next two years:

PROJECTED SAVINGS	2007/8	2008/9
	£m	£m
Procurement	7.6	9.5
Finance	0.3	1.0
Human Resources	0.2	1.0
Adult Social Care	1.5	2.9
MEP SIP	3.2	3.5
ICT SIP	1.7	2.5
Other SIPs	0.9	2.2
TOTAL SAVINGS	15.4	22.6

The savings in year 3 will partly be achieved through the full year effect of initiatives undertaken in 2008/9 and partly through further actions not yet identified.

3.2 Levies:

3.2.1 The Council is responsible for paying a number of levies to other joint bodies, most notably the Greater Manchester Waste Authority and the Greater Manchester Passenger Transport Authority. Estimates have been included for levies as follows:

	2006/7	2007/8	2008/9	2009/10
	£'000	£'000	£'000	£'000
GM Passenger Transport	25,120	26,288	27,734	29,259
GM Waste Disposal	17,886	20,683	22,176	23,082
Environment Agency	167	173	180	187
Probation	37	30	30	30
Magistrates Court	35	35	35	35
Total	43,245	47,209	50,155	52,593

3.2.2 Final levies for 2007/8 are not yet known but are not expected to differ significantly from the current estimates other than potentially the Waste Disposal Authority (WDA) levy. The levy figures for the WDA are based on a further move away from the historic method of apportionment to one based increasingly on tonnage of disposed waste, with incentives for authorities to reduce waste volumes and recycle more. 2007/8 will see the start of the new waste contract and current intentions of the WDA are that the levy for 2007/8 will be based on a new apportionment based on total tonnages processed. This could have a significant impact on the final levy announcement for 2007/8.

3.2.3 The figures for the waste levy included in the table above assume a contribution to Environment and Operations to support the cost of recycling activities. During the course of 2007/8 some of the levy budget will be transferred to Environment and Operations so that all the costs of recycling are covered within that department's cash limit budget.

3.3 Contingency:

3.3.1 The contingency is used to hold monies to meet unforeseen costs that may arise during the year, to hold budgets for known issues that have not yet been allocated to departmental budgets or to hold budgets for known issues where the final cost of the council is not yet clear. The estimated contingency requirements for the next three years are:

	£m
2007/8	8.370
2008/9	8.275
2009/10	10.094

3.3.2 The main items within the contingency are:

- an unallocated sum of £1.5m in 2007/8, £500,000 in 2008/9 and 2009/10 to meet unforeseen budget costs
- £782,000 in 2007/8 rising to £1.282m in 2007/8 and £1.782m in 2008/9 to meet the estimated impact on the General Fund of the transfer of Housing Stock and the consequent reduction in the Housing Revenue Account (HRA), and the transfer of City Works to Manchester Working
- £2m in 2007/8, £1m in 2008/9 and £0.5m in 2009/10 to meet potential pay protection costs incurred as part of the implementation of single status and job evaluation (see further note below)
- £200,000 in 2007/8 to meet costs arising from the successful bid to host the UCI World Track Championships
- £2m in each of the three years to meet costs arising from major restructures to support achievement of MIP savings
- £1m in 2007/8 and £475,000 in 2008/9 to meet the costs of the International Short Course Swimming championships

- £780,000 in 2007/8, £510,000 in 2008/9 and £204,000 2009/10 to meet the costs due to loss of trading potential of City Works and support from the HRA
- £2.4m in 2008/9 raising to 5m in 2009/10 to account for anticipated further increase in pension costs after the next tri-annual valuation

3.4 Capital Financing Costs:

3.4.1 Capital financing costs have been calculated based on the assumptions that the Capital Programme (reported elsewhere on the agenda) is fully supported and that no unsupported borrowing will be entered into (except to the extent that it might be fully funded by savings or already existing budgets e.g. to replace leasing). The figures also assume that Building Schools for the Future will be funded through capital grant in 2007/8 with borrowing being required to part fund 2008/9 and all future years expenditure. The figures for Capital Financing Costs are currently estimated as £48.025m for 2007/8, £50.116m for 2008/9 and £53.132m for 2009/10.

3.4.2 The prudential code allows unsupported borrowing provided the authority can demonstrate through the Prudential Indicators that it can afford such borrowing from within projected revenue streams. Unsupported borrowing proposals are dealt with within the Capital Programme report in Annex 2.

4. Summary of budget position

4.1 The current estimated budget position of the Council over the next three years taking into account all of the above can be summarised as:

	2006/7	2007/8	2008/9	2009/10
	£'000	£'000	£'000	£'000
Resources :				
RSG and NNDR	(295,512)	(305,923)	(315,101)	(324,554)
Amending Order Grant	(2,744)	0	0	0
Council Tax Receipts	(120,248)	(122,998)	(122,439)	(122,653)
Other resources (Dividends etc.)	(5,884)	(5,050)	(5,210)	(5,370)
Use of Parking Reserve	(2,506)	(2,384)	(2,574)	(2,650)
Total Resources available	(426,894)	(436,355)	(445,324)	(455,227)
Calls on resources :				
Departmental Requirements	326,436	356,864	371,426	383,705
Corporate Requirements	104,358	103,604	108,546	115,819
MIP efficiency savings	(3,900)	(15,372)	(22,600)	(30,000)
Total Call on resources	426,894	445,096	457,372	469,524
Net remaining funding requirement	0	8,741	12,048	14,297

- 4.2 Within the above, the figures used for levies in 2007/8 are still subject to final approval and announcement. All the figures contained above for 2008/9 and 2009/10 are based on the best available information at this time and should be treated as indicative only to aid medium term service planning. All could be subject to change.
- 4.3 It can be seen from the above that there remains a funding requirement (shortfall of resources) in each of the next three years. It is proposed that the funding requirement in 2007/8 should be met from a mix of an increase in Manchester's Council Tax and use of one off funding (reserves).

Use of one off funding and reserves:

Within the contingency provision (details as in paragraph 3.3.2 above) there are a number of items that are one off in nature and as such would be suitable for meeting from one off funding or reserves. In addition in 2007/8 we will receive a pension contribution of £0.7m in 2007/8 arising from the transfer of staff to Manchester Working.

The total contribution to the funding requirement that the above options could provide would be:

	2007/8 £'000	2008/9 £'000	2009/10 £'000
Use of pension contribution	(700)	0	0
Use of one off reserves	(4,780)	(2,985)	(2,204)
Total	5,478	2,985	2,204

Increase in Council Tax

Currently CPI is running at 3%, up from 2.7% in November and headline RPI is at 4.4%, up from 3.9% in November. An increase in the Council Tax in 2007/8 would yield the following additional Council Tax receipts:

Council Tax Increase	2007/8 £'000	2008/9 £'000	2009/10 £'000
2%	2,404	2,427	2,452
2.5%	3,007	3,036	3,066
3%	3,608	3,643	3,680
3.5%	4,208	4,250	4,293
4%	4,810	4,857	4,906

- 4.4 The funding requirement could therefore be met through a combination of use of one off monies and reserves and a suitable increase in the Council Tax.

4.5 There would still leave a requirement for additional resources in 2008/9 and 2009/10, however, these figures are indicative and will be subject to annual review as part of future budget rounds. In particular they could be subject to significant change depending on the outcome of the 2007 spending review and the settlement it produces. At this stage it is recommended that the funding requirement in these years is found by

- assuming use of reserves as identified above
- identifying an indicative increase in the Council Tax in each of these years (the financial resources arising from a range of possible increases is shown below for illustration)
- inclusion of further unidentified efficiency savings from departmental budgets

Council Tax Increase In each year	2008/9 £'000	2009/10 £'000
2%	2,500	5,090
2.5%	3,123	6,378
3%	3,746	7,671

Members are asked to identify an indicative CT increase in each of these years to be used as planning assumption for the Medium Term Financial Plan subject to these being revised as part of the annual budget setting process for the relevant year.

5. Robustness of the estimates

- 5.1 Under S25 of the Local Government Act 2003 the Treasurer has to report to the Council on the robustness of the estimates and the adequacy of reserves.
- 5.2 The City Treasurer has examined the major assumptions used within the budget calculations and considers that they are prudent based on the best information we have available. Each Service Head has carried out an individual risk assessment of their own budgets which have been reviewed by the City Treasurer as part of the business planning process. In addition, the Treasurer has carried out a corporate budget risk assessment and will implement actions to mitigate risks identified. It is considered that the MIP savings targets in particular represent a high risk and will required the full commitment of strategic directors, heads of service and other council staff to ensure that they are achieved.
- 5.3 It is the opinion of the City Treasurer that any significant budget risks to the General Fund and the Housing Revenue Account reported elsewhere on the agenda have been identified and that suitable proposals have been

put in place to mitigate against these risks where possible. The Council's Budget Monitoring procedures, whilst considered adequate, were supplemented in 2006/7 by further scrutiny of high risk budget areas by the SMT budget sub group who have been meeting weekly. Regular meetings will continue in the new year to ensure budget control is maintained and improved. The current monitoring process will also be reviewed in the year in light of experience now gained in the use of SAP.

- 5.4 The level of the contingency provision and General Fund Reserves held is considered sufficient to meet the costs of risks should they materialise.

6. **Financial Reserves**

- 6.1 The Council has a number of reserves which it holds for a variety of purposes but they fall into two main types:

Specific reserves – these are held for specific purposes and have limits on what the reserve can be used for and who can authorise additions to / use of them

General Reserves – These are reserves that are not held for specific purposes and can be utilised by the council for any legitimate purpose.

- 6.2 It is a requirement of the Local Government Act 2003 that, as part of the budget setting process, members receive details of the specific reserves held including the balances held, proposed additions or utilisation, and the purpose of the reserve. In addition the City Treasurer needs to give formal consideration to the adequacy of the Council's general reserves and report this to members.

- 6.3 Details of the reserves (excluding the General Fund Reserve that is dealt with below) held by the Council have been included as appendix 4 to this report.

- 6.4 The General reserves held by the Council are as follows:

- 6.4.1 General Fund Reserve** – this reserve is held to meet exceptional, unplanned, unforeseen expenditure during the financial year and after the budget is set. The General Reserve has been maintained in recent years at a high level (above £20m) in part in anticipation that we would need to deal with equal pay claims and the impact of job evaluation under the single status agreement. In November last year it was agreed with members that £12m of the general fund reserve should be set aside to meet the costs of dealing with equal pay claims. Much of the potential risk from these claims has been dealt with and it is expected that the remaining costs arising from the initially identified claims can be contained within the £12m figure approved. There is an on-going risk of further

claims as job evaluation is rolled out however it is not at this point possible to adequately assess how much this risk may be or when it may impact.

- 6.4.2 This has, however, caused a substantial drain on the general fund reserve (£10m in 2006/7 with the balance of £2m falling in 2007/8). This will be made worse if the currently forecast overspend on departmental budgets cannot be brought back into line by the end of the year. Currently we are assuming a final call on reserves due to overspending in 2006/7 of £4m. Further calls on the General Fund reserve in 2006/7 include £1.6m agreed to meet restructuring costs at the Manchester Adult Education Service. This would leave the balance on the General Fund at just £9.554m. In addition, there will be further calls on the reserve in 2007/8 to meet the balance of the single status £12m, and losses on trading (including Manchester Fayre) of £0.353m and if members so decide, to fund “one-off” expenditure items identified in the 2007/8 budget. It is the opinion of the Treasurer that this would leave insufficient reserves to meet potential future requirements and that steps should be taken to ensure that the reserve does not fall below £15m by the end of 2007/8.
- 6.4.3 It is therefore proposed that the General Fund be supplement by use of receipts expected from the Local Authority Business Incentive (LABGI) Scheme. The receipt for 2006/7 is due to be announced towards the end of February and our current assessment of the level of receipt expected this year is in the region of £16m with potentially a larger sum in 2007/8. There are concerns, however, that the Government may “cap” the monies to be paid out and as such it is prudent to assume receipts in the region of £13.5m in each year. The figures for the Service Improvement Fund assume that £3.5m will be put into the fund from LABGI in this year and next it is therefore proposed that £10m of the receipts are put into the General Fund in 2006/7 with a further £3.5m in 2007/8 (with any balance allocated to the Capital Fund). If this action is agreed then the balance on the General Fund before any further calls would be £20.701m. This balance will reduce depending on how much one off costs are taken from reserves to help balance the budget, however, if the full £4.78m identified above were taken this would still leave a balance at the end of 2007/8 of £15.921.
- 6.4.4 Housing Revenue Account Reserve** – The total of HRA revenue reserves as at 1 April 2007 will be £14.667m. This reserve is mainly the earmarked PFI smoothing fund of £12.778m, the residual liabilities fund of £1m and the general HRA reserve is £890,000. It is currently estimated that there will be a net contribution to reserves of £11.284m in 2007/8 which will leave the reserves at the end of 2007/8 standing at £25.951m (general HRA reserve balance will be £551,000).

6.4.5 The Service Improvement Fund (SIF) – The Service Improvement Fund was set up to invest in service improvement. The balance on the SIF at 31 March 2006 was £12.063m. Commitments in 2006/7 total £9.102m including £3.438m to support the CRM roll out and £1.2m to support the roll-out of the Service Improvement Programme. It is proposed that £3.5m of LABGI receipts be transferred to the fund in 2006/7 and additional Performance Reward Grant to be received in 2006/7 of £0.985m will also be transferred in. In 2007/8 it is proposed to transfer a further £3.5m of LABGI receipts into the fund as well as £268k smokefree grant which has recently been announced. This grant is to help fund the initial introduction of the new smokefree legislation, the costs of which will be met from the SIF. Current commitments against the fund for 2007/8 amount to £9.092m including £3.5m to continue support to the CRM rollout and the Service Improvement Programme. £500,000 has also been made available to support any new projects that are identified in the year and which match members objectives. The fund will continue to be topped up in 2008/9 and 2009/10 by any LPSA2 Performance Reward Grant received as per member's original approval for the fund.

6.5 The City Treasurer has assessed the balance on overall reserves and the general provisions held by the council, the level of financial risk facing the Council in the coming years and the mechanisms in place within the Council to manage those risks and has concluded that after the proposed actions above are taken the level of reserves will adequate.

7. Prudential Indicators

7.1 Under the Prudential Regime, the Council need to agree a range of indicators (the Prudential Indicators) that relate to the prudence and affordability of its capital proposals. A report outlining a proposed capital programme is presented as Annex 2 to the budget report. The prudential indicators for both the General Fund and the Housing Revenue Account are detailed in Appendix 3 to this report and indicate resources are sufficient to support the Capital Programme as proposed in Annex 2. Any changes members make to the programme, in particular any decision to increase the programme or utilise unsupported borrowing, may have an impact on these indicators.

7.2 The indicators shown for the incremental impact of capital investments on Council Tax and Housing Rents are the gross impact before taking into account revenue support received through the Revenue support Grant and HRA subsidy. To the extent that the capital programme only proposes supported borrowing and spend to save options, and funding for Haveley Hey through Education mainstream budget as representing better Value for Money than PFI, the net impact on council tax and housing rents is virtually nil.

8. Budget Consultation and Scrutiny

- 8.1 A document requesting comments on the Councils budget and performance similar in style to the one used last year was once again produced this year. The document was made widely available at Council public buildings including the Town Hall, Community Centres, Advice Centres, Libraries, Leisure Centres, Adult Education Centres and Citizen Advice Bureaus. Copies were also provided to the City Centre Management Company for circulation to businesses in Manchester. Voluntary Sector groups were e-mailed with details of the consultation exercise through the Community Network for Manchester. In addition, the document was posted onto the Council's web site with a link from the home page. An article giving details of the consultation was also published in the January edition of the Manchester People.
- 8.2 Unfortunately the response to the consultation has been disappointing with only 5 responses received. Appendix 5 to this report contains details of the responses received.
- 8.3 Scrutiny Committees in January considered the business plans however there were no recommendations arising that would directly impact on the budget as reported. The budget proposals as recommended by Executive and any proposed opposition amendments will be considered by the Finance and General Purposes Scrutiny Committee at a special meeting on 26 February before being put to Council on 7 March.

9. Trading Organisation Targets for 2007/8

- 9.1 In past years business plans for trading organisations were developed and submitted to members as a separate exercise from the main budget reports. Since the end of Compulsory Competitive Tendering, many of these trading organisations have become a more integral part of the services in which they sit and as such they have now been included within the general business plans that underpin the budget generally. It is still considered appropriate, however, to set targets for these services as they are outside the cash limit targets set as part of the budget process and as reflected in appendix 1.
- 9.2 It is therefore proposed that the following targets be set for the remaining trading organisations for 2007/8:

Trading Organisation	Target 2006/7 (Surplus)/Loss £	Target 2007/8 (Surplus)/Loss £
City Works	53,000	780,000
Manchester Contracts	(53,000)	(55,000)
Manchester Fayre	(130,000)	506,000
MEDC	(105,000)	(97,700)

- 9.3 The trading loss predicted by City Works is caused predominantly due to the transfer of more profitable work to Manchester Working. As more housing stock is transferred and the remaining City Works function transfers to Manchester Working, the projected loss will reduce and should cease to be an issue after 2009/10. Provision to meet projected losses has been made within contingency with a recommendation that these costs be met from reserves.
- 9.4 Manchester Contracts are predicting a general inflationary increase to their profit for 2007/8 compared to 2006/7.
- 9.5 Manchester Fayre are facing higher costs next year due to the implementation of Job Evaluation for catering staff. Their trading position next year is also affected by the low number of meal days due to how Easter Holidays fall this, and next year. The increased costs due to job evaluation will have an impact on the level of charges for meals which will have a knock on effect on schools meals in particular. The business plan loss in 2007/8 allows for a phased increase in prices and the impact of the number of meal days next year. The reduced number of meal days in 2007/8 means that the number of meal days in 2008/9 is higher than normal and this will have a positive impact on Manchester Fayre's trading position. The loss in 2007/8 will therefore be recovered in 2008/9. It is therefore recommended that the trading loss in 2007/8 be met from reserves in 2007/8 to be repaid from the increased surplus above target in 2008/9.
- 9.6 MEDC has seen a downturn in its work in the current year and have had to meet a number of costs that it has not been able to recover. Its current forecast for 2006/7 is a predicted loss of £394,000. Whilst its trading position is expected to recover next year its profit will be lower than has previously been the case and therefore a target of £97,700, down from the 2006/7 target by £7,300 is still considered challenging.
- 9.7 Members are asked to approve the above targets for the trading organisations in 2007/8.

Appendices

1. Departmental Budget Totals (Summary)
2. Summary of spend from LAA resources
3. List of Prudential Indicator's
4. List of specific reserves
5. Feedback from Budget Consultation exercise

APPENDIX 1

Proposed Departmental Cash Limit Targets

	Adjusted Budget 2006/7 £'000	Proposed budget 2007/8 £'000	Proposed budget 2008/9 £'000	Proposed budget 2009/10 £'000
Chief Executive's:				
Head of Legal Services	2,126	2,174	2,223	2,273
Head of Statutory Services	1,600	2,236	2,286	2,337
Assistant Chief Executive (Culture)	5,827	5,958	6,092	6,229
Head of Regeneration	3,103	3,173	3,244	3,317
Head of Adult Education	290	297	304	311
Head of Planning	1,436	1,468	1,501	1,535
Assistant Chief Executive (Performance)	5,371	5,492	5,616	5,742
Director of Manchester Health Unit	(11)	(11)	(11)	(11)
Head of Crime and Disorder	1,147	1,173	1,199	1,226
Head of Executive	1,971	2,265	2,316	2,368
Head of Transport*	2,196	2,245	2,296	2,348
Outside Business Plans	4,317	4,414	4,513	4,614
Total Chief Executive's	29,373	30,884	31,579	32,289
Corporate Services:				
Head of Financial Management	6,243	6,383	6,527	6,674
Head of Valuation and Property	6,776	6,800	6,953	7,109
Capital Programme Director	245	246	252	258
Head of CTU	8,255	8,272	8,631	8,825
Head of Human Resources	1,918	1,961	2,005	2,050
Head of Council Tax and Benefits	985	972	994	1,016
Outside Business Plans	(8,726)	(8,926)	(9,128)	(9,334)
Total Corporate Services	15,696	15,708	16,234	16,598
Children's Services:				
Chief Education Officer	18,107	21,041	21,674	22,162
Chief Operating Officer	20,670	21,593	22,079	22,576
Children and Families	67,326	73,181	76,128	79,191
Children and Young People	15,141	15,172	15,663	16,015
Total Children's Services	121,244	130,987	135,544	139,944
Neighbourhood Services:				
Adult Social Care	99,743	109,640	116,880	122,390
Head of Environmental Services	6,131	6,122	6,310	6,452
Head of Contracting Services	(1,209)	(1,236)	(1,264)	(1,292)
Head of Engineering Services *	11,071	11,501	11,791	12,056
HAT's – (excl. Catering)	2,158	2,119	2,166	2,215
Housing - General Fund	2,618	3,173	3,244	3,317
Outside Business Plans	14,788	17,033	17,398	17,483
Total Neighbourhood Services	135,300	148,352	156,525	162,621

Cultural Services:				
Libraries and Theatres	12,062	12,179	12,453	12,733
Manchester City Galleries	3,592	3,663	3,745	3,829
Manchester Leisure	14,661	15,091	15,346	15,691
Total Cultural Services	30,315	30,933	31,544	32,253
Total all Services	331,928	356,864	371,426	383,705

Additional Resources 2007/08**Appendix 2****Resources Available****Local Area Agreement (LAA)**

Neighbourhood Renewal Fund (NRF)	£29,880,760
Safer Stronger Communities Fund (SSCF) *	£2,271,244
Children's Block**	£12,070,000
TOTAL LAA AVAILABLE	£44,222,004

Service Improvement Fund (SIF) ***

See Appendix 3 for breakdown of SIF calculation

	£9,591,827
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Total Additional Resources £53,813,831

Resources Needed	NRF	SSCF	Children's Block	SIF	Total
Manchester Improvement Programme	£0	£0	£0	£3,500,000	£3,500,000
Economy	£4,339,854	£0	£0	£0	£4,339,854
Sustainable Neighbourhoods	£7,861,435	£0	£0	£1,678,000	£9,539,435
Crime & Disorder****	£5,321,778	£2,271,244	£0	£2,000,000	£9,593,022
Health Inequalities	£2,431,806	£0	£0	£150,000	£2,581,806
Children & Young People*****	£5,870,000	£0	£12,070,000	£1,339,827	£19,279,827
Culture	£1,491,754	£0	£0	£424,000	£1,915,754
Transport	£299,822	£0	£0	£0	£299,822
Support & Delivery	£2,264,311	£0	£0	£0	£2,264,311
Resources for In-Year Priorities	£0	£0	£0	£500,000	£500,000
Total Resources Needed	£29,880,760	£2,271,244	£12,070,000	£9,591,827	£53,813,831
Current Gap	£0	£0	£0	£0	£0

Notes -

* Under **Safer Stronger Communities Fund**, £1.162m of 2007/08 Neighbourhood Element funding is now confirmed (14/12/06). Confirmation of the balance of SSCF allocation for 2007/08 is pending from the Home Office. Officers have assumed no reductions from 2006/07

** With the exception of a confirmed Teenage Pregnancy Grant of £471,000 for 2007/08, the **Children's Block LAA** amounts are based on the estimates of officers based on 2006/07 allocations

*** This figure includes £1.97m of **Performance Reserve Grant** previously earmarked by EMG for Crime & Disorder. The figure also assumes no contribution from **LABGI** for 2007/08

**** Crime & Disorder SIF includes £1.97m previously earmarked by EMG

***** Within the NRF components under **Children & Young People** a range of economic, health transport and cultural interventions will be supported, reinforcing the cross-thematic delivery of the Manchester Children & Young people's Plan.

APPENDIX 3

Note: figures agreed last year shown in brackets

No.	PRUDENTIAL INDICATOR	2007/8	2008/9	2009/10
1	Ratio of Financing Costs to Net Revenue Stream			
	Non – HRA	11%	(13%)	11%
	HRA	18%	(33%)	15%
	Incremental impact of Capital Investments on :-			
2	Council Tax (Band D, per annum)	£5.98p	£25.82p	£45.11
3	Housing Rent per week * See note below	0.06p	0.07p	0.08p
4	Capital Expenditure	£m	£m	£m
	Non - HRA	251	(202)	209
	HRA	72	(55)	48
	TOTAL	323	(257)	257
		(211)	176	
5	Capital Financing Requirements (as at 31 March)	£m	£m	£m
	Non - HRA	580	(626)	600
	HRA	610	(731)	450
	TOTAL	1,190	(1,357)	1,050
		(1,357)	985	
6	Authorised Limits for External Debt -	£m	£m	£m
	Borrowing	1,223	(1,483)	1,223
	Other Long Term Liabilities	0	0	0
	TOTAL	1,233	(1,483)	1,233
		(1,483)	1,233	
7	Operational Boundaries for External Debt -	£m	£m	£m
	Borrowing	998	(1,384)	947
	Other Long Term Liabilities	0	0	0
	TOTAL	998	(1,384)	947
		(1,384)	1,046	
8	Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services		Yes (Yes)	
9	Upper Limits on Fixed Interest Rate Exposures			
	Net Borrowing at Fixed Rates as a percentage of Total Net Borrowing	99%	(95%)	99%
		(81%)	104%	
10	Upper Limits on Variable Interest Rate Exposures			
	Net Borrowing at Variable Rates as a percentage of Total Net Borrowing	49%	(56%)	77%
		(58%)	80%	
11	Maturity Structure of borrowing (2005/6 only)			

& 12	under 12 months 12 months and within 24 months 24 months and within 5 years 5 years and within 10 years 10 years and above	Lower Limit	Upper Limit	0% (0%) 0% (0%) 10% (0%) 0% (10%) 10% (30%)	50% (40%) 60% (50%) 60% (50%) 60% (60%) 70% (70%)		
13	Upper Limits for Principal Sums Invested for over 364 days	£	£	0 (0)	0 (0)	£	0

* The indicators shown for the incremental impact of capital investments on Council Tax and Housing Rents are the gross impact before taking into account revenue support received through the capital financing FSS and HRA subsidy. To the extent that the capital programme are fully funded, the % net impact on council tax and housing rents is reduced by additional grant received.

APPENDIX 4

Key to responsibilities: 1 – appropriate chief officer, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/07 £'000	Withdrawals £'000	Additions £'000	Closing Balance 31/03/08 £'000	Who Responsible for use (see key above)	Purpose
<u>EARMARKED RESERVES</u>						
<u>HOSPITALITY AND TRADING SERVICES</u>						
Dissatisfied Customers Fund	39			39	1	To provide for refunds to customers
New Smithfield Market	744	50	111	805	1	Set up as a condition of grant aid to build market. To be used for minor renewals, repairs and to meet deficiencies on the revenue account. Any spend has to be agreed by Market Traders and Members
Compensation	26			26	1	To provide against claims against the council not met by the insurance fund
Investment Reserve from Surpluses	218	100		118	1/3	Balance of additional surpluses over business plan target from previous years agreed annually by members for investment within the catering service.
<u>EDUCATION</u>						
LMS Reserve	8,000			8,000	2	Schools reserves.
Temple Schools PFI	694		150	844	4	Established to fund the requirements re. PFI contract for the Temple school via our external contractors.
Standards Fund	1,000	1,000	1,000	1,000	1	Unspent grant allocation carried forward. The grant scheme specified that the carry forward needs to be fully used by the end of August the following financial year.

APPENDIX 4

Key to responsibilities: 1 – appropriate chief officer, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/07 £'000	Withdrawals £'000	Additions £'000	Closing Balance 31/03/08 £'000	Who Responsible for use (see key above)	Purpose
<u>CORPORATE SERVICES</u>						
St Johns Gardens Contingency	332		11	343	1	Contributions from St Johns Gardens tenants for maintenance works
Eastlands Management and Maintenance	21			21	1	To be spent on maintenance of the site around the Eastlands area
<u>OPERATIONAL SERVICES</u>						
Cemeteries Replacement	337	175	40	202	3	To provide additional grave spaces.
Great Northern Square Maintenance Fund	205			205	1	Set up in accordance with the agreement with the developers of the site. It will be used for upgrading of the square.
Street Lighting PFI	6,374		562	6,936	4	Established to fund the requirements over 25 years re. the PFI contract for Street Lighting service via our external contractors
<u>MANCHESTER PARKING</u>						
On Street Parking	3,441	2,384	2,091	3,148	3	Reserve set aside from Decriminalised Parking Enforcement (DPE) surplus's year on year, which is set aside to support expenditure on transport
<u>REVENUE GRANTS</u>						
European Social Co-op	75			75	4	Committed to ESF Projects

APPENDIX 4

Key to responsibilities: 1 – appropriate chief officer, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

<u>GENERAL FUND</u>	Opening Balance 01/04/07 £'000	Withdrawals £'000	Additions £'000	Closing Balance 31/03/08 £'000	Who Responsible for use (see key above)	
Development Fund	2,304	350	298	2,252	3	To invest in schemes that will pay back investments from savings
Unused Dividends Reserve	3,550	13,590	13,750	3,710	3	Airport dividends used to support future budgets
Capital Fund	31,750	27,925	10,040	13,865	3	Council's contribution to major capital schemes
Direct Revenue Fund	4,629	4,629		0	3	To fund general capital expenditure
Eastlands Regeneration Reserve	259			259	1	Remaining reserve following Commonwealth Games
Service Improvement Fund	7,446	9,592	3,768	1,622	4	To fund improvements in Council Services
Neighbourhood Renewal Fund	1,712	1,712	1,663	1,663	3	In conjunction with the Local Strategic Partnership
Capital Financing Costs Reserve	4,500	1,500	0	3,000	4	Smoothing Reserve for Capital Financing Costs
Pension Risk Fund	92			92	4	To meet future increases and any pensions liabilities at the end of the Joint Venture

APPENDIX 4

Key to responsibilities: 1 – appropriate chief officer, 2 – schools, 3 – Executive (and Council where appropriate), 4 – City Treasurer

	Opening Balance 01/04/07 £'000	Withdrawals £'000	Additions £'000	Closing Balance 31/03/08 £'000	Who Responsible for use (see key above)	Purpose
Pension Augmentation Fund	41			41	4	To meet potential future pension liabilities
Housing Loans	5,506		150	5,656	4	To meet fluctuations in interest rates
Insurance Fund	15,376		200	15,576	4	To meet future uninsured losses and self insured costs
Collection Fund	3,350	3,350	0	0	4	Surplus on collection fund
<u>HOUSING REVENUE</u>						
HRA General Reserve	890	3,344	3,005	551	4	General Reserve
PFI Reserves	12,777	17,491	27,114	22,400	4	Smoothing reserve to meet future PFI liabilities
Residual Liabilities Fund	1,000	0	2,000	3,000	4	To meet possible future claims for environmental contamination

CONSULTATION FEEDBACK

Unfortunately only five responses have been received in response to the consultation actions taken, all received from individuals residents. 2 of these were received through e-mail and three letters (one correspondent by post also rang and left a message on the budget answerphone).

The responses were:

- “We are in our third year of living in Didsbury and applaud the services provided for residents by the Council, in particular Parks & Countryside, Refuse collection and Street Cleaning, Libraries and the Planning service (apart from allowing some large pub and retail chains which we accept are more to do with members decisions). There is one area however which I'm aware is being handled by your crime and disorder agenda, but may also need the co-operation of other services such as Parks & Countryside / Education & Youth Services, Environmental services and that is off road bikes. We have encountered these with increasing regularity on our walks and they are a real hazard with dog owners. If resources can be pooled (money and or employees) from these other service areas to deal with this problem in a more cohesive way, then the 'HW' (Health Walk) sign in parks won't stand for Hazardous Walk in the near future.”
- “When is Manchester going to move on from consultation to actual participation in deciding our city's annual budget?”
- “Re Hazardous Pavements – City Centre - This must be a budget priority as it is one measure which beneficially affects almost everyone, but is of particular importance to vulnerable people (elderly, disabled). My personal interest is that in November '06 I tripped, fell and consequently broke my shoulder because of a Manchester City Centre drain cover! I have had treatment at M.R.I., ongoing physiotherapy and have been unable to drive or work since it happened in November. I am not seeking financial compensation but the cost to the NHS, my own income and the serious discomfort has made me notice this major issue in Manchester”
- “May I make just two observations about the Council use of this community charge. My first is about the amount of money spent on education. Whilst faith schools do quite well as far as results go in my area of the city. State schools again in my area do not. For example the Crossley Primary appears to be in free fall. Having dropped again in the table for achievers surely more money could be found to lift the standard in for instance the school I have mentioned. Secondly my concern is about green areas (parks). How can the City say they are maintaining parks when they have already discussed the building of a school within the boundaries of a park (Heaton Park and King David school).”

- “I participate within MCC’s Budget Consultation process whilst continuously having my say in such a process therefore as such I wish to bring the following to the attention of MCC which embraces the dispatched document ‘Your Manchester’ and what I have espoused for the majority of my life and from listening to individuals.
 - Adequate resources for proposals resulting to Social Inclusion , in particular Inclusive Social Care and Education provision regardless of service providers.
 - Support for adequate maintenance of access to the public highway (Roads and pavements).
 - Progress on the review of the Revenues and Benefits Unit of the City Council in view of the identified inadequate service delivery appertaining to Housing Benefit and Council Tax Benefits.
 - Liaison between MCC and other Stakeholders re. accessible Housing, Transport and shopping facilities along with other potential/current premises and cooperation between Manchester Housing and its counter-parts re. the receipt of concessionary gardening for some disabled people who are unable to keep their garden tidy or employ someone to do so.
 - Advertisement of MCC’s budget process in the free press each year.
 - That emphasis should be upon robust monitoring of such proposals and opposition to the endeavours of certain institutions to promote social exclusion, irrespective of status, in view of the calling for representations re. the above

Three Year Capital Programme 2007/08 to 2009/10 (including Capital Strategy)

This Annex presents the three year capital programme 2007/08 to 2009/10. The capital programme aims to deliver the optimum combination of projects and programmes that represent the key priorities of the City Council's capital strategy. Details of the capital strategy appear in Appendix D.

Formal resolutions to the following recommendations will be required if the capital investment programme is to be implemented and delivered as part of the integrated budget process presented in this report.

Members are requested to;

1. Note that the capital strategy has been updated and to agree the amended version as presented in Appendix D
2. Note the capital programme report as presented.
3. Agree to reserving resources towards future phases of BSF 2 and Academies.
4. Approve the three year capital programme 2007/08 to 2009/10 as presented in Appendix C.
5. Delegate authority to;
 - (a) The Chief Executive in consultation with the Leader and Executive Member for Planning and Environment for the approval of the list of schemes to be undertaken under the Transport capital programme.
 - (b) The Head of Engineering to implement these schemes after consultation with the Executive Member for Planning and Environment on the final details and estimated costs.
6. Agree that the level of over programming for Housing to enable target spend to be achieved in full in 2007/08 be set at £10,700,000.
7. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to approve spend to save schemes provided that the schemes are financed from additional income and / or savings within existing revenue budget limits for the lifetime of the loan period. Unsupported borrowing of up to £5,000,000 each year be approved for this initiative and note that the revenue savings from spend to save schemes will fully offset the cost of borrowing (including provision for loan repayment) so that the long term net effect on the City Council's revenue budget is nil.

8. Delegate authority to Director of Housing to accelerate schemes when necessary from 2008/09 to 2007/08 subject to resource availability.
9. Delegate authority to the City Treasurer in consultation with Executive Member for Finance and Human Resources to agree and approve where appropriate the following:
 - (a) The programme of schemes for the delivery of the corporate asset management programme.
 - (b) Financial management decisions relating to temporary unsupported borrowing and the investment of surplus resources.
10. To note the programme delivery requirement to commit expenditure on capital projects prior to capital expenditure approval and to agree that financial regulations be amended to enable authorisation of capital expenditure in advance of main project capital expenditure approval as follows:

The City Treasurer, upon application, will be permitted under delegated powers to authorise capital expenditure of up to £10,000, and in special circumstances expenditure up to £50,000, on individual projects within the capital budget but prior to capital expenditure approval being requested, in consultation with the Executive Member for Finance and Human Resources.
11. That authority be delegated to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to make alterations to the schedules for the 3 year capital programme 2007/08 to 2009/10 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project
12. Note that the formal capital programme contained within the budget book will contain presentational amendments to the detail contained in Appendix C due to departmental reorganisations, but these adjustments will not alter the overall total of the approved capital budget.

Attachments

Appendix A Housing Programme
Appendix A (i) Housing Capital Investment Table
Appendix B Transport Programme
Appendix C Detailed Three Year Capital Programme
Appendix D Capital Strategy

Background

1. The current 3 year capital programme 2006/07 to 2008/09 originally approved by the Executive in February 2006 is being implemented, enhanced by amendments and additions subsequently approved by the Executive and Council where necessary. The proposals for the new three year programme 2007/08 to 2009/10 are based on the premise that the current 3-year programme will continue to conclusion as planned.
2. The capital programme 2007/08 to 2009/10 will be formed by the continuation of the current three-year programme plus approved schemes. The figures are based on estimates compiled during the monitoring exercises that fed into the capital monitoring report to the Executive 17 January 2007, plus an £80,000 enhancement to the Fairfield Centre project, funded by additional grant and revenue contribution recently identified. The estimated spending profiles in 2007/08 and 2008/09 have been reviewed to check that the original forecasts were still realistic and achievable, and where necessary amendments have been made.
3. Proposals relating to the Housing and Transport local transport plan (LTP) capital programmes for 2007/08 to 2009/10 are explained in Appendices A and B respectively. Their programmes have been formulated on the basis that the resources available are ring fenced. The estimated Housing Programme is £132,328,000 for 2007/08, £104,482,000 in 2008/09, £98,901,000 in 2009/10 with planned commitments into future years £52,105,000. The Transport Programme is estimated to be £11,204,000 in 2007/08, £12,664,000 in 2008/09, £12,727,000 in 2009/10 and £175,000 in future years. The Non LTP element of the transport programme contains commitments for road safety cameras and the spend to save proposals for pavement repairs in 2007/08 and 2008/09.

Bids 2007/08 to 2009/10

4. Service departments have submitted a number of bids identifying capital investment requirements in support of service and budget strategies. A schedule of these bids has been collated in accordance with the Gateway evaluation process to ensure that bids are strategically sound and meet corporate objectives.
5. All bids have been assessed for their relative corporate priorities and have been examined and tested to ensure that they can be delivered in terms of technical quality and that all financial implications (capital and revenue) are clearly identified and are affordable.
6. The evaluation process is supplemented by final detailed scrutiny for (a) the impact of the associated VAT on the Council's overall finances and (b) a confirmation of capital and revenue affordability at capital expenditure approval stage - the final clearance stage immediately prior to scheme implementation.

Treatment of Resources

7. The total amount of resources that are expected during the three years 2007/08 to 2009/10 has been calculated. These estimates indicate that after financing existing commitments from the current programme there remain a balance of resources that will help procure the top priority new bid proposals. It is proposed that £23,500,000 of these resources be reserved for future phases of BSF and Academies for site assembly costs and for areas of the programme where government grant funding may not be available in full.

Proposed Programme 2007/08 to 2009/10

8. The BSF Phase 1 programme has secured £20,360,000 in additional government funding to enhance the original capital budget provision of £191,565,000. Together with earmarked receipts of £4,235,000 from linked site disposals this will enable the programme to be delivered in full at a total estimated cost of £216,090,000, if approved.
9. The continuation of current capital programme strategy will require the following levels of capital investment
 - (a) Corporate AMP including City Centre liabilities £500,000 in 2007/08 to meet immediate increased investment demands and £5,750,000 to provide continued funding in 2009/10
 - (b) Equipment and adaptations for disabled employees £30,000 in 2009/10
 - (c) Disabled access grants £390,000 (£130,000 for each year 2007/08 to 2009/10)
 - (d) Ongoing IT infrastructure investment £500,000 in 2009/10
 - (e) Children's Playgrounds £120,000 in 2007/08
10. The uncommitted balance of allocations and grant earmarked by Government for Education (£3,246,000 in 2007/08 and £11,792,000 in 2008/09) will be applied towards the primary rebuilding programme. A further £482,000 is available to Education through Devolved Capital Grant (£253,000 in 2007/08, £229,000 in 2008/09)
11. In addition, Manchester has been awarded Pathfinder status within the Government's Primary Capital Programme with resources of up to £6,500,000 becoming available in 2008/09. This will enable the Council to commence the provision of a new school amalgamating St Edwards RC Primary and Bishop Bilsborrow RC Primary schools.
12. External grant funding has been secured for works in Marie Louise Gardens £160,000 and capital grant for additional bridge maintenance of £165,000 has been obtained. Both projects will be able to start in 2007/08.
13. New East Manchester expects to continue its regeneration programme and to deliver a programme of £10m in 2008/09 and 2009/10 funded entirely from external grant.

14. The following list of projects represents the other corporate priorities that will require funding from Council capital resources and are recommended to be included in the new three year programme.

- (a) Central Library AMP £3,000,000 (provisionally £1,500,000 in each year 2008/09 and 2009/10)
- (b) Spend to Save - £5,000,000 in 2009/10.
- (c) Pavement Repair Rolling Programme - £2,669,000 (Spend to Save bid) in 2009/10.
- (d) Children's Services Multi Agency Projects £2,000,000 (£1,000,000 in each year 2007/08 and 2008/09) – this investment is expected to attract equivalent funding contributions from the Council's public sector partners
- (e) City Centre Signage £500,000 (£250,000 in each of 2007/08 and 2008/09)
- (f) Christmas Lighting Strategy £250,000 in 2007/08
- (g) Emergency Control Room £220,000 in 2007/08
- (h) Pavilion Green Roof Piccadilly Gardens £152,000 in 2007/08
- (i) Sports City CCTV £80,000 in 2007/08
- (j) City Centre public realm works £75,000 in 2007/08

15. The proposals contained in this report would create a three year capital programme of £323,324,000 in 2007/08, £256,939,000 in 2008/09, £176,048,000 in 2009/10 and planned commitments in future years of £55,780,000, if approved. This includes the provision of £5,000,000 unsupported borrowing in each of 2007/08 to 2009/10 for Spend to Save projects. If these provisions are not utilised in full then the target spend will reduce accordingly. A summary of estimated spend by department is contained at the front of Appendix C followed by schedules containing individual scheme details.

16. The estimated funding profile for the financial year 2007/08 is as follows:

	£000
Supported Borrowing	69,610
Unsupported Borrowing	8,249
Grants	187,512
Contributions	5,024
Revenue	5,289
Capital Receipts	47,640
Total	323,324

17. Work is continuing to produce the best estimate of figures for the three years 2007/08 to 2009/10. This will include the effect on 2007/08 and future years of any changes in the delivery of the current 3 year programme 2006/07 to 2008/09. If changes to figures in 2006/07 are identified in the current year's

monitoring processes these will need to be fed into the new 3 year programme schedules. Any such changes should simply be re-profiling between financial years with no overall change to the estimated total cost of any individual project. Members are requested to agree that authority be delegated to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources to continue to make such alterations after this report to Executive to enable the best set of figures to be presented to full Council in March.

Financial Regulations

18. Financial regulations currently stipulate that it is the responsibility of all Chief Officers to ensure that all approvals for all capital expenditure proposals are obtained from the City Treasurer and Executive Member for Finance and Human Resources prior to a scheme's commencement, and that capital expenditure approvals are not exceeded.
19. The delivery of projects in the capital programme usually requires a limited amount of fee expenditure after capital budget approval in order to advance the project detail to the level required for consideration for capital expenditure approval. Often, where projects require external funding (e.g. Sure Start, or Lottery) there is a requirement for a higher level of initial project design work before the funding body will give a final decision on funding.
20. The rigidity of the current financial regulations creates an administrative problem because expenditure needs to be incurred before final approvals are in place. In order to address this position it is proposed that financial regulations be amended and until such time as amendments are made to authorise the following with immediate effect.
 - (a) Chief officers to make an application to the City Treasurer for permission to commit a limited amount of expenditure on projects within the capital budget but prior to capital expenditure approval.
 - (b) The City Treasurer to be authorised under delegated powers to agree expenditure up to £10,000 on individual projects, and in special circumstances expenditure up to £50,000, prior to capital expenditure approval being requested, in consultation with the Executive Member for Finance and Human Resources.

Conclusions

21. Approval of the recommendations contained in this Annex will authorise the capital programme detailed in Appendix C. This would acknowledge over-programming of £10,700,000 to help Housing achieve its target spend of £132,328,000 that will be managed so as to ensure that target spends are not exceeded.

APPENDIX A

HOUSING INVESTMENT PROGRAMME 2007/10

Introduction

The City Council's Housing Service delivers services to both public and private sectors and, through the Corporate Housing Strategy, provides a major contribution to the Council's wider regeneration agenda. The Housing Strategy sits firmly within the Council's Community Strategy and forms a key component of the Neighbourhood Renewal Strategy.

The Planned Capital Budget for 2007/08 to 2009/10 continues to build on the core aims and objectives, which are to:

- a) Deliver quality and choice in the housing market
- b) Create safe and sustainable communities
- c) Reduce inequalities
- d) Deliver modern public services

The Communities Plan required that all authorities should determine, with tenants how they will achieve the decent homes standard by 2010. If the authority's own resources are insufficient to achieve the standard, then a plan was required to demonstrate how this is to be delivered. This plan has developed into the Housing Investment Options Strategy. In December 2005 Northwards Housing Trust (NHT), the City Council's Arms Length Management Organisation (ALMO) was set up. The first major stock transfer to a new local housing company – Parkway Green Housing Trust - was successfully completed in October 2006 and over the next two years the balance of stock will be transferred to new/existing Registered Social Landlords.

The Capital Budget for the three-year period 2007/08 to 2009/10 is displayed in Table 1 by year of anticipated spend with the investment being complemented by those thematic objectives discussed within the Housing Services Business Plan. This budget submission is in accord with the Business Plan having been adjusted to take account of known changes since the Plan was prepared.

The capital budget is limited by those sources and levels of funding available. The sources of funding available are as follows -

- Supported capital expenditure from Government, and which may be in the form of cash grant or borrowing powers
- Capital receipts – mainly the usable element of right to buy proceeds
- Major repairs allowance (MRA) – from housing subsidy
- Disabled Facilities Grant
- Housing Market Renewal Fund
- Contributions

PUBLIC SECTOR PROGRAMME 2007/08

The public sector budget totals £71.054m, of which £50.227m is for Northwards Housing with £20.827m for the remaining City Council Stock.

The programme continues to invest in projects that will contribute to achieving the decent homes standard – such as insulation works and modern heating systems to create energy efficient homes, re-roofing, rewiring, and the modernisation of old and inadequate kitchens and bathrooms. Within the ALMO it also includes the replacement of single glazed windows with UPVC double-glazing.

The programme continues to support our sustainable estates strategy by stabilising local communities through investment in areas of traditional inter-war stock, as well as providing environmental and security works to help combat crime and disorder. It also provides resources to continue to meet our obligations under the Disability Discrimination Act.

Our area-based strategies are supported by Strategic Area Frameworks and local Neighbourhood Plans, ensuring that regeneration is holistic and complements wider initiatives.

As mentioned above, the full decent homes standard by 2010 will require major additional resources, which is being addressed within the Housing Investment Options strategy for areas outside of Northwards Housing.

PRIVATE SECTOR PROGRAMME 2007/08

The City's regeneration strategy is supported by the Private Sector Housing Capital Budget, totalling £60.774m in 2007/08. The programme continues to focus on market restructuring and improving quality and choice in the housing market. Specific area based programmes are supported by Strategic Area Frameworks and Neighbourhood plans in the North, East and South of the City. The aim is to tackle local issues holistically by complementing established programmes of work sponsored by a variety of Council departments.

The programme is supported by the Manchester & Salford Housing Market Renewal Pathfinder Programme for 2006-2008, and is effectively the second tranche of HMRF funding. The programme of interventions consists primarily of ongoing plans to clear surplus stock, improvements to the physical fabric of properties in sustainable neighbourhoods, and enhancements to the security, image and management of the local environment and public realm. This allocation of funding to the Manchester & Salford Pathfinder will enable the City's long term strategy of Housing Market Renewal to continue. In addition, this activity will continue to be complemented by a range of other recently introduced activities and services to residents, including equity release loans for home improvements, financial solutions for homeowners trapped in negative equity, engaging Registered Social Landlords as delivery agents for market renewal, and additional powers to regulate private landlords and nuisance tenants.

With support from other funding sources, including the European Regional Development Fund, ongoing access to Housing Market Renewal Fund will help deliver transformational change to local housing markets, and increase sustainability. This vision will be realised through increasing levels of owner occupation, reducing void property rates and the oversupply of older pre-1919 terraced housing in low demand, and narrowing the gap in average property values across the City.

The majority of the total Private Sector Housing Capital Programme's resources will be invested in these most deprived neighbourhoods, however, funding from a variety of other housing specific funding sources will continue to support home improvement works, targeted clearance in formally declared renewal areas and support to residents in areas outside of the Market Renewal area, as well as providing continuous support to Home Improvement Agencies, improved energy efficiency in homes, and improved access to properties for the disabled.

PROGRAMMES FOR 2008/09 and forward

The investment programmes for 2007/08 and 2008/09 will continue to be focused on the priorities identified in the 2006/07 programme. The public sector programme will target investment towards the decent homes standard for Northwards Housing, and to develop further the housing investment options for the remainder of the City. Resources will be prioritised to fund the land assembly costs of the PFIs in 2010 onwards.

The 2007/08 private sector programme is the second year of the second phase of the Housing Market Renewal Pathfinder Programme, covering the years 2006/07 & 2007/08. An allocation of approximately £28.9m (excluding revenue) is expected for Manchester in 2007/2008, which will be the final year of this second phase. A third pathfinder prospectus will become due for submission, in respect of the three year period 2008/2009 to 2010/2011, on the basis of ongoing negotiations with CLG.

Capital Programme Budget

	2007/08 £m	2008/09 £m	2009/10 £m
<i>Achieving decent homes standard by 2010 including successful stock transfers.</i>			
Following the successful creation of Northwards Housing resources are committed to achieving decent homes by 2010. Following release of the ALMO allocation this investment will be:-	50.2	42.9	43.7
The PFI projects of Miles Platting, Collyhurst and Brunswick will require capital support for site assembly. The resources identified are for Miles Platting only. Resources for Collyhurst and Brunswick are required in 2010 – 2014. The costs involved will need to be given priority from within capital resources available to support the Council's housing programme during this period.	7.0	5.0	9.1
There will be a continuing need to invest in our own stock until transferred or being part of a PFI scheme. This investment is:-	20.8	5.5	3.9
<i>Access to Affordable Housing and Delivering the Housing Market Renewal Programme and its ongoing commitment to continue to transform the housing markets</i>			
Resources within the Housing Market Renewal, ERDF and Mainstream are directed to achieving decent affordable homes within the private sector. The investment will be:-	52.2	43.6	34.3
<i>Funding for environmental and empty property management</i>			
Environmental	3.0	0	0
Empty property Management	3.5	0	0
<i>Loans Assistance</i>			
Loans to owner occupiers for home improvements	0.5	0.7	0.7
<i>Ensure vulnerable people have access to accommodation</i>			
The Housing service supports through Disabled Facilities Grant and mainstream resources adaptations to homes in the private sector. This supports people within their own homes and increases the stock of adapted properties	4.2	5.5	6
<i>Home Repair Assistance</i>			
This is for the provision of grant to organisations who provide handyman and other services to vulnerable owner occupiers	0.6	0.7	0.7
<i>Energy Efficiency</i>			
Match funding for "HELP" and "Warm Front" projects	0.5	0.6	0.5
<i>Other</i>			
Manchester Improvement Programme	0.5	0	0
<i>Allowance for Over-programming</i>			
Allowance for Over-programming - c/f	(-) 10.7	0	0
Total Capital Programme	132.3	104.5	98.9

Funding 2007/08 and effectively thereafter

In terms of the capital spend, Appendix 1 details the prospective funding sources. Each of the funding sources are examined below –

Major Repairs Allowance – This funding is the product of the weighted average stock and the major repairs allowance forthcoming within the subsidy. The weighted average stock is entirely dependent upon the securing of the divestment programme. Recent history says that the programme has continuously slipped, however, the programme used within the Business Plan is the last programme submitted for approval in July 2006 to SMT/Executive and must be considered as realistic as possible. In the event of movement, it is suggested that the only movement feasible is backwards which would lead to an increased major repairs allowance being forthcoming.

Supported capital expenditure - the funding for 2007/08 has been confirmed within the HRA Subsidy Determination.

Regional Housing Grant - The level of funding is based on the 2006/07 figure and fixed for three years. Forward figures, especially relating to private sector expenditures are based on informal discussions with Government Office NW.

Capital receipts - The utilisation of the capital receipts “fund” is based on requirements available from the usable portion of the capital receipts. The estimated unallocated balance on this fund as at 31 March 2010 is £2.6m which when compared to estimated receipts of £21.3m during the three year period reveals a margin of some 12% to allow for errors in estimation.

ALMO Funding – The planned funding is based on the last submission to CLG detailing the planned spend to achieve decent homes. It should be noted that the Audit Commission has given authority to CLG that funds can be released. Prior to receiving this confirmation, CLG had requested NHT to revisit the planned incidence of expenditure with a view to advancing some of the planned spend – presumably to assist CLG with their own cash flow position. A joint response – NHT and MCC – has been sent with a positive stance, however, the question of recovery of interest through subsidy for earlier than planned expenditure has been raised with them.

APPENDIX B

TRANSPORT CAPITAL PROGRAMME

Transport Services Regeneration – 2007/08 Local Transport Plan and other Highway Capital Funding Requirements

(Reference: Transport Services Regeneration Business Plan 2007/08 – 2009/10)

1.0 Introduction and Background

The City Council wants Manchester to have a transport system which is the equal of the best in Europe. An effective transport system is essential to the economic, social and environmental well being of the City.

To achieve its objective Manchester will work with other Greater Manchester local authorities, the Greater Manchester Passenger Transport Authority and key business stakeholders to deliver the Manchester elements of an innovative regeneration driven transport strategy for the wider Manchester City region. This will include working with local communities and agencies to support their regeneration and the creation of sustainable neighbourhoods where people choose to live.

2.0 Key Issues

Whilst the current transport infrastructure supports the economy of the City and local people's access to work, education, shopping, health, leisure and cultural facilities, high and sustained levels of investment are required if transport is not to become a restriction on the growth of the City and the well-being of its people. Key issues include:

2.1 Public Transport: More public transport capacity is needed on all modes to support the City's growth. There is also a need for a greater degree of control over local bus services to ensure that they play their full part in meeting future transport needs.

2.2 Local Public Service Agreement: Manchester has signed a Local Public Service Agreement (LPSA 2 Target 11) with Government which commits us to achieving a 3.6 percentage point increase in the share of trips which access the city centre in the morning peak by means other than the private car.

2.3 Accessibility: The local public transport network needs to provide good access for people across the city. An important priority is to work with the PTA to address problems of transport related social exclusion and to work to develop a transport system which provides good connections to employment, education, healthcare, fresh food and leisure facilities.

2.4 Traffic Management: In parallel with improvements to mass transit services, the demand for and use of congested sections of the strategic highway network needs to be proactively managed during the times that they are congested to maximise the capacity for safe journeys by all users

2.5 Local Service Improvements: Local centres and service clusters need improved access for walking, cycling, community transport and car parking to encourage use of local services.

2.6 Casualty Reduction: In common with other urban centres, Manchester has a high number of road traffic casualties. Strategies are in place to reduce the numbers of casualties, particularly at busy junctions, high streets and on school journeys. These need to be continually monitored and enhanced. Our target is to reduce the total number of people killed and seriously injured on Manchester's roads by 50% by 2010 compared with the average position between 1994/98 and reduce the number of children killed or seriously injured by 55% over the same period.

2.7 Local Environment: The environmental quality of centres and neighbourhoods needs enhancing through good design, high quality lighting, maintenance and management of urban spaces (parks, squares, open spaces, streets, waterways) and the encouragement of non-car modes of transport.

2.8 Smarter Travel: In addition to improved levels of service provision there is also a need to improve the level of information provided to the public to enable smarter travel choices to be made and to improve customer satisfaction with transport services.

2.9 School Travel Plans/Safer routes To School: School Travel Plans (STPs) / Safer Routes to Schools (SRTS) are funded by either (or both) the LTP2 and the Neighbourhood Renewal Fund (NRF). The STP / SRTS programmes aim to create networks of safer walking and cycling routes throughout school catchment areas and achieve: improving children's safety on their journey to school; encouraging modal shift; reducing traffic; reducing congestion; reducing pollution, and encouraging a healthy lifestyle.

3.0 Funding

Manchester’s targeted objectives, at national, regional and local levels are intrinsically linked with the approved Transport Services Regeneration Business Plan (2007/08 – 2009/10), the 2nd Local Transport Plan and Local Public Service Agreements. In generic form the funding for each of these headings are set out below.

3.1 Summary of Transport Initiative Funding Initiatives

	<i>Summary of Headline Priorities</i>	Proposed Funding Source (2007/08)			
			2007/08 £000	Indicative 2008/09 £000	Indicative 2009/10 £000
1.	Public transport led strategy to include walking and cycling to deliver people along corridors to the City Centre, the Airport, the Universities (Knowledge Capital) and other areas of economic activity and to manage the demand for travel on congested corridors at peak times with specific consideration for agreed national, regional and Manchester’s own targets.	Department for Transport - Local Transport Capital Settlement 2007/08	2,133	4,504 Total Of “1- Public Transport” and “2 - Reducing Casualties”	4,808 Total Of “1- Public Transport” and “2 - Reducing Casualties”
2.	Reducing casualties from road traffic collisions is a continuing high priority. Programmed interventions include physical improvements at casualty hot spot locations, training children to safely use the highway and targeting road safety campaigns at key audiences	Department for Transport - Local Transport Capital Settlement 2007/08	1,733	See “1 - Public Transport” above	See “1 - Public Transport” above

	<i>Summary of Headline Priorities</i>	Proposed Funding Source (2007/08)			
			2007/08 £000	Indicative 2008/09 £000	Indicative 2009/10 £000
3.	South East Manchester Multi Modal Strategy (SEMMMS) targeted interventions to improve access to primary and secondary service clusters (local centres) by non-car modes, improve social inclusion and increasing the number of people cycling and walking.	Department for Transport - Local Transport Capital Settlement 2007/08 (SEMMMS)	1,576	1,576	1,576
4.	Maintenance of highway assets including bridges to be fit for purpose is a priority. This includes reconstructing footways to minimise trip hazards, increasing resources to prevent further deterioration of carriageways and the strengthening and maintenance of bridges to agreed standards	Department for Transport - Local Transport Capital Settlement 2007/08 (Structural Maintenance)	3,518	3,500 (Estimate)	3,500 (Estimate)
				DfT to set up a working group to review current funding arrangements. However would suggest that funding changes for 08/09 and 09/10 would be similar to existing levels over this short-term period.	

	<i>Summary of Headline Priorities</i>	Proposed Funding Source (2007/08)			
			2007/08 £000	Indicative 2008/09 £000	Indicative 2009/10 £000
5.	Rationalisation and enhancement of vehicle and pedestrian direction signs within and around the City Centre to assist visitors minimise through traffic and congestion and to encourage the greater use of pedestrian routes and public transport links. Total Bid £2.015m. £50k already approved in 2006/07. £500k recommended for approval (£250k in 2007/08 and £250k in 2008/09) The remainder of the bid subject to identifying further resources.	City Council Resources	250	250	-

3.2 Summary of Transport Initiative Funding Source Requirements

3.2.1 Total Department for Transport - Local Transport Capital Settlement 2007/08			
	2007/08 £000	2008/09 £000	2009/10 £000
Minor Works	3,866	4,504	4,808
SEMMMS	1,576	1,576	1,576
Maintenance	3,518	Est 3,500	Est 3,500
Total	8,960	9,580	9,884
3.2.2 Non LTP Programme			
City Centre Signage (MCC resources)	250	250	-
Pavement repairs (spend to save)	1,669	2,669	2,669
Road Safety Cameras (govt grant)	160	165	174
Bridge Maintenance (govt grant)	165		
Total Non LTP	2,244	3,084	2,843
3.2.3 Total Transport			
	11,204	12,664	12,727

Proposed Capital Investment 2007/08, 2008/09 & 2009/10

	<u>PROPOSED</u>			<u>PROPOSED</u>			<u>PROPOSED</u>		
	<u>2007/08</u>		<u>ALMO</u>	<u>2008/09</u>		<u>ALMO</u>	<u>2009/10</u>		<u>ALMO</u>
	<u>TOTAL</u>	<u>Residual HRA, PFI & Gen Fund</u>		<u>TOTAL</u>	<u>Residual HRA, PFI & Gen Fund</u>		<u>TOTAL</u>	<u>Residual HRA, PFI & Gen Fund</u>	
	£m.	£m.	£m.	£m.	£m.	£m.	£m.	£m.	
Public:-									
Anticipated Supported Capital Expenditure	4.646	3.235	1.411	4.646	2.675	1.971	4.646	2.600	2.046
Regional Housing Pot Grant - Public Sector	4.029	3.240	0.789	1.265	1.100	0.165	1.000	1.000	
Major Repairs Allowance	17.262	10.077	7.185	8.863	1.709	7.154	7.420	0.270	7.150
Major Repairs Allowance - carry forward	6.400	1.200	5.200						
Revenue Contribution to Capital Outlay	0.200	0.200							
Housing Market Renewal Grant									
Capital receipts - general	4.731	1.975	2.756	2.969		2.969	3.100		3.100
Capital receipts - additional environmental works	3.000		3.000						
Capital receipts - New Initiatives	0.750	0.750							
Almo Funding	29.836		29.836	30.582		30.582	31.346		31.346
Utilities funding	0.200	0.150	0.050	0.050		0.050	0.050		0.050
	71.054	20.827	50.227	48.375	5.484	42.891	47.562	3.870	43.692
Private:-									
Regional Housing Pot Grant - Private Sector	14.710	14.710		17.474	17.474		17.739	17.739	
ERDF	0.700	0.700							
Capital Receipts	13.500	13.500		5.000	5.000				
English Partnerships	0.333	0.333		0.333	0.333				
Housing Market Renewal Grant	28.939	28.939		30.000	30.000		30.000	30.000	
Disabled Facilities Grant	2.542	2.542		3.300	3.300		3.600	3.600	
Utilities funding									
New Deal for Communities Grant									
Contribution to Group Repair	0.050	0.050							
	60.774	60.774		56.107	56.107		51.339	51.339	
Total Public/Private	131.828	81.601	50.227	104.482	61.591	42.891	98.901	55.209	43.692
Other:-									
Capital receipts - Manchester Improvement Programme	0.500	0.500							
Total Anticipated	132.328	82.101	50.227	104.482	61.591	42.891	98.901	55.209	43.692

Summary Capital Budget 2007/08 to 2009/10

	Departments	Estimated Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
	HOUSING	120,392	132,328	104,482	98,901	52,105	508,208	
	TRANSPORT	23,152	11,204	12,664	12,727	175	59,922	
	EDUCATION	36,745	111,142	107,650	43,183	0	298,720	
	CHILDREN FAMILIES & SOCIAL CARE	10,969	7,145	0	0	0	18,114	
	EPCS:							
	Chief Executive's	24,759	26,050	13,767	2,430	0	67,006	
	Corporate Services	24,658	29,311	16,931	12,780	0	83,680	
	Environment & Operations	2,174	152	0	0	0	2,326	
	Hospitality & Trading Services	1,126	1,877	0	0	0	3,003	
	Libraries & Theatres	565	1,116	0	0	0	1,681	
	Manchester Galleries	838	382	100	0	0	1,320	
	Manchester Leisure	2,414	2,617	1,345	6,027	3,500	15,903	
	sub-total EPCS	56,534	61,505	32,143	21,237	3,500	174,919	
	Totals	247,792	323,324	256,939	176,048	55,780	1,059,883	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
	HOUSING							
	Retained HRA:							
1	Structural Remedials	345	1,844	100			2,289	
2	Demolition	1,741	93				1,834	
3	Reroofing		490				490	
4	Rewiring	3,143	1,975				5,118	
5	Other Programmed Maintenance	2,021	3,179	75			5,275	
6	Heating & Insulation	1,813	4,066	292			6,171	
7	External Improvements	3,528	3,723	1,007			8,258	
8	Kitchens & Bathrooms	2,926	1,068	1			3,995	
9	Other Improvements	5,723	1,279	5			7,007	
10	Salaries & Fees	1,438	1,310	584	552		3,884	
11	Equipment & Adaptations	1,938	2,800	2,000	2,000		8,738	
12	Disability Discrimination Act (PFI Areas)	647		70	74		791	
13	I.T. Developments	1,447	500	250			2,197	
14	Satman Loan Repayment	8,650					8,650	
15	PFI related expenditure	1,002					1,002	
16	Forecast expenditure 2006/07 not yet analysed above	1,896					1,896	
17	Overprogramming		-1,500	1,100	1,244		844	
	sub-total Retained HRA	38,258	20,827	5,484	3,870	0	68,439	
	Northwards Housing:							
18	Structural Remedials	209	738	200	200		1,347	
19	Demolition	212	156	150	150		668	
20	Windows & Doors	8,385	9,405	5,372	10,000		33,162	
21	Rewiring	1,749	52				1,801	
22	Other Programmed Maintenance	732	366	500	800		2,398	
23	Heating & Insulation	1,059	880	300	300		2,539	
24	External Improvements	3,901	7,676	9,696	7,000		28,273	
25	Kitchens & Bathrooms	7,271	26,296	21,156	21,135		75,858	
26	Other Improvements	2,590	5,381	2,574	1,000		11,545	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07	2007/08	2008/09	2009/10	Later Years	Total Spend	Ward
		£000	£000	£000	£000	£000	£000	
27	Salaries & Fees	2,608	2,761	2,943	3,107		11,419	
28	Disability Discrimination Act	479	16				495	
29	Overprogramming	-2,474	-3,500				-5,974	
	sub-total Northwards Housing	26,721	50,227	42,891	43,692	0	163,531	
	Total Public Sector Housing	64,979	71,054	48,375	47,562	0	231,970	
	Private Sector:							
30	Market Renewal - Strategic Site Assembly	17,991	23,024	22,025	20,978	38,424	122,442	
31	Market Renewal - Private Rented Sector	1,601	490				2,091	
32	Market Renewal - Home Improvements	6,969	4,183	812	1,323	5,249	18,536	
33	Market Renewal - Supporting Home Ownership	2,665	4,108	422	843	2,565	10,603	
34	Market Renewal - Sustaining Neighbourhoods	4,390	3,109	1,085	2,900	1,562	13,046	
35	Market Renewal - Delivery	2,563	3,337	2,977	2,995		11,872	
36	External Works	3,103	3,879	1,980	55		9,017	
37	Agency Support	363	550	567	584		2,064	
38	Compulsory Purchase Order / Clearance	9,683	5,072	1,180	1,771	4,305	22,011	
39	Renovation Grants	900	860	750	750		3,260	
40	Home Repair Assistance / Regulatory Reform Order	415	611	700	750		2,476	
41	Energy Efficiency	422	460	597	515		1,994	
42	Private Rented Sector Interventions / Individual CPOs	500	3,500				4,000	
43	Environmental Works - Walker Road, Hr Blackley	1,000	3,000				4,000	
44	Miles Platting PFI		7,000	5,000	9,142		21,142	
45	Salaries and Fees	2,262	2,904	2,657	2,733		10,556	
46	Disabled Facilities Grants	4,237	4,542	5,500	6,000		20,279	
47	Forecast expenditure 2006/07 not yet analysed above	2,008					2,008	
48	Overprogramming adjustments	-7,159	-9,855	9,855			-7,159	
	Total Private Sector Housing	53,913	60,774	56,107	51,339	52,105	274,238	
	Housing Contribution to Corporate Programmes:							
49	Manchester Improvement Programme	1,500	500				2,000	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
	Total Housing Contribution to Corporate Programmes	1,500	500				2,000	
	Total Housing	120,392	132,328	104,482	98,901	52,105	508,208	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
TRANSPORT - LTP								
50	Minor Works	2,331	3,866	4,504	4,808		15,509	
51	Maintenance	5,170	3,518	3,500	3,500		15,688	
52	South East Manchester Multi Modal Study	2,072	1,576	1,576	1,576		6,800	
TRANSPORT (NON LTP)								
53	Bridges Maintenance Non-LTP funding		165				165	
54	Pavement Repairs Rolling Programme	3,619	1,669	2,669	2,669		10,626	
55	Road Safety Cameras		160	165	174	175	674	
56	City Centre Signage		250	250			500	
57	Central Park Transport Gateway	4,174					4,174	
58	Mcr & Salford Inner Relief Route	143					143	
59	Neighbourhood Road Safety Initiative	539					539	
60	Rusholme Road Safety Initiative	170					170	
61	Shudehill Transport Interchange	487					487	
62	Longsight Dist Ctr Envtl Imps - Ph 1.	153					153	
63	QBC Top Slice	1,031					1,031	
64	QBC SEMMMS	1,921					1,921	
65	Northern Orbital QBC	382					382	
66	Ardwick Residents Parking Scheme	200					200	
67	Safer Routes to Schools	395					395	
68	20 MPH Measures around Schools	145					145	
69	Walk This Way 2	50					50	
70	Safer Cycle Routes	50					50	
71	City Centre Signage Strategy	70					70	
72	Sharston & Roundthorn Ind Est Imps to Carriageway	50					50	
Total Transport		23,152	11,204	12,664	12,727	175	59,922	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
EDUCATION								
Framework One Programme -								
73	Haveley Hey Replacement School	4190	1284				5474	
74	Medlock Primary - Replacement school	430	6726	236			7392	
75	Rolls Crescent Primary - Extensions and Alterations	3025	1708				4733	
76	St Matthews RC High School Multi activity facility		403				403	
77	Primary schools rebuilding programme (PRP)		14950	2000			16950	
78	Additional Primary schools rebuilding programme		1000	5000	8040		14040	
79	Newall Green Primary School (PRP)	275	975				1250	
80	Primary Rebuilding Programme Pathfinder - Voluntary Aided schools			3500	3000		6500	
Framework Two Programme -								
81	Building Schools for the Future - Wave One	18645	72467	90375	32143		213630	
Framework Three Programme -								
82	Manchester Partnership Programme	2680	2512	3110			8302	
83	Additional Manchester Partnership Programme		998				998	
Other Programmes -								
84	NDS Modernisation 2003/04 to 2005/06 - All Schools	347	203				550	
85	Schools Devolved Capital 2005/06 to 2007/08	4129	5416	1200			10745	
86	Devolved Capital Secondary Schools within BSF areas		500	229			729	
87	Children's Services - Multi Agency projects		2000	2000			4000	
88	Forecast expenditure 2006/07 not yet analysed above	3024					3024	
Total Education		36,745	111,142	107,650	43,183	0	298,720	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
	CFSC							
89	Children's Homes	1083	240				1323	
90	Mental Health Arts Project 2004/05	197	26				223	
91	Youth Offending Teams (South and Central)		200				200	
92	Children's Services - Youth Matters		298				298	
93	Forecast expenditure 2006/07 not yet analysed above	498					498	
	CFSC Surestart -							
94	Sure Start Children's Centre Programme - Ph1	6467					6467	
95	Sure Start Children's Centre Programme - Ph2	2724	6381				9105	
	Total CFSC	10969	7145	0	0	0	18114	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
EPCS								
Chief Executive's:								
General-								
96	Improving Access to Community Buildings	200	100				300	
97	Environmental Projects and Campaigns	34	12				46	
98	Disabled Access Grants	336	130	130	130		726	
99	City Centre Public Realm works		75				75	
100	Christmas Lighting Strategy		250				250	
East Manchester-								
101	New East Manchester Programme	15957	22551	4447	300		43255	
102	New East Manchester Programme - St.Peter's		80				80	
103	Additions to the New East Manchester Programme			8000	2000		10000	
104	Sports City CCTV		80				80	
South Manchester-								
105	Wythenshawe Forum Regeneration Project	136	121				257	
106	Maine Road Redevelopment	1090	164				1254	
107	Victoria Baths Restoration Phase 1	300	2312	1190			3802	
108	Strategic Land Acquisition Sharston	2100					2100	
Grants Programmes-								
109	North and South Manchester ERDF Programme	597	175				772	
110	Forecast expenditure 2006/07 not yet analysed above	4009					4009	
Total Chief Executive's		24759	26050	13767	2430	0	67006	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
	Corporate Services:							
	General-							
111	Demolition of Unsafe Buildings	37	50	50			137	
112	Fairholme Showman Site	814	3982				4796	
113	Contribution to Redevelopment of Ramada Hotel Complex		4985				4985	
	Programmes-							
114	Bid Development / Feasibility	603	350	250			1203	
115	Capital Programme Management	280	280	280			840	
116	Disabled Access for Employees - Aids and Adaptations Programme	30	30	30	30		120	
117	IT - Ongoing Infrastructure Investment Programme	593	500	500	500		2093	
118	Spend to Save Schemes	4970	4612	5000	5000		19582	
119	Manchester Improvement Programme - Town Hall Service Centre	100	1200	300			1600	
	Corporate Asset Management Programme-							
120	City Centre Premises Liabilities	1200	1100	833	750		3883	
121	Corporate Asset Management	11082	8751	8188	5000		33021	
122	Corporate Asset Management - Central Library			1500	1500		3000	
123	Corporate Asset Management - further works to major City Council buildings		500				500	
124	Corporate DDA	3740	2971				6711	
	Total Corporate Asset Management Programme	16022	13322	10521	7250	0	47115	
125	Forecast expenditure 2006/07 not yet analysed above	1209					1209	
	Total Corporate Services	24,658	29,311	16,931	12,780	0	83,680	
	Environment & Operations							
126	Pavilion Green Roof Piccadilly Gardens		152				152	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
127	Forecast expenditure 2006/07 not yet analysed above	2,174					2174	
	Total Environment & Operations	2,174	152	0	0	0	2,326	
	Hospitality & Trading Services:							
	Town Hall Complex-							
128	Town Hall Security	265	359				624	
129	Emergency Control Room		220				220	
	Markets-							
130	Gorton Market Redevelopment	300	1298				1598	
131	Forecast expenditure 2006/07 not yet analysed above	561					561	
	Total Hospitality & Trading Services	1,126	1,877	0	0	0	3,003	
	Libraries and Theatres:							
	General-							
132	Refurbishment of Longsight Library	200	866				1066	
133	Addition to Refurbishment of Longsight Library		250				250	
134	Forecast expenditure 2006/07 not yet analysed above	365					365	
	Total Libraries & Theatres	565	1,116	0	0	0	1,681	
	Manchester City Galleries:							
135	On Line Gallery	200	200	100			500	
136	Platt Hall Urgent Health and Safety works		22				22	
137	ICEFT Feasibility (International Centre for Excellence in Fashion and Textiles)		100				100	
138	On-Line Gallery	100	60				160	

Proposed Capital Budget 2007/08 to 2009/10

LINE REF	Departments / Projects	Forecast Spend 2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	Later Years £000	Total Spend £000	Ward
139	Forecast expenditure 2006/07 not yet analysed above	538					538	
	Total Mcr City Galleries	838	382	100	0	0	1,320	
	Manchester Leisure:							
140	Alexandra Park Heritage Refurbishment and Restoration	70	80	295	2527		2972	
141	Heaton Park Phase 3 Regeneration	100	350	1050	3500	3500	8500	
142	Hough End Sporting Centre of Excellence		992				992	
143	Legionella Programme	104	70				174	
144	Tree Felling of Diseased Manchester Poplars	90	560				650	
145	Belle Vue Centre - new Office space	20	15				35	
146	Marie Louise Gardens		160				160	
147	Velodrome Track Replacement	30	270				300	
148	Children's Playgrounds		120				120	
149	Forecast expenditure 2006/07 not yet analysed above	2000					2000	
	Total Manchester Leisure	2,414	2,617	1,345	6,027	3,500	15,903	
	Total EPCS	56,534	61,505	32,143	21,237	3,500	174,919	

MANCHESTER CITY COUNCIL

CAPITAL STRATEGY

2007-20010

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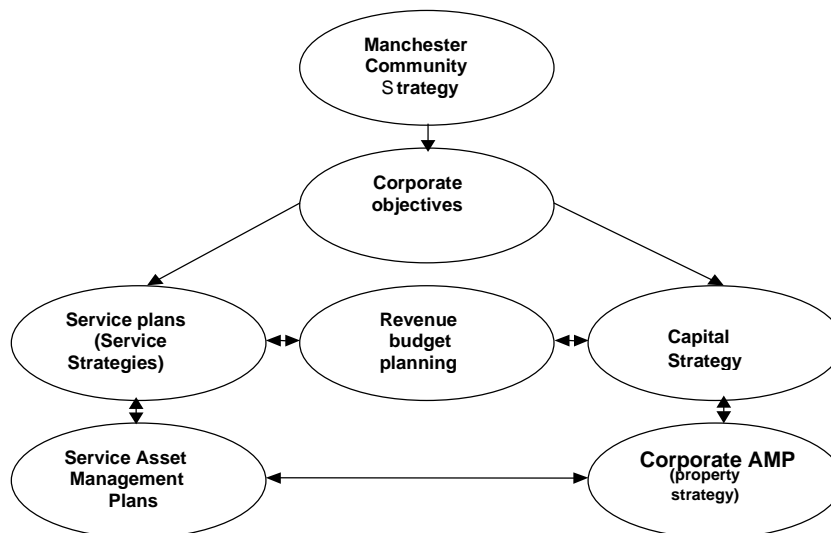
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1. CAPITAL STRATEGY

1.1 Background

This document updates the previous version of the Capital Strategy Report and shows how the capital investment programme is prioritised and delivered to support the strategic objectives of the Manchester Community Strategy and the corporate objectives of the City Council. Both the corporate property strategy and asset management plan continue to provide a focus for investment and the programme is influenced as ever by service strategies and the outcomes of revenue budget planning.

The process can be illustrated in the following way:



1.2. Strategic Overview

Over the last 10 years the Council and its partners have made major advances in pursuing the agenda for regeneration. Many areas of the city that suffer from acute economic and social deprivation have undergone a transformation to substantially improve their future prospects and long term sustainability. The Commonwealth Games gave a further stimulus to investment and development enhancing the city's reputation worldwide. At the same time, the city centre has benefited from major investment in new attractions and facilities and has become a location where people increasingly choose to live, work and play. The airport, universities and other major economic assets continue to expand and develop underlining Manchester's prominence as regional capital of the North West.

Levels of investment remain high and the pace of change has quickened but much remains to be done. Alongside our successes there are neighbourhoods that continue to experience acute levels of deprivation, low skills, poor educational attainment, high levels of ill-health and crime in the context of a poor physical environment. The challenge for Manchester, for the next decade and beyond, is to further improve the quality of life for all residents, increase their overall social and economic prospects, and enable them to participate fully in the life of the city. The purpose of the capital programme and the equivalent plans of our partner agencies are to meet this challenge through coordinated programmes of capital investment.

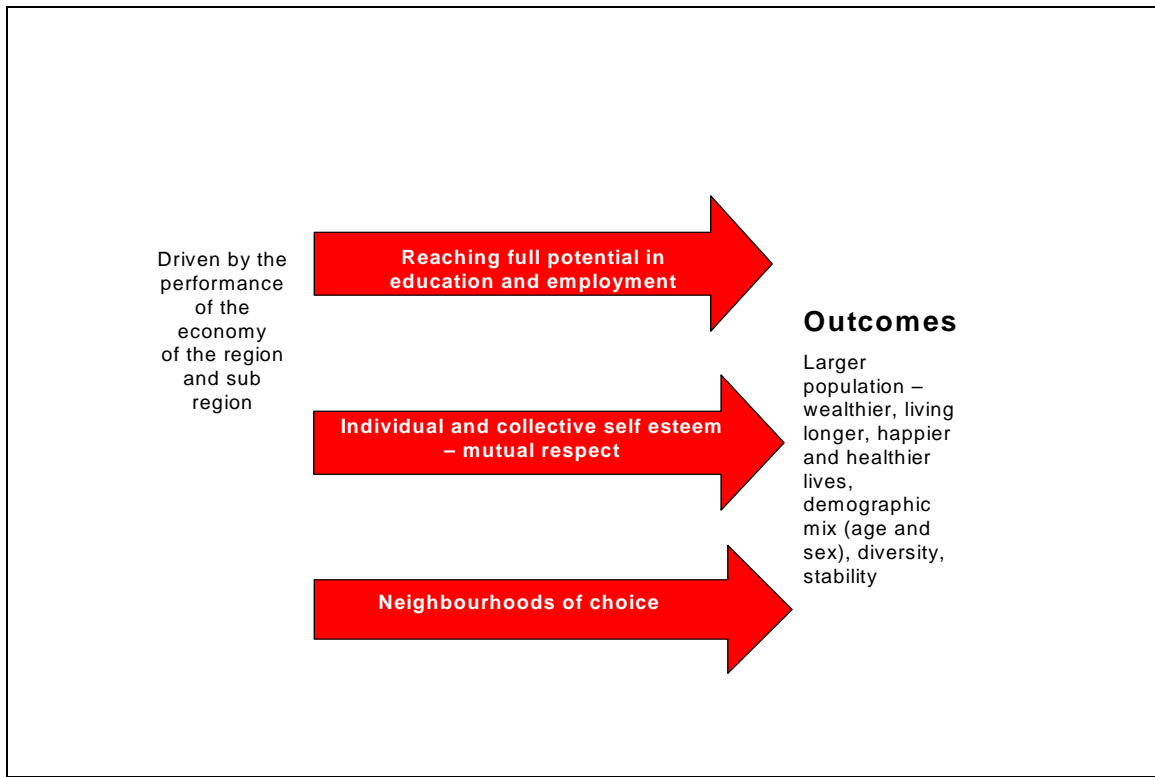
1.3 Strategic Partnerships

The Manchester Way is the Sustainable Community Strategy 2006 to 2015 which has been produced by Manchester Partnership (Manchester's Local Strategic Partnership) and the City Council, with input from partner organisations and residents. It is delivered through actions that will benefit everyone who lives, studies, works in, or enjoys our original modern city. It will improve Manchester's economic, social and environmental fabric.

The Manchester Partnership brings together the key stakeholders from the public, private, voluntary and community sectors. The Community Strategy sets a vision of Manchester as a world class city. By world class we mean that by 2015:

- All areas of the city will benefit from the city's success, every neighbourhood will be included.
- Manchester people will be wealthier, live longer, be healthier and enjoy happier lives.
- Children and young people will be safer, more resilient and fulfilling their potential.
- There will be more working families.
- Six out of ten homes will be owner occupied.
- Productivity (Gross Value Added per head) for Manchester will be greater than the UK average.
- Manchester will be in the top 10 of European business cities.
- Our population will have increased to 480,000.

The vision will be achieved by the spines:-



The City Council's role is to provide the leadership to enable all private, charitable, voluntary, statutory and non-statutory bodies to achieve the Community Strategy objectives. Regeneration capital projects are particularly important to this process and they are guided by Strategic Regeneration Frameworks for each district of the city. Much of this joint working has an area-based focus and a separate performance plan is published for each ward annually.

The City Council also works with a range of public and private sector partners such as the Association of Greater Manchester Authorities (AGMA), the North West Development Agency (NWDA) and English Partnerships (EP). Other examples of key strategic partners that contribute to the overall Capital Strategy are presented below:

1.4 Corporate Asset Management Strategy

The Asset Management Plan (AMP) is an integral part of the Capital Strategy. This executive summary identifies the key relevant progress made during 2006.

Asset Management Plan

The fundamental principal of reorganising property ownership onto a corporate ownership basis has been endorsed. A structured implementation approach has been adopted aiming for launch, with a target date of 1 April 2008.

A comprehensive schedule of property ownership from current operational owners should be finalised by the end of January 2008. This information is an essential prerequisite for establishing a central budget. However, it is already clear that there will be considerable scope to generate significant savings from corporate ownership.

A draft property strategy was published in September 2006, and a first stage scoping review of the Council's investment portfolio is underway.

AMP Repairs Programme

In order to provide more focus to the priority of addressing maintenance / maintenance backlog, a new working and reporting process is currently being introduced. An AMP Delivery Group will coordinate backlog maintenance spend with suitability and sustainability. This group will report to a new AMP Board, the terms of reference for which are currently being revised, which will include two senior councillor representatives.

It has been agreed that all AMP related expenditure, currently managed under a number of different programmes, e.g. backlog maintenance, city centre liabilities, statutory compliance, will all be merged into a single AMP Repairs Programme to ensure all elements of work are coordinated and prioritised to maximise efficiency and value for money.

In line with Audit Commission recommendations work is being done to clarify the calculation of the assessment of backlog maintenance liability and a revised figure will be established by the end of February 2007.

The backlog maintenance figure excludes the Town Hall Complex liability, which is separately known to be extensive (c. £100m). Separate initiatives are currently being investigated at both the Central Library and Town Hall Extension.

Data

A new property terrier system will become operational in June 2007. Valuation and Property Services staff are currently undertaking a major project to check and cleanse existing property data for inclusion on the new system.

It is vital to be able to measure the performance of the property portfolio to assess and improve the progress being made and to benchmark against others. For this purpose, AMP has identified a menu of 32 key national CORPROP Indicators against

which data will be provided as at 31 March each year, with data as at 31 March 2006 as the starting point.

The format of a survey questionnaire is currently being finalised which will be sent annually to every service outlet to audit the views of occupiers on suitability and sufficiency, which will inform the Service AMPs and AMP Repairs programme.

1.5 Major Programmes

The capital programme comprises a range of projects designed to support the Council's corporate and strategic objectives. Increasingly, these projects have been grouped into programmes of work to improve coordination and to optimise the use of external funding streams. A number of these programmes are being managed corporately to prioritise investment across the Council and to achieve efficiency gains through a joined up approach to procurement. The principal programmes are identified below.

Capital Programme	Commentary
Building Schools for the Future (BSF)	The government's BSF initiative is seeking to transform the way that secondary education is delivered and will provide capital funding to remodel or rebuild every school in the country over the next 15 years. Manchester has been awarded £201m of government funding towards the first phase to provide for 9 new or remodelled high schools and 7 special need schools. Further funding has recently been announced for 6 Academies and for BSF Wave 4 to include a further 5 new or remodelled high schools and 2 special needs schools.
Education Projects to Improve School Facilities	Approximately £67m is earmarked for projects across the City to replace, extend and improve school facilities between 2007/08 and 2009/10
Private Sector Housing	Over the three years 2007/08 to 2009/10 the Council intends to invest £168m of which £95m is Housing Market Renewal investment in partnership with Salford City Council to stimulate private sector housing renewal in a number of the city's less wealthy wards. The remaining part of the private sector programme delivers investment for statutory requirements and to help meet decent homes targets, together with land assembly for PFI housing projects.
Public Sector	Capital funding of £167m over the three years 2007/08 to

Housing including ALMO	2009/10 will be programmed to deliver improvements, repairs to help meet decent homes targets, and selective demolitions either by direct investment or through the allocation of resources to Northwards Housing ALMO.
Sure Start Children's Centres	Sure Start is a 10 year strategy designed to increase the provision of childcare places and associated services for children and families in deprived areas across the country. Phase 1 is now almost complete and will provide 14 centres. Phase 2 of the programme is in progress and plans to deliver a further 14 centres by March 2008.
New East Manchester (NEM)	The regeneration of East Manchester continues and there is provision within the capital budget of £37m (excluding Housing Market Renewal) over the next 3 years to deliver a range of projects funded by ERDF, NWDA, EP and other agencies.
Corporate Asset Management and DDA	The Council is seeking to resource building repairs, maintenance and improvements through a fully integrated Asset Management Programme that will also ensure compliance with the Disability Discrimination Act. Over £31m is being invested between 2007/08 and 2009/10 for this purpose.
Transport	Over £36m will be invested in transport infrastructure programmes in the three year period 2007/08 to 2009/10.

2. CAPITAL BUDGET OVERVIEW

2.1 The Capital Budget 2007/08 to 2009/10

The capital programme is designed to support the Council's strategy, aims and objectives by providing for new or improved services and other improvements. To deliver the programme however, the City Council must identify and secure enough resources to pay for each project in the overall programme.

The planned programme 2007/08 to 2009/10 is estimated to cost £756 million. Projects due to start in 2007/08 will be progressed to conclusion but the timing of the availability of resources could influence some start and completion dates.

The total spend in 2007/08 is estimated to be £323 million. Resources available to fund the programme are expected to be:

Resources for 2007/08	'£000
Supported Borrowing	69,610
Unsupported Borrowing	8,249
Grants	187,512
Contributions	5,024
Capital Receipts	47,640
Revenue	5,289
Total	323,324

The summary capital budget for 2007/08 is as follows:

Service Department	£000
Housing	132,328
Education	111,142
Transport	11,204
Children, Families and Social Care	7,145
Chief Executive's (inc grants and regeneration)	26,050
Corporate Services (including Pathfinder and Corporate asset programme)	29,311
Environmental Services	152
Hospitality and Trading Services	1,877
Libraries and Theatres	1,116
Manchester City Galleries	382
Manchester Leisure	2,617
Total	323,324

Revenue Implications of Capital Investment

The Council has strengthened the links between capital and revenue by merging the budgetary process and timetable. Service delivery strategies and asset management plans identify the need for capital investment to help maintain and improve the quality of service to the public. Particular attention is given to the revenue implications of capital investment and are considered in the decision making process to ensure the long term affordability of capital investment proposals, including life cycle costs. The Gateway scrutiny system for capital bids ensures that any significant revenue implications are identified at Gateway 3 (formal capital budget bid request stage) and further checks are instigated at Gateway 5 immediately prior to project delivery. There is full budget provision for the revenue implications of the three year capital programme 2007/08 to 2009/10.

It is recognised that asset solutions are interchangeable between capital and revenue budgets, but obviously make demands on both.

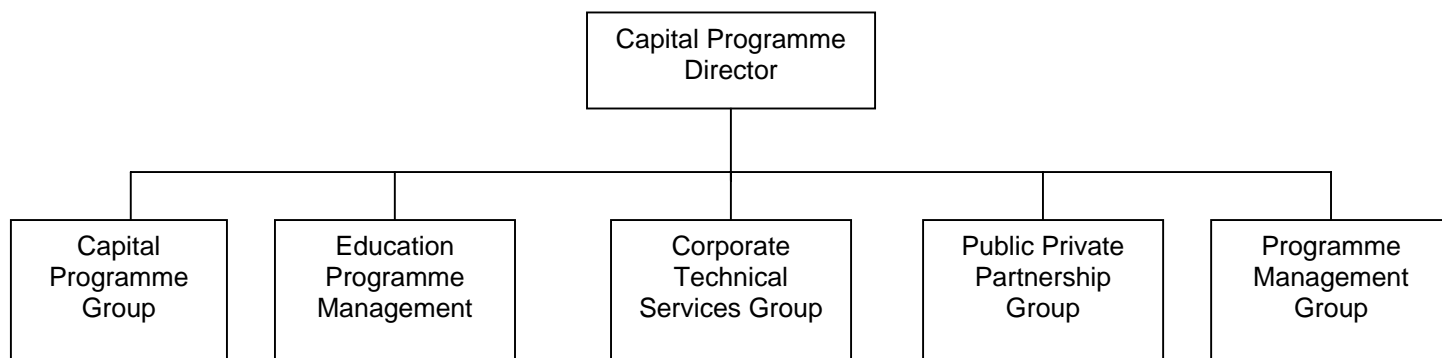
2.3 Prudential Borrowing

Following the introduction of the new Prudential Capital System in 2004, the Council has an option to undertake 'prudential' borrowing provided that the revenue costs of servicing the debt (interest charges and annual provisions for the repayment of the loan amount) are affordable both in the short term and long term. Prudential borrowing is advantageous for projects that generate savings or additional income greater than the annual cost of financing the amount borrowed (spend to save). It also offers an alternative source of finance for some of the Council's outstanding investment needs – provided that the revenue costs of financing the loan are affordable.

3. Delivering the Capital Programme

3.1 Organisational Change

Since 2002 the Council has introduced a new approach to management of its capital programme in order to achieve best value and bring greater surety to the delivery process. A new unit (the Capital Programme Division) has been created within Corporate Services with an expanding remit covering strategic planning, procurement, partnerships and project/ programme management. The Capital Programme Director reports to the City Treasurer and is responsible for these services (illustrated below).



The Capital Programme Group has developed a long term strategy in four phases to support delivery of the programme through best practice and these are set out below along with the strategy for procurement to achieve best value developed by the Technical Services Group and new reporting procedures to monitor overall performance.

3.2 The 'Manchester Method' (Phase 1)

The Capital Programme Group's first major challenge was to introduce a generic process for delivery of capital projects based on best practice (Prince2) that could be

adopted by all service departments. This approach is now known as the 'Manchester Method'.

The MCC Project Management Handbook was first published in 2003, subsequently updated in 2005 incorporating an enhanced section for communications and inclusions from MCC Audit. The selection of a new training partner is under way via the OJEU process to continue the popular, well attended and beneficial training courses provided by Remarc Ltd. The products created for the MCC methodology formed part of a National Toolkit for LA's sponsored by the Office of Government Commerce (OGC).

3.3 MCC Gateway Review (Phase 2)

The Gateway process is now well established within MCC and provides MCC Capital Programme with an enhanced level of scrutiny. The Gateway process is managed and monitored by the Capital Programme Group who have developed a set of generic templates for each stage.

The Gateway is intended to provide strategic, operational and financial scrutiny of the Capital Programme introducing location appraisal for the first time.

The Gateway Review process embraces the project lifecycle from mandate to project closure and joins up existing appraisal functions involving the right people at the right time adding value to existing procedures. It is designed to encourage early submissions to a Review Group (Gateway 1) and will be followed by thorough project appraisal via a Scrutiny Panel (Gateway 3). Projects and programmes will also be reviewed at completion to confirm effective closure and examine lessons learned (Gateway 6 and 7). The process will be expanded to include benefits realisation post completion and enhanced asset management coordination on project closure.

Gateway is fully compatible with the MCC Project Management Method and consistent with the National Gateway process.

The scrutiny process is intended to be flexible and can be refined further to include central government initiatives where appropriate.

3.4 Project Management Software (PMS) (Phase 3)

The Project Management Software system has been introduced to help manage the delivery of the capital programme. The PMS will be rolled out to all service departments during 2007.

3.5 Project Management 'Centre of Excellence' (Phase 4)

The strategy for a Centre of Excellence is to have a number of qualified and experienced programme and project practitioners both centrally and at departmental

level. The initiative and training to date has developed MCC staff past the Fundamental level of project management. This “in house” resource is helping to reduce the expenditure on consultancy.

3.6 Procurement Strategy

The Council has responded positively to the Gershon Report and the National Procurement Strategy. Its approach to procurement has been reviewed and where necessary refocused to achieve best value. The emphasis now is very much on coordinated programmes of work rather than a collection of separately managed projects.

The procurement strategy has delivered projects with cashable savings on tendering and procurement costs in the order of:

- Construction frameworks: 1 – 2% per project
- Consultancy frameworks: Commissioning process savings of approximately £2000 per project
- Mini-consultancy framework: Commissioning process savings of approximately £1000 per project

There are fewer delays (especially in the context on construction frameworks) and 95% of capital projects now finish on time.

Opportunities to deliver new investment via PFI and PPP agreements have also been embraced where this procurement route offers value for money. The Public Private Partnership Group based in the Capital Programme Division is closely involved in all such initiatives and leads on delivery of the BSF programme.

Selection of contractors is now firmly based on best value criteria rather than the lowest price tender returned. In addition, to improve the efficiency of the procurement process, a number of framework agreements are already in place.

The Council is seeking further improvements in quality and performance and the procurement team continues to work closely with the Centre for Construction Innovation based in central Manchester and the Regional Centre of Excellence (RCE) in Tameside.

3.7 Monitoring Performance

Much has been achieved over the past two years but it is important to set a baseline from which to improve still further. From inception the Capital Programme Division has adopted a number of key indicators (KPIs) to assess its own performance and measure delivery of the capital programme particularly in terms of time, cost and quality.

The Capital Programme Group collects information on 5 KPI's covering project management and project delivery that are reported quarterly to the MCC Capital

Board. In addition, the Technical Services Group monitors and reports on 8 KPI's related to procurement that are beginning to demonstrate the strengths and weakness of the framework agreements.

Performance measurement enables proactive management of the capital programme and provides an opportunity to forecast expenditure and where possible reallocate funds ahead of year end to reduce slippage and maximise service delivery improvements for the people of Manchester. This review and forecast approach should be constantly developed it may be possible to recognise a number of programmes/projects to be accelerated into the current year if the slippage is such that it can be utilised in this way

The Red Amber Green (RAG) reporting process has been successful giving an early warning status on progress, cost and risk on a project-by-project basis. This year the monthly RAG Report has been further defined to report the financial status of project against the budget the RAG Reporting process will be developed further for the Project Management Software to enable rolled up reporting at Programme and Project levels.

3.8 Regional and National initiatives

The Council has a broad commitment to support and share information and best practice with other local authorities and government agencies in particular the Association of Greater Manchester Authorities (AGMA).

The Capital Programme Division continues to share best practice with other authorities and with central government initiatives. The Local Authority Toolkit for Project Management will now be promoted regionally through the IDeA. The NW IDeA have already contacted the division with a view to updating the elements of the toolkit which were developed by MCC.

Treasury Management Strategy Statement & Borrowing Limits and Annual Investment Strategy 2007-08

1. Introduction

The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as section 10); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The proposed strategy for 2007/08 is based upon the views of Treasury officers on interest rates, informed by leading market forecasts. The report covers the following:

- Prudential Indicators;
- The current treasury position of the Council;
- Borrowing Requirement;
- Treasury limits in force;
- Interest rate prospects;
- Capital borrowings and the portfolio strategy;
- Investment strategy;
- Debt Rescheduling;
- Housing Large Scale Voluntary Transfers (LSVTs).

A glossary of terminology used in this report is attached in Appendix B.

It is a statutory requirement, under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

2. Treasury Limits for 2007/08 to 2009/10

There is a statutory duty, under section 3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the Authorised Limit.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which, essentially, requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax/rent levels is acceptable.

The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3. Prudential Indicators for 2007/08 – 2009/10

A requirement of the Local Government Act 2003 is that local authorities comply with the Prudential Code for Capital Finance in Local Authorities. Under the Code, various Prudential Indicators must be approved by the budget setting body, i.e., the Council. These indicators are listed in Appendix 3 to Annex 1 of this report.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted by the Council on 8 October 2003.

4. Current Portfolio Position

The Council's estimated treasury portfolio position at 31 March 2007 will comprise:

	£000	£000	Average Rate
<u>Fixed Rate Funding</u>			
PWLB	338,029		8.65%
Airport Debt Recharge	(90,152)		10.19%
Market	375,000		5.27%
Stock	14,241		6.78%
		637,118	
<u>Variable Rate Funding</u>			
PWLB	0		0%
Market	204,643		5.06%
		204,643	
Temporary Investments		(0)	0%

5. Borrowing Requirement

The assumed long-term borrowing plus alternative financing arrangements, over the next three years, are as follows:

	2007/08 £000	2008/09 £000	2009/10 £000
New Long-term borrowing	189,000	103,600	54,000

2007-08 figures include the refinancing of £124.6m of PWLB loans, repaid early with cash that was temporarily spare. 2008-09 and 2009-10 figures include borrowing requirements of £40m for the Building Schools for the Future programme, which had been funded by direct government grant in previous years.

6. Prospects for Interest Rates

The Council has appointed Sector Treasury Services as its treasury adviser and part of their service is to assist the Council in formulating a view on future interest rates. Appendix A draws together a number of current City forecasts for short term and longer-term fixed interest rates.

The following table gives Sector's central view:-

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010
Bank rate	5.50%	5.50%	5.50%	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	5.25%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Economic background

International

- The US, UK and EU economies have all been on the upswing of the economic cycle in 2005 and 2006 and so have been raising interest rates in order to cool their economies and to counter inflationary pressures stimulated by high oil, gas and electricity prices, which could feed through into increases in wage inflation, producer prices etc.
- The US is ahead of the UK and EU in the business cycle and it looks as if the US Federal Reserve rate has probably already peaked at 5.25%, whereas there is an expectation in the financial markets of further increases in the EU and UK.

- The major feature of the US economy is a still steepening downturn in the housing market, which is likely to drag down consumer spending, and so the wider economy (e.g. house building, employment etc.), with it. Falling house prices will also undermine household wealth and so lead to an increase in savings (which fell while house prices were rising healthily) and so, conversely, will lead to a fall in consumer expenditure.
- The Federal Reserve may be reluctant and late in responding to the aforementioned downturn in the economy if inflationary pressures remain stubbornly high. This could exacerbate the downturn, both in the US and the world economies.
- EU growth picked up strongly in the first half of 2006 and is expected to remain healthy in the second half. Growth is expected to slow moderately in 2007 due to weaker US and global demand.
- Despite sharply increased energy prices, deflationary pressures from falls in prices of manufactured goods from China and India have helped to keep headline inflation in the advanced economies to an average of around 3% and will fall as the energy effects go into reverse.

UK

- GDP (Gross Domestic Product): the UK is on the upswing of the economic cycle from the low point reached in June 2005. Robust growth is expected to continue for a little longer but a modest cooling is expected in 2007 (2006 2.5%, 2007 2.0%) and to continue at below the trend rate of 2.5% thereafter.
- Recovery in consumer spending and retail sales has underpinned this upswing in GDP.
- The housing market has proved more robust than expected, with house price inflation over 8% p.a.
- Higher than expected immigration from Eastern Europe has strengthened growth and dampened wage inflation.
- The Monetary Policy Committee's (MPC) decisions to raise Bank Rate in November 2006 and January 2007 were needed to bring Consumer Price Index (CPI) inflation down to the 2% target level two years ahead. The MPC has been concerned that short term price increases (CPI has been significantly above target since June 2006) could feed through into wage settlements in the current pay round and set inflation expectations at a higher level.
- Household income growth is set to recover in 2007, as inflation falls and pay rises, but the extra income is likely to go into an increase in savings, pensions and servicing debt costs (as rates rise), rather than consumer spending.
- Public sector expenditure growth, in real terms, is expected to weaken to 2.5% over the next few years from the 3% average in the period 2000-2005.
- The three increases in Bank Rate in August and November 2006 and January 2007 are expected to dampen the housing market and the growth in unsecured borrowing, although one more increase in Bank Rate is forecast.
- World slowdown in growth in 2007 will dampen UK exports.
- OUTLOOK: Once inflation is back under control, Bank Rate will switch eventually to a falling trend in 2008, to counter the above negative effects on the economy and growth.

7. Borrowing Strategy

The Sector forecast is as follows:-

- The 50-year PWLB rate is expected to remain flat at 4.25%.
- The 25-30 year PWLB rate is expected to stay at 4.50% for the foreseeable future.
- The 10-year PWLB rate will fall from 5.00% to 4.75% in quarter 3 of 2007, fall again to 4.50% in the first quarter of 2008 and remain at that rate for the foreseeable future.
- 5-year PWLB rate will fall from 5.25% to 5.0% in quarter 3 of 2007 and continue falling until reaching 4.5% in the first quarter of 2008, when it will remain at that rate for the foreseeable future.

The main strategy is therefore as follows:

With 50-year PWLB rate at 4.25%, borrowing should be made in this area of the market at any time in the financial year. This rate will be lower than the forecast rates for shorter maturities in the 5 year and 10 year area. A suitable trigger point for considering new fixed rate long-term borrowing, therefore, would be 4.25%.

Against this background, caution will be adopted with the 2007/08 treasury operations. The City Treasurer will monitor the interest rate market and adopt a pragmatic approach to any changing circumstances, reporting any decisions to the Executive Member for Finance and Human Resources.

Sensitivity of the forecast - The main sensitivities of the forecast are likely to be the two scenarios below. The City Treasurer, in conjunction with the treasury advisers, will continually monitor both prevailing interest rates and market forecasts, adopting the following responses to a change of view about imminent interest movements:

- *if there is considered a significant risk of a sharp rise in long and short-term rates*, perhaps arising from a greater than expected increase in world economic activity or increases in inflation, then the likely response will be to undertake fixed rate funding whilst interest rates are still relatively cheap.
- *In reaction to a significant risk of a sharp fall in long and short-term rates*, due to e.g. growth rates remaining low or weakening, then long-term borrowing will be postponed, and rescheduling from fixed rate funding into variable or short rate funding will be considered.

8. Debt Rescheduling

As the first fall in Bank Rate is expected in the fourth quarter of 2007, it is expected that there will be a sharp difference between higher shorter-term rates and lower long-term rates in quarters 2 to 4 of 2007. Later on in 2007/08, this gap will diminish once Bank Rate, and short-term rates generally, start falling. There will, therefore, be opportunities during quarters 2 to 4 of 2007 to restructure shorter term debt into long-term, in order to optimise the potential savings achievable in the financial year 2007/08. Any positions taken via rescheduling will be in accordance with the strategy position outlined in Section 7 above.

In addition, the City Treasurer will actively give consideration during the year to taking advantage of small movements in PWLB rates to reduce the cost of existing debt in the portfolio by reborrowing at lower rates without making significant changes to the type of debt (fixed/variable) or maturity periods.

Reasons for any rescheduling to be undertaken will include:

- the generation of cash savings at minimum risk;
- to help fulfil the strategy outlined in Section 7 above;
- to enhance the balance of the long-term portfolio, e.g., amend the maturity profile and/or the balance of volatility.

CIPFA issued a draft accounting standards document (SORP 2007) on 18 October 2006 and a final draft in November 2006, which includes major potential changes in the treatment of the valuation of debt and investments, the calculation of interest and the treatment of premiums and discounts arising from debt rescheduling. There will be a three-month consultation period before proposals are finalised. It is also expected that these proposals, once finalised, may make necessary the issue of legislation by the Government to take effect from 1 April 2007. The Authority's treasury management strategy will be reviewed once the final decisions in this area are known, to see whether any changes will be required in borrowing, investment or debt rescheduling strategies.

9. Housing Large Scale Voluntary Transfers (LSVTs)

In 2004-05, the City Council began the implementation of an approved three-year programme to transfer the vast majority of its Housing stock to either Housing Associations, Arms Length Management Organisations (ALMOs) or PFI control. The first two transfers took place in October 2004 and April 2005.

The agreement with the Department for Communities and Local Government (DCLG) is that they will redeem equivalent PWLB debt associated with those properties being transferred to Housing Association control.

Transfers of Housing stock on the Hattersley and Parkway Green, Wythenshawe estates took place in September and October 2006 respectively.

Advice from Sector, our Treasury advisers, with regard to these two transfers, was that a pro rata reduction of each PWLB loan would be the most suitable approach. This was adopted and resulted in the Council's PWLB debt being reduced by £131.259m.

Further transfers are expected to take place between October 2007 and June 2008, which will complete the transfer process. As the programme of transfers progresses, work with Sector will continue to establish strategies that ensure the Council's long-term interests are protected.

Progress on the transfers will be reported in future years' Strategy reports. The financial impact on the Council's debt of future LSVTs will be reported in future years' Annual Reports.

10. Annual Investment Strategy

Investment Policy

The Council will have regard to Government Guidance on Local Government Investments (The Guidance), issued in March 2004, and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (CIPFA TM Code).

Investment Principles

- As the general policy objective for the Council is the prudent investment of its treasury balances, its investment priorities are (a) the security of capital and (b) liquidity of its investments.
- As a general rule, temporary borrowing will not be made whilst the City Council has temporary investments.
- The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.
- The Guidance points out that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

Specified and Non-Specified Investments

Investment instruments identified for use in the financial year are listed below under 'Specified' and 'Non-Specified' Investments categories.

Specified Investments

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable.

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Government Backed	Not to be used
Term deposits – UK government	High security	Not to be used
Term deposits – other LAs	High security. Only one or two LAs credit rated	In-house
Term deposits – banks and building societies **	*Varied	In-house
Certificates of deposits issued by banks and building societies	* Varied	Not to be used
Money Market Funds	AAA	Not to be used
UK Government Gilts	Government Backed	Not to be used
Gilt Funds and Bond Funds	*** Varied	Not to be used
Treasury Bills	Government Backed	Not to be used

* Banks - Fitch : Long-Term A, Short-Term F1/F1+, Support 1,2,3; Moody's : Short-Term P-1.
Building Societies - Fitch : Long-Term A – or Moody's : Long-Term A3

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate.

*** Fitch : AA-, Moody's : Aa3, S&P : AA-

Non-Specified Investments

Non-specified investments are any other type of investment (i.e. not defined as specified above).

	Minimum Credit Criteria	Use
Term deposits – UK government (with maturities in excess of 1 year)	High Security	Not to be used
Term deposits – other LAs (with maturities in excess of 1 year)	High security although only one or two LAs credit rated	Not to be used
Term deposits – banks and building societies (with maturities in excess of 1 year)	N / A	Not to be used
Term deposits with unrated counterparties : any maturity	* Total Assets valued at or in excess of £1 billion	* 20% of average total investments
Certificates of deposits issued by banks and building societies	N / A	Not to be used
UK Government Gilts with maturities in excess of 1 year	Government Backed	Not to be used
Bonds issued by multilateral development banks	AAA or Government Guaranteed	Not to be used
Bonds issued by a financial institution which is guaranteed by the UK government	AAA or Government Guaranteed	Not to be used
Sovereign bond issues (i.e. other than the UK govt)	AAA	Not to be used
Corporate Bonds	N / A	Not to be used
Floating Rate Notes	N / A	Not to be used

* Non-rated Building Societies - a time limit of 90 days is placed on all such term deposits

Investment Limits

As advised by Sector, our treasury advisers, the financial investment limits of banks and building societies are linked to their Fitch long-term ratings, as follows:-

AA+ £20 million

AA/AA- £15 million

A+/A £10 million

Liquidity

Based on cash flow forecasts, the level of cash balances in 2007-08 is estimated to range between £0m and £144m. The higher level is expected to be reached because it is anticipated that long-term borrowing will be undertaken during the year to replace the £124.6m PWLB loans repaid early in June and July 2006.

Giving due consideration to the Council's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered

very unlikely that the Council will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held in term deposit maturities in excess of 1 year.

In some instances it is more cost effective to utilise cash resources to minimise the need for external borrowing and this option will be regularly considered by the City Treasurer.

Security of Capital: The use of Credit Ratings

- Credit quality of counterparties (issuers and issues) and investment schemes will be determined by reference to credit ratings published by Moody's and Fitch rating agencies. The Council's minimum long-term, short-term and other credit rating criteria, which are considered sufficient for each category of investment, will be adhered to at all times.
- Monitoring of credit ratings:
 - A All credit ratings will be monitored on a continual basis and reviewed monthly. The Council is alerted by Sector, its external Treasury Management advisors, to changes in Moody's and Fitch ratings.
 - B If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
 - C If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the City Treasurer will have the discretion to include it on the lending list.

Investment Strategy to be followed in-house

Sector is forecasting Bank Rate to peak at 5.5% in the first quarter of 2007, before falling to 5.25% in quarter 4 of 2007, to 5.00% in quarter 1 of 2008, and then to 4.75% in the second quarter of 2008, remaining at that level before rising again to 5.00% in quarter 2 of 2009. The Council will seek to utilise its 'business reserve accounts' with major banks and short-dated deposits (1-3 months) in order to benefit from the compounding of interest.

End of year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

11. Recommendations

To note the proposed Treasury Management Strategy Statement and approve:-

- 11.1 The Prudential Indicators referred to in section 3 and listed in Appendix 3 to Annex 1 of this report.
- 11.2 The Borrowing Requirements listed in section 5.
- 11.3 The Borrowing Strategy outlined in section 7.
- 11.4 The Annual Investment Strategy detailed in section 10.

Appendix A

INTEREST RATE FORECASTS

The data below shows a variety of forecasts published by a number of institutions. The first three are individual forecasts, including those of UBS and Capital Economics (an independent forecasting consultancy). The final one represents summarised figures drawn from the population of all major City banks and academic institutions. The forecast within this strategy statement has been drawn from these diverse sources and officers' own views.

1. INDIVIDUAL FORECASTS

Sector View interest rate forecast – 15 January 2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010
Bank rate	5.50%	5.50%	5.50%	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	5.25%	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	5.00%	5.00%	4.75%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
25yr PWLB rate	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
50yr PWLB rate	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%

Capital Economics interest rate forecast – 15 January 2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.50%	5.50%	5.25%	4.75%	4.50%	4.50%	4.50%
5yr PWLB rate	5.35%	5.05%	4.85%	4.65%	4.45%	4.55%	4.65%	4.75%
10yr PWLB rate	4.95%	4.75%	4.45%	4.45%	4.55%	4.65%	4.75%	4.85%
25yr PWLB rate	4.45%	4.35%	4.25%	4.25%	4.25%	4.35%	4.45%	4.55%
30yr PWLB rate	4.25%	4.15%	3.95%	4.05%	4.05%	4.15%	4.25%	4.35%
50yr PWLB rate	4.05%	3.95%	3.95%	4.05%	4.05%	4.15%	4.15%	4.25%

UBS Economic interest rate forecast (for quarter ends) – 15 January 2007

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008
Bank rate	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
10yr PWLB rate	4.85%	4.80%	4.80%	4.80%	4.80%	4.80%	4.80%	4.90%
25yr PWLB rate	4.25%	4.25%	4.25%	4.30%	4.35%	4.40%	4.45%	4.55%
50yr PWLB rate	4.15%	4.15%	4.25%	4.35%	4.40%	4.45%	4.55%	4.65%

2. SURVEYS OF ECONOMIC FORECASTS

HM Treasury – January 2007 (pre Bank Rate increase of 11 January 2007) summary of forecasts of 26 City and 14 academic analysts for the fourth quarter of 2006 and 2007. (2008 – 2010 are as at November 2006 but are based on 18 forecasts)

	bank rate actual	Quarter ended		annual average bank rate		
		Q4 2006	Q4 2007	ave. 2008	ave. 2009	ave. 2010
Indep. forecasters BoE Bank Rate	5.00%	4.96%	4.89%	4.86%	4.88%	4.85%
Highest bank rate	5.00%	5.00%	6.00%	5.90%	5.60%	6.10%
Lowest bank rate	5.00%	4.50%	4.00%	3.75%	4.00%	4.00%

Glossary of Terms

Authorised Limit - This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, with some headroom for unexpected movements.

Bank Rate – the rate at which the Bank of England offers loans to the wholesale banks, thereby controlling general interest rates in the economy.

Counterparty – one of the opposing parties involved in a borrowing or investment transaction

Credit Rating – A qualified assessment and formal evaluation of an institution's (bank or building society) credit history and capability of repaying obligations. It measures the probability of the borrower defaulting on its financial obligations, and its ability to repay these fully and on time.

Discount – Where the prevailing interest rate is higher than the fixed rate of a long-term loan, which is being repaid early, the lender can refund the borrower a discount, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender is able to offer the discount, as their investment will now earn more than when the original loan was taken out.

Fixed Rate Funding - A fixed rate of interest throughout the time of the loan. The rate is fixed at the start of the loan and therefore does not affect the volatility of the portfolio, until the debt matures and requires replacing at the interest rates relevant at that time.

Gilts - The loan instruments by which the Government borrows. Interest rates will reflect the level of demand shown by investors when the Government auctions Gilts.

High/Low Coupon – High/Low interest rate

Liquidity – The ability of an asset to be converted into cash quickly and without any price discount. The more liquid a business is, the better able it is to meet short-term financial obligations.

Market - The private sector institutions - Banks, Building Societies etc.

Maturity Profile/Structure - an illustration of when debts are due to mature, and either have to be renewed or money found to pay off the debt. A high concentration in one year will make the Council vulnerable to current interest rates in that year.

Monetary Policy Committee – the independent body that determines Bank Rate.

Operational Boundary – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the Authorised Limit is not breached.

Premium – Where the prevailing current interest rate is lower than the fixed rate of a long-term loan, which is being repaid early, the lender can charge the borrower a premium, the calculation being based on the difference between the two interest rates over the remaining years of the loan, discounted back to present value. The lender may charge the premium, as their investment will now earn less than when the original loan was taken out.

Prudential Code - The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

PWLB - Public Works Loan Board. Part of the Government's Debt Management Office, which provides loans to public bodies at rates reflecting those at which the Government is able to sell Gilts.

Specified Investments - Sterling investments of not more than one-year maturity. These are considered low risk assets, where the possibility of loss of principal or investment income is very low.

Non-specified investments - Investments not in the above, specified category, e.g., foreign currency, exceeding one year or outside our minimum credit rating criteria.

Variable Rate Funding - The rate of interest either continually moves reflecting interest rates of the day, or can be tied to specific dates during the loan period. Rates may be updated on a monthly, quarterly or annual basis.

Volatility - The degree to which the debt portfolio is affected by current interest rate movements. The more debt maturing within coming the year and needing replacement, and the more debt subject to variable interest rates, the greater the volatility.

Yield Curve - A graph of the relationship of interest rates to the length of the loan. A normal yield curve will show interest rates relatively low for short-term loans compared to long-term loans. An inverted Yield Curve is the opposite of this.

**MANCHESTER CITY COUNCIL
REPORT FOR RESOLUTION**

COMMITTEE EXECUTIVE
FINANCE & GENERAL PURPOSES COMMITTEE

DATE 14 FEBRUARY 2007
26 FEBRUARY 2007

SUBJECT HOUSING REVENUE ACCOUNT BUDGET 2007/08 –
2009/10

REPORT OF THE DIRECTOR OF HOUSING SERVICES AND
THE CITY TREASURER

PURPOSE OF REPORT

To present details of the proposed Housing Revenue Account (HRA) budget for 2007/08.

RECOMMENDATIONS

The Committee is requested to:

- (a) Note the context for the Housing Revenue Account and the related budget and service issues.
- (b) Approve the Housing Revenue Account Budget 2007/08 as presented in Appendix 1.

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BACKGROUND DOCUMENTS

Budget guidelines issued by the City Treasurer
CLG Housing Revenue Account Subsidy Circulars
Executive Report 15 February 2006 – Housing Revenue Account Budget 2006/07 – 2008/09
Executive Report 28 June 2006 – Final Out-turn of the Housing Revenue Account 2005/06

WARDS AFFECTED

ALL

IMPLICATIONS FOR:

ANTI POVERTY	YES
EQUAL OPPORTUNITIES	NO
ENVIRONMENT	YES
EMPLOYMENT OPPORTUNITIES	NO

1. INTRODUCTION

1.1 The Housing Revenue Account budget represents the cost of managing and maintaining the Manchester Housing stock of some 35,000 homes, as at the start of the period, and should, as a statutory requirement, balance taking one year with another. Alongside this requirement to balance are two ongoing pressures that continue to be addressed in the budget strategy for this current year as in last years budget. These pressures are:-

- The need to respond to the Government's Rent Convergence Policy; and
- To need to meet the decent homes national PSA target.

2. STATUTORY DUTIES IN DETERMINING THE HRA STRATEGY

2.1 Section 76(2) of the Local Government and Housing Act 1989, sets out the main duty placed on the Council in relation to the keeping of the HRA and provides that the Council must formulate proposals in respect of HRA income and expenditure for the financial year which, on the best assumptions and estimates that the Council is able to make at the time, ensure that the HRA does not show a debit balance.

2.2 Under S74 of the local Government and Housing Act 1989, the Council, as a Local Housing Authority, is required to keep a Housing Revenue Account in accordance with proper practices. The Council has the responsibility to determine a strategy that is designed to ensure that the HRA is in balance taking one year with another. In doing so, they should take into account the following issues:

- The need to determine rent levels for 2007/08 having regard to the obligations placed on the Council to set rents at reasonable levels (Section 24 of the Housing Act 1985) and the introduction in 2002 of the Government's policy on rent restructuring for social housing. The Government policy has been reviewed and as a result the target rent levels have been amended. This budget takes account of the revised targets.
- The need to pursue sound accounting practices.

2.3 Since 1 April 1990, under the provisions of the Local Government and Housing Act 1989, the Housing Revenue Account has been ring-fenced. This means that it must, in general, now balance on a year-to-year basis, so that the costs of running the Housing Service, in terms of debt charges and management and maintenance expenditure, must be met from income for the account in any given year. The main source of income, other than rent, is government subsidy, which is computed from the notional HRA, comprising the government's view of expenditure that an Authority should have, and the level of rents that should be set. The HRA is therefore reliant on the Government's subsidy rules. These rules now require authorities to achieve target rents as determined by social rent reform before 2011/12.

3. PROGRESS AGAINST THE BUDGET STRATEGY 2006/07

3.1 The budget strategy that set 2006/07 was based on a lower than inflation rent increase for that year to progress towards the Government's rent convergence target whilst maintaining service and investment levels. The strategy made certain assumptions:-

- efficiency savings
- a reduction in revenue contributions to the capital programme (RCCO)
- application of a prudent strategy for the use of SATMAN reserves.

3.2 Changes to the Housing Investment Strategy programme, has caused some variances to budget in terms of rental income, repairs and maintenance and subsidy allowances, however, mostly to a neutral effect. Additional unbudgeted costs arising from the outcome of job evaluation, equal pay implementation and the inability to capitalise some salary costs on audit guidance, have been offset by a reduction in the amount to be provided to meet bad debts leaving a forecast out-turn for 2006/07 in line with that committed at budget approval stage.

4. BUDGET STRATEGY 2007/08 – 2009/10

4.1 The resource implications of the Budget Strategy are displayed in detail within Appendix 1. The table shows statutory compliance in that a credit balance is forecast at the end of each year within the strategy period. A credit balance is necessary in order to protect the Council from future risk e.g. a reduction in the level of housing subsidy. The budget year 2007/08 is in line with the Final Determination issued by CLG

4.2 As can be seen, during the budget year 2007/08, there is an excess of expenditure over income of some £0.338 million during the budget year thereby decreasing the HRA general reserve and leaving a surplus balance of some £0.552 million at 31 March 2008. This is against a background of a particularly adverse housing subsidy determination.

4.3 Following the final repayment of the SATMAN loan in 2006/07 a “surplus” will be generated during 2007/08. The 2006/07 budget strategy proposed to use this opportunity to make payments into the reserves of existing PFI schemes in order to mitigate the pressure on the HRA moving forward. It is proposed, therefore, to make these planned payments into the heating PFI scheme and the Ardwick PFI scheme of £2m and £3m respectively in 2007/08 with a further £4m for Ardwick PFI in 2008/09 and £1m in 2009/10. This strategy will eliminate the need for the HRA to fund payments above those provided through subsidy. This proposal will therefore assist in securing the long term funding of the housing role within the City Council by minimising calls upon the resources of the HRA.

4.4 A small surplus balance is budgeted for 31 March 2009 that will provide for any unforeseen issues arising following divestment of the stock under the Housing Investment Programme. The key budget strategy principles are as follows:-

Rent Levels

4.5 Progress towards the rent restructuring targets by 2012 continues. In 2006/07 the CLG implemented changes, “target” rent should be based on the Registered Social Landlord formula as opposed to the previous Local Authority formula. The implications of this proposed changed “target rent” are that we need to have rent increases higher than under the previous basis to achieve the target rent by 2012.

4.6 The CLG guidance for 2007/08 for rent restructuring include the restricting of individual property rents from increasing by more than RPI (3.6% for 2007/08) +0.5% + £2.00. They also restrict the overall average property rent from being increased by more than 5%. If an authorities rents need to be increased by more than 5% to reach convergence, then CLG will cap the actual increase to 5%, but pay the authority the difference of the rent loss via

subsidy. However, should the rent increase not follow the CLG's methodology on rent restructuring, the excess payments via subsidy of any rent loss due to the restriction of the 5% cap is foregone.

- 4.7 Inflation has climbed substantially over the last year. The formula/target rent, based on current inflation levels, has increased leading to a steeper convergence line. This has had an adverse effect on the HRA with lower net subsidy entitlement as management and maintenance allowances have increased by a lower amount. This will require efficiency savings to be made above those required for reductions in activity.
- 4.8 If the CLG guidance on rent restructuring is adopted, the average rent increase in 2007-08 would be below 5% rule and will enable Manchester to reach convergence by 2012. Compliance with the CLG guidance will also give access to subsidy compensation should rents be capped at 5% in future years.
- 4.9 The rents could be increased at a flat rate of 5%, the capped limit, which would ease the pressure on the HRA management costs and also bring the rents closer to convergence. This approach would not be in line with current convergence guidelines which could jeopardise our ability to claim back any rent loss over 5% in future years.
- 4.10 Housing Services are currently preparing the offer documents to tenants in preparation for transfer ballots. The "offer" on rents is that increases in the future will be in line with government rent convergence instructions. If we were to adopt a rent increase lower than CLG guidance, the successor organisations would face difficulties in adhering to the rent promises made in the offer documents
- 4.10 Should actual rents not achieve the target then the HRA potentially will go into deficit.

Total Management Costs

- 4.11 The management costs, shown in the appendix, include the estimates of the cost of the Management Agreement for management and maintenance by the ALMO. Corresponding reductions can be found within the Maintenance and Repair provisions when compared with previous years. These costs include a reduction of 5% in costs to make the efficiency savings referred to above.

Housing Investment Strategy

- 4.12 Overall the City requires some £1.1 billion over the period to 2010/11 to bring the Manchester Housing homes to a good standard and maintain them to meet the "decent homes" national PSA target. Whilst the interim PSA target of one third of our homes achieving the standard by 2004 was achieved, the long term PSA target cannot be delivered on traditional resources alone and, as such, the Housing Investment Strategy has been initiated and is progressing. This budget strategy reflects the programme of -
- The successful completion in Dec 2005 of the transfer of management to Northwards Housing Trust of some 13,000 properties in the north area. Also, the successful completion in October 2006 of the transfer of the West Wythenshawe estates, 6,000 properties, to Parkway Green Housing Trust.
 - During the budget year 2007/08, the south estates are planned to transfer, subject to ballot, to Southway Housing Trust in the autumn of 2007. Whilst the two remaining

stock transfers of the estates within the inner south and east areas are planned to transfer in the spring and summer of 2008 respectively, subject to ballot.

- The commercial/financial close of the Miles Platting PFI is scheduled in February 2007.
- The completion dates for the Collyhurst and Brunswick PFIs are planned for the Autumn of 2010.
- Stock transfer of small estates - mainly overspill estates, to existing Registered Social Landlords will be ongoing through this budget period

Cost of Pay Award

- 4.13 The cost of implementing the outcome of the job evaluation will put pressure on all services until the level of pay protection starts to impact. However, this cost has been funded without detriment to the services. Similarly anticipated the requirement to increase the Council's contribution to the pension scheme has been provided for and contained within existing resource levels. In preparing this budget strategy, the general level of inflation assumed for planning purposes corporately has been incorporated.

Housing Subsidy Grant

- 4.14 Housing Subsidy Grant is delivered on an annual basis. Whilst the budget is based on the recently issued Subsidy Determination there is no certainty beyond this in either formula or resources allocated. The forward strategy, beyond the budget year, is based, on the assumption of 2.5% i.e. lower than that arising within the latest determination

Revenue Contribution to Capital Outlay (RCCO)

- 4.15 Those elements of maintenance spend that are complementary to the capital programme will continue to be managed as part of that budget and a provision of £200k exists within the budget year 2007/08 and nil thereafter.

5. CONCLUSION

- 5.1 The proposals contained in this report will ensure service delivery and investment is maintained. The small surplus in each year of less than 1% of expenditure is available to deal with unforeseen issues which may arise over this period of considerable change within the HRA. In the context of future restrictions on the HRA the recommendations will help secure HRA services for several years to come.
- 5.2 Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the HRA does not result in a debit balance. The proposed budget for 2007/08 and the two following years, displayed in Appendix 1, shows this provision being met.

Housing Revenue Account 2007/08 – 2009/10 Based on Rent Convergence

	2007/08 Budget £000s	2008/09 Plan £000s	2009/10 Plan £000s
Expenditure			
Management Costs (inc ALMO Mangt Fee)	73,998	52,460	51,592
Chief Rents	120	30	30
Contributions to Bad Debts	901	534	503
Maintenance and Repairs	16,522	2,911	449
Depreciation	33,223	17,722	11,734
Debt Management Expenses	583	392	295
Total Expenditure	125,347	74,049	64,603
Income			
Rental Income	89,578	53,150	49,979
Other Income -contributions	30,457	21,239	21,244
Other Income -service charges	6,324	4,745	1,557
Major Repairs Allowance	17,253	8,911	7,416
Housing Subsidy	2,455	-1,521	-4,383
Total Income	146,067	86,524	75,813
NET COST OF SERVICES - (-) = cost	(-) 20,720	(-) 12,475	(-) 11,210
Interest charges (from 07-08)	27,907	14,098	11,474
MRA/Depreciation adjustment	-15,970	-8,810	-4,318
HRA Investment Income / Mortgage Interest	-514	-514	-514
Amortised Premia (net of discount)	4,435	3,657	3,657
	15,858	8,431	10,299
NET OPERATING EXPENDITURE	(-)4,862	(-)4,044	(-)911
Appropriations			
RCCO	200	0	0
Contributions to the PFI Reserve	5,000	4,000	1,000
	5,200	4,000	1,000
Net call on/addition to(-) HRA Reserve	338	(-) 44	89
BALANCE B/F - (credit balance)	(890)	(552)	(596)
BALANCE C/F - (credit balance)	(552)	(596)	(507)

In addition to the general reserves the HRA holds reserves in respect of the HRA PFI schemes to smooth the costs over the life of the contracts and for potential residual liabilities following divestment. These are expected to stand at the end of 2007/08 at £22.4M and £3M respectively.