

**MANCHESTER CITY COUNCIL**

**REPORT FOR RESOLUTION/INFORMATION**

**COMMITTEE:** EXECUTIVE  
RESOURCE AND GOVERNANCE OVERVIEW AND  
SCRUTINY COMMITTEE  
CITY COUNCIL

**DATE:** 13th FEBRUARY 2008  
26th FEBRUARY 2008  
5th MARCH 2008

**SUBJECT:** LEGAL BACKGROUND TO SETTING OF BUDGET AND  
COUNCIL TAX

**REPORT OF:** THE CHIEF EXECUTIVE AND THE CITY SOLICITOR

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**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

Part 8 deals with the respective roles of the Executive, the Overview and Scrutiny committee, and the Council.

Part 9 deals with restrictions on voting for members with Council tax arrears.

## **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 2008/09.

### **Financial Consequences for the Revenue Budget**

The calculation of the budget requirement effectively sets the revenue budget for 2008/09.

### **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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## **BACKGROUND DOCUMENTS**

Report to City Treasurer and Executive Member for Finance and Human Resources and Decision of the City Treasurer on the Council Tax Base 2008/09 dated 25 January 2008.

**Wards affected:** All

### **Implications for:**

<b>Anti-poverty</b>	<b>Employment</b>	<b>Equal Opportunities</b>	<b>Environment</b>
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:-
- (a) The Council must act in accordance with its statutory duties and responsibilities.
  - (b) The Council must act reasonably.

- (c) 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 is no longer financed through RSG, NNDR and council tax, but rather through a ring-fenced Dedicated School Grant (DSG). Schools expenditure calculated under Section 32 (2)(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 overspending. 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 2007/08 was £432.317m.

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 interest 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 responsibility 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 2008/09 to be 118,844, an increase from 115,368 in 2007/08.

#### 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. **RESTRICTIONS ON VOTING**

- 9.1 Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992, which applies to members where -
- (a) they are present at a meeting of the Council, the Executive or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months, and
  - (b) any budget or council tax calculation, or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

9.2 In these circumstances, any such members shall at the meeting and as soon practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter in 9.1 (b) above. It should be noted that such members are not debarred from speaking on these matters.

9.3 Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

10. **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 2008/09.

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 13th February 2008 be [approved/amended as follows .....]
2. That it be noted that the City Treasurer acting under delegated powers has determined the amount of [118,844] as the Council Tax base for Manchester for the year [2008/09] 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 [2008/09] 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 [2008/09] 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 [2008/09] 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 [2008/09] for each of the categories of dwellings shown below.

Valuation bands

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

**MANCHESTER CITY COUNCIL**

**REPORT TO EXECUTIVE**

**REPORT FOR RESOLUTION**

**DATE:** 13 FEBRUARY, 2008

**SUBJECT:** MEDIUM TERM FINANCIAL PLAN 2008/9 TO 2010/11 AND REVENUE BUDGET 2008/9, THREE YEAR CAPITAL PROGRAMME 2008/9 TO 2010/11 (INCLUDING CAPITAL STRATEGY AND 2007/8 CAPITAL MONITORING UPDATE), AND TREASURY MANAGEMENT STRATEGY STATEMENT & BORROWING LIMITS AND ANNUAL INVESTMENT STRATEGY 2008/9.

**REPORT OF:** CITY TREASURER AND CHIEF EXECUTIVE

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**PURPOSE OF REPORT**

The report presents for members approval:

- The Medium Term Financial Plan for the 3 years 2008/9 to 2010/11
- The Revenue budget for 2008/9
- The three year Capital Programme 2008/9 to 2010/11 (including the Capital Strategy and 2007/8 capital monitoring update)
- 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 2008/9 to 2010/11 and Revenue Budget 2008/9**

1. Note the results of the final RSG settlement for Manchester for the three years 2008/9 to 2010/11.
2. Note the outcome of the budget consultation process (summary of responses shown in appendix 7 – full responses are available to members if they wish to see them and a copy will be available at the meeting).

3. Approve the three year Medium Term Financial Plan as described in the report and summarised in the table in paragraph 8.5 of the report, having regard to the Treasurer's view on the robustness of the estimates and the adequacy of reserves.
4. As part of the Medium Term Financial Plan approve the proposed budget for 2008/9 as final and the budgets for 2009/10 and 2010/11 as indicative subject to review on an annual basis as part of future financial planning processes.
5. As part of the Medium Term Financial Plan, specifically approve the following:
  - a. the contingency sum of £12.229m in 2008/9, with indicative sums of £12.494m in 2009/10 and £11.547m in 2010/11
  - b. Departmental Cash Limit Budgets (before MIP savings) totaling £394.973m for 2008/9 and indicative departmental budgets of £403.439m and £408.152m for 2009/10 and 2010/11 (as identified in Appendix 1)
  - c. Corporate Budget requirements to cover the cost of levies (excluding the WDA levy included in the departmental cash limits above) and Capital Financing Costs of £75.788m for 2008/9 with indicative sums of £81.228m in 2009/10 and £87.297m for 2010/11 (as outlined in paragraphs 3.3 and 3.5 of this report subject to final notification of Levies from other bodies)
  - d. The utilisation of the SIF in 2008/9 as proposed in paragraph 10.7 and 10.8 including agreeing that notification be given to Heads of Service that SIF funding cannot be guaranteed for existing SIF projects after 2008/9 pending the review of projects covered by the Area Based Grant and SIF funding.
6. Approve the proposed utilisation in 2008/9 of £2.437m (as per paragraphs 2.2.6 to 2.2.8) 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.
7. Note the position on reserves as identified in the report and in Appendix 6 subject to the final call on reserves after any changes are required to account for final levies etc.
8. 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 2008 and throughout 2008/9.
9. Approve the list of corporate growth proposals as detailed in paragraph 5.2 and summarised in the table at paragraph 5.3 in principle only and

subject to on-going corporate assessment of value for money and impact on corporate priorities.

10. Approve the reallocation of monies generated by the Revenue and Benefits Service through reduced fraud and error and the prompt collection of overpayments within the Revenue and Benefits Service as detailed in paragraphs 5.6 and 5.7.
11. 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 and any final changes to account for final announcements on levies and other small technical adjustments.
12. Approve the target trading surpluses and deficits for the trading services in 2008/9 as outlined in section 13 of the report including the elimination of the requirement for Manchester Fayre to make a rate of return as discussed in paragraph 13.2 of the report (note that budget sufficient to meet the net target losses on trading activities has been included in contingency).
13. Ask the Chief Executive and City Treasurer, in consultation with the Leader of the Council and Executive Members for Finance and Human Resources, Neighbourhood Services, Environment and Arts and Leisure to identify appropriate spend from within existing budgets at ward level for Environmental Services, Street Scene Services and Leisure Services and to bring forward a scheme to Executive in the early part of the coming financial year to complement CASH Grants to enable that spend to reflect local neighbourhood level priorities identified through Ward Co-ordination arrangements.
14. Approve the Prudential Indicators for 2008/9 to 2010/11 as presented in Appendix 5 subject to any final adjustments that may be made arising from recommendations above (note, recommendation 1 of the Treasury Management report also seeks approval to these indicators).

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 2009/10 and 2010/11 on an annual basis as part of a three year rolling budget programme to take account of potential changes to needs and / or resources.

## **Annex 2 - Three Year Capital Programme 2008/9 to 2010/11 (including Capital Strategy and 2007/8 capital monitoring update)**

1. Note that the capital strategy has been updated and to agree the amended version as presented in Appendix D
2. Note that the latest estimate of capital outturn for 2007/08 is £280,424,000
3. Note the capital programme report as presented.
4. Agree to reserving resources £9,550,000 towards proposals outlined in paragraph 9 "Treatment of Resources" and to request that the City Council delegate authority to the Executive to increase the capital budget by up to £9,550,000 subject to the Executive receiving and agreeing the detail of further reports on these proposals.
5. Recommend to the City Council for approval the three year capital programme 2008/09 to 2010/11 as presented in Appendix C
  - a) Noting that government have yet to confirm the level of resources available to the housing programme from the Regional Housing Pot and
  - b) Agreeing that the housing programme is subject to the confirmation by the City Treasurer in consultation with the Executive Member for Finance and Human Resources as to its affordability following government's announcement of Regional Housing Pot resource allocations.
  - c) Noting that the resources available for transport will to be top sliced by an amount (as yet unspecified) to provide a contribution for Metrolink provision and that the transport capital programme will be reduced accordingly.
6. Delegate authority to;
  - (a) The Chief Executive in consultation with the Leader and Executive Member for 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 Environment on the final details and estimated costs.
7. To approve unsupported borrowing of up to £15,000,000 in 2008/09 and a further £5,000,000 in each of the two following years for spend to save proposals where the cost of borrowing (interest and principal repayment in full) for each project can be financed from additional income and / or

savings within existing revenue budget limits for the lifetime of the loan period.

8. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to add qualifying spend to save projects to the capital budget accordingly.
9. Delegate authority to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources to accelerate schemes when necessary from 2009/10 to 2008/09 subject to resource availability.
10. 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.
11. 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.
12. 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 2008/09 to 2010/11 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project.
13. That authority be delegated to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget for the Cheetham District Centre public realm works, and the Powerhouse project (see paragraph 16 of this report) subject to affordable funding packages being identified to enable the delivery of each project.

### **Annex 3 - Treasury Management Strategy Statement & Borrowing Limits and Annual Investment Strategy 2008-09**

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

1. The Prudential Indicators referred to in section 3 and listed in Appendix 5 to Annex 1 of this report.
2. The Borrowing Requirements listed in section 5.
3. The Borrowing Strategy outlined in section 7.
4. The MRP Strategy outlined in section 10.
5. The Annual Investment Strategy detailed in section 11.

#### **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 in consultation with the Chief Executive and 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 2008/9 to 2010/11 and a draft revenue budget for the Council for 2008/9. It also seeks approval to a revised capital strategy, a three year capital programme for 2008/9 to 2010/11 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.

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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

## Covering Report

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 have now introduced three year financial settlements for Councils (the current settlement is for the years 2008/9 and 2010/11). Although the new three years settlement has brought a degree of stability to the budget projections for future years the Executive are asked to approve the Medium Term Financial Plan on the basis that years 2 and 3 are indicative and subject to review through the annual budget process.
4. The Annexes and appendices to the report are presented in the following order:
  - **Annex 1** – Medium Term Financial Plan 2008/9 to 2010/11 and Revenue Budget 2008/9  
Appendices to Annex 1:
    1. Departmental Business Plan Budget Totals (Summary)
    2. List of Departmental Budget Pressures
    3. List of Departmental Options for Savings
    4. List of Growth Proposals
    5. List of Prudential Indicator's
    6. List of specific reserves

7. Feedback from Budget Consultation exercise

- **Annex 2 – Three Year Capital Programme 2008/9 to 2010/11**  
(including Capital Strategy and 2007/8 capital monitoring update)
  - 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
  
- **Annex 3 - Treasury Management Strategy Statement & Borrowing Limits and Annual Investment Strategy 2008-09**
  - Appendix A Interest Rate Forecasts
  - Appendix B Glossary of terms

5. Each annex contains a list of detailed recommendations which are listed at the front of this covering report 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.

# ANNEX 1

## Medium Term Financial Plan 2008/9 to 2010/11 And Revenue Budget 2008/9

### Purpose of Report

To seek members approval to the Medium Term Financial Plan for 2008/9 to 2010/11 including the approved revenue budget for 2008/9 and indicative revenue budgets for 2009/10 and 2010/11. To inform members of the responses received to the budget consultation process, and to report for approval of members the Prudential Indicators for 2008/9 to 2010/11.

### Recommendations

The Executive is recommended to:

1. Note the results of the final RSG settlement for Manchester for the three years 2008/9 to 2010/11.
2. Note the outcome of the budget consultation process (summary of responses shown in appendix 7 – full responses are available to members if they wish to see them and a copy will be available at the meeting).
3. Approve the three year Medium Term Financial Plan as described in the report and summarised in the table in paragraph 8.5 of the report, having regard to the Treasurer's view on the robustness of the estimates and the adequacy of reserves.
4. As part of the Medium Term Financial Plan approve the proposed budget for 2008/9 as final and the budgets for 2009/10 and 2010/11 as indicative subject to review on an annual basis as part of future financial planning processes.
5. As part of the Medium Term Financial Plan, specifically approve the following:
  - a. the contingency sum of £12.229m in 2008/9, with indicative sums of £12.494m in 2009/10 and £11.547m in 2010/11
  - b. Departmental Cash Limit Budgets (before MIP savings) totaling £394.973m for 2008/9 and indicative departmental budgets of £403.439m and £408.152m for 2009/10 and 2010/11 (as identified in Appendix 1)
  - c. Corporate Budget requirements to cover the cost of levies (excluding the WDA levy included in the departmental cash limits above) and Capital Financing Costs of £75.788m for 2008/9 with indicative sums of £81.228m in 2009/10 and £87.297m for 2010/11

(as outlined in paragraphs 3.3 and 3.5 of this report subject to final notification of Levies from other bodies)

- d. The utilisation of the SIF in 2008/9 as proposed in paragraph 10.7 and 10.8 including agreeing that notification be given to Heads of Service that SIF funding cannot be guaranteed for existing SIF projects after 2008/9 pending the review of projects covered by the Area Based Grant and SIF funding.
6. Approve the proposed utilisation in 2008/9 of £2.437m (as per paragraphs 2.2.6 to 2.2.8) 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.
  7. Note the position on reserves as identified in the report and in Appendix 6 subject to the final call on reserves after any changes are required to account for final levies etc.
  8. 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 2008 and throughout 2008/9.
  9. Approve the list of corporate growth proposals as detailed in paragraph 5.2 and summarised in the table at paragraph 5.3 in principle only and subject to on-going corporate assessment of value for money and impact on corporate priorities.
  10. Approve the reallocation of monies generated by the Revenue and Benefits Service through reduced fraud and error and the prompt collection of overpayments within the Revenues and Benefits Service as detailed in paragraphs 5.6 and 5.7.
  11. 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 and any final changes to account for final announcements on levies and other small technical adjustments.
  12. Approve the target trading surpluses and deficits for the trading services in 2008/9 as outlined in section 13 of the report including the elimination of the requirement for Manchester Fayre to make a rate of return as discussed in paragraph 13.2 of the report (note that budget sufficient to meet the net target losses on trading activities has been included in contingency).

13. Ask the Chief Executive and City Treasurer, in consultation with the Leader of the Council and Executive Members for Finance and Human Resources, Neighbourhood Services, Environment and Arts and Leisure to identify appropriate spend from within existing budgets at ward level for Environmental Services, Street Scene Services and Leisure Services and to bring forward a scheme to Executive in the early part of the coming financial year to complement CASH Grants to enable that spend to reflect local neighbourhood level priorities identified through Ward Co-ordination arrangements.
14. Approve the Prudential Indicators for 2008/9 to 2010/11 as presented in Appendix 5 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 2009/10 and 2010/11 on an annual basis as part of a three year rolling budget programme to take account of potential changes to needs and / or resources.

## 1. **Background**

- 1.1 Last 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 have been reviewed and “rolled forward” 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 2009/10 and 2010/11 are subject to review through the annual budget and business planning process.
- 1.2 The Comprehensive Spending Review (CSR 2007) issued in October 2007 made it clear that the grant settlement for the coming three years would be tighter than in recent years (the details of the CSR were reported to Executive on 24 October 2007). Partly in anticipation of this and partly to free up resources to invest in key priority areas, Heads of Services not subject to priority Service Improvement Projects (SIP's) under the Manchester Improvement Programme (MIP) were requested to identify options for savings over the three year period 2008/0 to 2010/11 equalling 10% of their net cash limit budgets (in some services that have a high level of self generated income, the target was set higher, nearer to 10% of their gross expenditure).
- 1.3 This has led to some £28.3m of mainstream budget savings being identified by Heads of Service over the next three years (£11.072m in 2008/9) on top of the anticipated savings to be achieved through the MIP (more details of which are included in section 3.2 of this report). This will enable a range of new investments in services.
- 1.4 The provisional RSG settlement, whilst slightly better for Manchester than had been anticipated based on the CSR 2007 (settlement details reported to Executive on 19 December, 2007), still led to an overall settlement for Manchester across the next three years which will be less generous than in previous years.
- 1.5 The remainder of this report informs Executive of the outcome of the business and budget planning process in light of the final RSG settlement announcement and recommends to members a medium term financial plan for 2008/9 to 2010/11, a budget for 2008/9 and indicative budgets for 2009/10 and 2010/11.

## **2. Resources available based on final settlement**

### **2.1 Government Resources 2008/9**

#### ***General Grant (RSG)***

2.1.1 On 24 January 2008 the Government announced its final RSG settlement for the three years 2008/9 to 2010/11. When the provisional settlement was reported to Executive it was agreed that the City Treasurer be authorised to prepare a response to the RSG consultation process. A response was made which identified concerns over the assumed future level of growth in Manchester's Council Tax Base as it was felt that the calculation was flawed. This was also explained in a meeting with the Minister. This apparent flaw, however, has not been adjusted in the final settlement which has actually changed little from the provisional settlement announced on the 6 December 2008. The final settlement shows that Manchester will lose grant of £79,000 in 2008/9, £102,000 in 2009/10 and £106,000 in 2010/11 when compared to the provisional announcement.

2.1.2 The final Grant settlement for the next three years as per the final settlement will therefore be:

2008/9	£328,087,000
2009/10	£336,051,000
2010/11	£342,438,000

2.1.3 These figures do not include monies that will be received from external funding streams including Housing Market Renewal Fund (HMRF) and the new Area Based Grants (including the new Working Neighbourhoods Fund – WNF). Further details of the Area based Grant is contained below.

#### ***Dedicated Schools Grant***

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 2007/8 was £272.581m. In November the DfES announced an indicative DSG figure for 2008/9 of £284.7. 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 for 2008/9 is £280.1m, substantially lower than the announced settlement figure. 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. The final DSG grant will not be confirmed by the DfES until May/June so DSG budgets are currently being formulated based on our

own estimates of pupil numbers as this is considered a more likely option than the higher announced settlement figure.

**Area based Grants (including Working Neighbourhoods Fund)**

2.1.5 The government has given a commitment to reduce the level of ring fencing from its funding streams and has created the Area Based Grant. This grant is made up from a range of what were previously specific grants and also now includes the new Working Neighbourhoods Fund (WNF – the replacement for the Neighbourhood Renewal Fund - NRF). This will provide us with much greater flexibility to allocate these resources to Manchester priorities. Further details of the Area based Grant and proposals for its use are contained in section 6 later in this report.

**2.2 Other Resources**

**Council Tax:**

2.2.1 The budget for 2007/8 included budgeted Council Tax receipts of £126.394m from a tax base of 115,368 band D equivalent properties (assuming a 98% collection rate). The Council is experiencing steady growth in the tax base of the city and it is estimated that we should achieve growth of 3% in 2008/9 moving the band D equivalent tax base to 118,844. A more prudent assumption on future growth of 1% is currently being assumed for 2009/10 and 2010/11. The Collection Fund is expected to be in surplus at the end of 2007/8 and this is built into the resource projection for 2008/9.

2.2.2 Currently CPI is running at 2.1%, headline RPI is at 4%, and RPIX is 3.1%. An increase in the Council Tax in each year 2008/9 to 2010/11 would yield the following additional Council Tax receipts:

<b>Council Tax Increase</b>	<b>2008/9 £'000</b>	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>
2%	2,544	5,192	7,943
2.5%	3,180	6,505	9,977
3%	3,816	7,824	12,031
3.5%	4,452	9,150	14,106

2.2.3 In line with the Council's commitment to keep Council Tax below inflation it has been assumed for planning purposes that a 2.5% increase in Manchester's Council Tax be considered in 2008/9 (with an indicative increase of a further 2.5% in each of the next two years). This would mean that estimated Council Tax receipts over the next 3 years would be:

	£'000
2008/9	132,383
2009/10	135,980
2010/11	139,738

***Dividends:***

2.2.4 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:

	2008/9 £'000	2009/10 £'000	2010/11 £'000
Airport	3,960	3,870	4,040
Parking Joint Venture	1,500	1,500	1,500
<b>Total</b>	<b>5,460</b>	<b>5,370</b>	<b>5,540</b>

The figure for 2008/9 includes a £250,000 one off additional budget contribution. Airport dividends not required to support the Revenue Budget are transferred into the Capital Fund.

***Trading Reserves:***

2.2.5 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 2008/9 are contained in section 13 of the report. An amount to meet estimated trading losses has been included within contingency.

***Parking Reserve***

2.2.6 In 2007/8 it is estimated that a sum of £1.869m will be paid into the Parking reserve from the surplus from on street parking. 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 £2.484m will be utilised from the reserve in 2007/8 to fund environmental improvements and transport related projects in line with the budget

approval for 2007/8. This means that the balance on the reserve at 31 March 2008 is expected to be £2.465m.

- 2.2.7 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:

	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
- support for Metro shuttle	337	345	353
- highway and environmental improvements	2,100	2,147	2,195
Total calls on reserve	<u>2,437</u>	<u>2,492</u>	<u>2,548</u>

This represents a continuation of the works agreed as part of previous budget processes.

- 2.2.8 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. Based on existing estimates there will be sufficient in the reserve to meet these costs over the next three years.

### **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 2007/8 can be summarised as:

	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Government Support	328,087	336,051	342,438
Council Tax receipts	132,383	135,980	139,738
Dividends	5,460	5,370	5,540
Trading Reserves	0	0	0
Parking Reserves	2,437	2,492	2,548
Total Resources	<u>468,367</u>	<u>479,893</u>	<u>490,264</u>

- 2.3.2 For the purposes of the above table Area Based Grant resources have been excluded as these are assumed to be at least matched by spend. The Council Tax receipts figures shown above assume an annual 2.5% increase in the Council Tax for Manchester.

### **3. Calls against Resources**

#### **3.1 Departmental Requirements:**

3.1.1 Last year Heads of Service prepared three year business plans for their services covering 2007/8 to 2009/10. As part of this year's budget process they have reviewed these plans and rolled them forward for a further year to cover the three years 2008/9 to 2010/11. The Heads of Service were given cash limit budget targets within which they should formulate their business plans based on the following assumptions:

- 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 3.4 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% a year
- That any specific grants previously received that had been moved into the Revenue Support Grant Settlement would be replaced with mainstream resources covered by the additional RSG received

3.1.2 In addition, in line with the previously approved MTFP, additional budget to meet demand and demographic growth would be made available to Children's Services and Adult Care Services of £6.383m in 2008/9 and £4.23m in 2009/10.

3.1.3 This meant that the planning targets for Departmental spend were originally set at:

2008/9	£394,908,000
2009/10	£409,581,000
2010/11	£413,292,000

3.1.4 In reviewing their business plans Heads of Service have identified further demand led growth and budget pressures that will act upon their budgets over the next three years, these are itemised in Appendix 2. Heads of Service not subject to priority MIP Service Improvement projects (SIPs) were also asked to identify savings options of up to 10% of their adjusted net cash limits over the three year planning period to meet any additional costs from demand growth and budget pressures and release monies for reinvesting in priority services. Heads of Service have identified savings amounting to over £28m over the next three years on top of anticipated MIP savings. The savings are made up of efficiency savings, increased income above inflation and service redesign and are detailed in Appendix 3. The total for each year is:

2008/9	£11,072,000
2009/10	£7,616,000
2010/11	£9,627,000

3.1.5 Heads of Service have identified within their business plan areas where additional funds are required in order to achieve the business plan objectives and improve services. Some services (most notably Children's Services) have identified additional efficiency savings (as listed in Appendix 3) to help meet these growth bids. The growth proposals are listed in Appendix 4.

3.1.6 Including the identified demand growth, other budget pressures, savings options and bids for growth, the total costs of services will be:

2008/9	£394,973,000
2009/10	£403,439,000
2010/11	£408,152,000

Appendix 1 shows the above figures across business plans.

## **3.2 Manchester Improvement Programme**

3.2.1 The Manchester Improvement Programme (MIP) is continuing to undertake reviews of significant service areas with a view to improving efficiency and thereby providing better services whilst making significant savings on budgets. At the inception of the MIP programme target savings to be achieved through a mixture of improved procurement and reviews of major services were assessed at around £50m over three years. All of these savings will benefit the council, however, some savings fall to areas outside of the mainstream General Fund services and as such do not realise actual budget savings that can be utilised to support improved mainstream general fund services (examples are savings accruing to schools, the Housing Revenue Account and trading services). It is assessed that by the end of 2010/11 cumulative savings to support investment in General Fund mainstream services will be achieved of £35m. In 2007/8 it is expected that savings achieved will amount to around £14m and areas for savings in 2008/9 of a further £8m have been identified. To free up this level of savings, however, will require continued robust management action.

3.2.2 The table below identifies the main areas where these savings are expected to accrue in 2007/8 and 2008/9:

<b>PROJECTED SAVINGS</b>	<b>2007/8</b>	<b>2008/9</b>
	<b>£m</b>	<b>£m</b>
Procurement	4.7	7.8
Finance	0.3	1.3
Human Resources	0	0.7
Valuation and Property*	2.25	1.0
Adult Social Care	1.5	3.3
MEP SIP	3.0	3.5
ICT SIP	0.65	1.2
Other SIPs	1.4	3.8
<b>TOTAL SAVINGS</b>	<b>13.8</b>	<b>22.6</b>

\*£1.79m of the savings in Valuation and Property in 2007/8 were achieved through collection of back rental income which will not be repeated in 2008/9. The total target saving from the V&P SIP is £950,000 of which £460,000 has been achieved in 2007/8 leaving an additional £490,000 still to be identified.

3.2.3 In addition to the above the MIP team achieved savings in 2006/7 of £600,000 through improved procurement of stationery across the council and efficiency savings of £1m in MEP. 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.

3.2.4 The total cumulative savings to the General Fund budget expected to be achieved over the next three years from the MIP programme are:

2008/9	£15,482,000
2009/10	£22,722,000
2010/11	£27,558,000

3.2.5 The above figures are based on the amount of MIP savings that have so far been deducted from business plan budgets in 2006/7 and 2007/8. Further savings have been identified in 2007/8 but not yet deducted from budgets, any further budget reductions made in 2007/8 will reduce the balance of MIP savings left to achieve but will also reduce the service budget requirements.

### **3.3 Levies:**

3.3.1 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:

	2008/9 £'000	2009/10 £'000	2010/11 £'000
GM Passenger Transport	27,997	29,817	31,755
Environment Agency	180	187	194
Probation	30	30	30
Magistrates Court	21	21	21
Port Health Authority	70	72	74
Total	28,298	30,127	32,074
GM Waste Disposal*	17,859	19,413	20,287

\* The waste levy is now being administered by Environmental Services and is included within their budget in the summary table below. This is to recognise the impact that the actions of the department in reducing the levels of waste delivered to the WDA will have on the level of future levies which will be tonnage based. It has been identified above to give a complete view of the levies paid.

3.3.2 Final levies for 2008/9 are not yet known but are not expected to differ significantly from the current estimates. The levy figures for the WDA for 2007/8 assumed that the new waste PFI contract would start part way through the year. Due to delays in the WDA finalising the PFI contract the start date of the new contract has been delayed which will lead to savings in the current year that may be passed back to authorities.

### 3.4 Contingency:

3.4.1 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 required contingency amounts for the next three are currently estimated as:

	£m
2008/9	12.229
2009/10	12.494
2010/11	11.547

### 3.5 Capital Financing Costs:

3.5.1 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 met by additional

income). The figures for Capital Financing Costs are currently estimated as, £47.490m for 2008/9, £51.101m for 2009/10 and £53.223m in 2010/11

- 3.5.2 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 initial 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:

	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Resources :</b>			
Government Support	328,087	336,051	342,438
Council Tax receipts	132,383	135,980	139,738
Dividends	5,460	5,370	5,540
Parking Reserves	2,437	2,492	2,548
Total Resources	468,367	479,893	490,264
<b>Calls on resources :</b>			
Departmental Requirements	394,973	403,439	408,152
Corporate Requirements:			
Levies	28,298	30,127	32,074
Capital Financing Costs	47,490	51,101	55,223
Contingency	12,229	12,494	11,547
Less: MIP efficiency savings	(15,482)	(22,722)	(27,558)
Total Call on resources	467,508	474,439	479,438
Surplus of Resources	859	5,454	10,826

- 4.2 Within the above, the figures used for levies in 2008/9 are still subject to final approval and announcement. All the figures contained above for 2009/10 and 2010/11 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 is a growing surplus of resources in each of the next three years even after taking account of budget pressures and the growth bids included within business plans.

## 5. **Proposals for Additional Investment**

### **Investment in Corporate Priorities**

- 5.1 Proposals for investment in corporate priorities have been identified as follows:

#### **Green Agenda / Climate Change**

Manchester Innovation Fund to finance infrastructure and service improvements to significantly reduce carbon emissions and to enable the council to be a leading exemplar in terms of climate change mitigation and adaptation. £1m proposed could be a combination of capital and revenue.

#### **Waste and Recycling**

A report went to the Executive on 23 October 2007 proposing that the Council embark on a sustained and high profile engagement with the residents of Manchester, business and stakeholders to develop with them a coherent set of policies and programmes that balances the changes needed in the behaviour of residents and businesses with the services that the Council should provide to support and enable those changes to take place. The costs identified with this are provisional and will depend on the outcome of the proposed consultation.

#### **Visual Environment Actions**

A figure of £0.5 million would give full impact to this priority, improvements to include use of new technology, investment in the street scene/public realm to improve cleansing efficiencies, testing different ways of working, enhanced street washing, enhanced local centre cleaning staff, public information systems on cleaning schedules and increased sustainable enforcement.

#### **Improvements to Library Services**

Significant progress has been made over the last three years to obtain investment to refurbish or relocate the library building portfolio. Customers increasingly expect modern, vibrant attractive buildings, located at the heart of community hubs, which deliver considerably more than the 'traditional' library offer. Libraries are access points for a range of council services, they are learning centres and Information points. ICT provision is expected as a fundamental part of the service. Much has been achieved through some key partnerships, for example MANCAT and North City Library, and in collaboration with the regeneration teams.

Over the next two to three years there are already several schemes for which the capital funding has been secured, Higher Blackley Library, Beswick NEM Academy, upgrade to the library management system and additional Broadband. However, there is a revenue gap which is detailed in the Library and Information Service business plan. The figures included

above represent an assessment of the cost of bridging the gap excluding the cost of rent at Higher Blackley Library as the potential cost of this is not yet known.

### **Library Refurbishments**

A number of libraries are due to close for works associated with the Asset Management Programme. It is proposed to take the opportunity to also redecorate and refurbish the interiors of these libraries during these closures to enhance the customer experience when the libraries reopen.

### **People Strategy and Corporate Communications Strategy**

In order to take forward the recommendations emerging from the Member / Officer panel review of communications, a strengthened corporate communications function is needed and in particular a role with appropriate seniority to act as the customer champion providing information on resident perceptions and expectations of services to drive the improvement agenda at Executive and SMT. In order to provide effective leadership and co-ordination to communications activity across the council, it is also proposed that the corporate communications team is enhanced with the addition of 2 additional communications officers.

All 2008 – 2011 business plans identify a significant service improvement and transformational change. Effective communication with staff is key to engaging all employees and successfully delivering this change agenda.

Developing the organisational culture is the key focus of the council's People Strategy. Effective communication with and engagement of all the council's workforce is key to developing the culture needed to deliver the Community Strategy.

In addition and as a "one-off" investment it is proposed to upgrade the council's intranet, as a key vehicle for communication with employees. This would enable more extensive use of the intranet by and for staff, and enable the development of networking between staff, improved use of on-line discussion fora, information sharing, blogs etc.

To put in place a new intranet would require a new content management system, potentially to match the one that underpins the council's external website, plus development time to introduce the new hardware and software.

### **Major Sports Events Strategy**

Manchester has played host to a number of Major international sporting events since the 2002 Commonwealth Games. The UEFA Champions League Final, VISA Paralympic World Cup, UEFA Women's Championships and the European Hockey Championships are just a few

of the events to have been supported by the City in the 5 years since the Games. However, not until now has a coordinated Major Sports Event Strategy been developed that takes a long term approach to the identification, bidding and staging of major sports events in the City, an approach which is centred on ensuring that significant social and economic benefits are delivered to Manchester's communities in return for its investment.

At the heart of the strategy is an emphasis on providing opportunities to local residents, schools, clubs, communities and businesses alike. Criteria has been outlined against which decisions on bidding and hosting will be based and major sports events will have to show social and economic returns to the City whilst profiling Manchester as a desirable place to live and visit, to a national and international audience.

Manchester's annual Major Sports Event portfolio requires an investment from the City equating to an average of £1.6m per annum. This commitment both leverages additional public and private funding to support delivery of major sports events in the City and generates significant social and economic benefits as detailed within this document. Indeed it is estimated that the 6 'Manchester World Sport' events in 2008 will generate over £16M of economic impact for the City.

#### **Members IT requirements**

It is proposed to provide Members with improved ICT facilities including PCs and BlackBerry packages to better enable them to communicate with the organisation.

#### **Corporate Property Maintenance**

It has been agreed through discussion with other services that Valuation and Property Services will become the Corporate Landlord for all operational property i.e. property will be owned and managed centrally. This principle has been embedded in the Asset Management Plan. The detail is currently being worked up with services. The Corporate Landlord approach is recognised as best practice by Beacon AMP Authorities and the Audit Commission and will provide a number of key benefits including:

- Better premises for services – premises that are fit for purpose and provide a good physical environment for the delivery of front-line services
- Allowing services to focus on their core business and avoiding duplication and confusion in property management and ensuring a consistent and corporate approach

- More efficient use of the portfolio as a whole giving efficiency savings from reduced revenue costs and capital receipts from the disposal of surplus property
- More strategic overview for the AMP spend programme ensuring capital resources are spent efficiently and appropriately improving the standard and appearance of premises
- Ensuring corporate standards are met including compliance with statutory requirements on fire safety, legionella and asbestos and assisting with policy development and compliance on issues such as DDA and environmental issues

Historically the Departments have spent at below optimum levels to maintain properties and although it is intended to centralise existing budgets it is considered that there will need to be substantial future increases to the maintenance budgets if properties are to be properly maintained and not become a future drain on capital resources. It is proposed to increase the budget by £750,000 per year to start to bridge the budget gap for maintenance. This will be reviewed next year in the light of work to identify and transfer budgets from departments to the central property maintenance function. Any further budget requirements would then be identified as part of next year's budget process.

#### **Cigarette Butt Bins**

There is a need to increase the number of bins for cigarette butts around the city to reduce the number of cigarette butts dropped on the floor as litter and improve the look of the city. The costs of providing the bins is estimated at £150,000 and is a one off cost in 2008/9. The costs of emptying these bins will be met from within existing resources.

5.2 The above priorities are summarised in the table below:

<b>Priority</b>	<b>2008/9 on going £'000</b>	<b>2009/10 on going £'000</b>	<b>One Off in 2008/9 £'000</b>	<b>One Off in 2009/10 £'000</b>
Green Agenda / Climate Change			1,000	
Waste and Recycling	650	1,020	1,100	400
Visual Environment actions	300	510		
Improvements to Libraries Service*	350	410	450	
Library Refurbishments			276	
People and Corporate	100	200	180	
Communications Strategy				
Major Sports Events Strategy	1,350	1,640		
Members IT	100	100		
Corporate Property Maintenance	500	770		
Cigarette Butt Bins			125	
<b>Total all proposals</b>	<b>3,350</b>	<b>4,650</b>	<b>3,131</b>	<b>400</b>

\* Libraries: note that on going cost does not include rent at Higher Blackley (figure still to be determined).

- 5.3 These represent a cross section of council priorities. There is a contribution to sustainable economic growth through the major events strategy; contributions to enabling people to reach their full potential through the investment in libraries; a contribution to creating neighbourhoods of choice through the visual environment proposals; and a contribution to our green city agenda through the investments in reducing our carbon emissions and in recycling. There is also a contribution to supporting local democracy through some investment in members IT and contributions to the capacity of the council to connect with residents and customers through the proposal for investment in communications.
- 5.4 The major areas of priority not reported here are the change programmes in Children's Services and Adult Social Care. These have both been subject to intensive support through the MIP programme and both have benefited from significant additional investment over the past few years. This additional investment continues as part of the Medium Term Financial Strategy going forward into next year and the year after. Both Children's and Adult Social Care have brought forward business plans this year representing significant reinvestment of efficiencies and in Adults new monies into service improvement. These efficiencies would not have been possible without the additional investment that has gone into these priority services in recent years.

- 5.5 It is recommended that the above list of investments be agreed by Executive in principle only and subject to on-going corporate assessment of value for money and impact on corporate priorities.
- 5.6 In order to mitigate the impacts of ongoing reductions in DWP funding for benefits administration and to provide resources for improvement in the Council Tax and Benefits Services, the budget proposes reallocating monies generated by the service through reduced fraud and error within the Benefit Service and the prompt collection of overpayments. In practical terms the changes will mean:
- i. Increase the staffing resources on Council Tax administration to deal with the growth in Council Tax properties in the city and to improve the collection of Council Tax. This is for both the speed of collection, thereby improving the amount of Council Tax collected within the year in which it was billed and the overall level of collection by ensuring that wherever possible all Council Tax raised is ultimately collected.
  - ii. Improve customer service by investing in the telephone service, where there has been long-standing resident dissatisfaction for several years. Reallocation of resources will increase the numbers of staff dealing with telephone enquiries from 22 to 50 full time equivalents. This will also have a direct impact on collection where the staff will be required to take a proactive approach to recovery at an early stage in the Council Tax recovery process, as well as ensuring that any benefits and discounts are awarded promptly.
  - iii. Improve customer service by further developing self service, electronic access and working with stakeholders to promote a self help and right first time approach to benefits administration and Council Tax collection.
- 5.7 The proposals will mean a number of posts will transfer from other areas of the service to the phone service and to Council Tax processing. In addition there will be a small number of new posts. Wherever practical, recruitment is targeted to Manchester residents and if possible to initiatives that support the long-term unemployed including the IRES scheme and the New Deal programme. Both of these schemes are used within Revenues and Benefits to attract local residents.

## **6. Additional Funding (Area Based Grant)**

- 6.1 The government has given a commitment to remove all ring fencing from the funding streams within the Area Based Grant (ABG), including the new Working Neighbourhoods Fund (WNF – the replacement for the

Neighbourhood Renewal Fund - NRF), providing us with much greater flexibility to allocate these resources to Manchester priorities. The test will be whether we are achieving the priority targets agreed within the LAA. However, it is not yet possible to use this flexibility as NRF and the other funding streams within ABG are committed to existing activities. Although we have allocations for the next few years we do not yet have guidance on criteria for each of these funds.

- 6.2 It is proposed that 2008/09 be treated as a transitional year with allocations being strictly for that year only. The allocations for next year have to take account of a 14% reduction in WNF compared to this year's NRF.
- 6.3 Since December, Thematic Partnerships have been tasked with bringing forward draft baseline funding requirements. The principles underpinning this exercise have been:
- All thematic partnerships were required to rank their current NRF investment into three tiers:
    - a. Tier 1: employ MCC / partner staff
    - b. Tier 2: high priority schemes
    - c. Tier 3: other priority schemes
  - Partnerships to bring forward draft funding requirements for the schemes / investments that have been effective in delivering the current objectives
  - Partnerships to identify the areas where savings can be achieved in 2008/09 in order to bridge the gap between commitments and actual resources and to start to identify headroom for reinvestment in priorities and to re-evaluate the savings proposals included within the Business Plans
  - Partnerships do not exclude projects that deliver NRF funded mainstream services from this exercise and that they seek manageable savings within the £5m of NRF that is used to fund these mainstream services
- 6.4 This work has concluded and a number of options considered. The option recommended presents an opportunity to manage this transitional year on the basis that savings have been made where possible, services protected where appropriate, and that steps have been taken to ensure that investments remain focused on our priorities.
- 6.5 Funding streams within the Area Based Grant allocation for reduction / mainstreaming as part of the Business Planning process or as part of this WNF allocation process.

- 6.6 During the early part of 2008/9, "the transitional year", a thorough review of current spend against the ABG and SIF resources will be carried out and recommendations brought forward to members and partnerships on the establishment of a robust investment and management framework for ABG and SIF resources which will be presented to members in summer 2008.
- 6.7 The option for WNF will require £2.15m one off funding in 2008/09. Meeting this from mainstream resources will take us through the transitional year and allow space for the review of ABG resources to be completed and the outcomes fed into the start of the next round of business planning.

7. **Local Authority Business Growth Incentive scheme (LABGI)**

- 7.1 Manchester has received significant sums of money from LABGI over the last 2 years due to the high levels of growth over the last 2 years in its business tax base (£3.7m received in 2005/6 and £18.6m received in 2006/7). The budget process last year determined that £10m of the LABGI receipt for 2006/7 would be used to replenish the General Fund Reserve after it was necessary to utilise £12m of this reserve to fund the costs of equal pay claims, £3.5m was agreed a contribution to the Service Improvement Fund (SIF) and any balance was to fall into the Capital Fund.
- 7.2 It had been anticipated that a further significant sum would be received in 2007/8 as our business rate tax base continues to grow faster than the general economy. It was thought that the money received could be around £16m however at the time of setting the 2007/8 budget a more prudent £13.5m was assumed in line with the 2006/7 sum. It was agreed as part of last years budget setting process that £3.5m of this would be put into the Service Improvement Fund and £3.5m would fall into the General Fund reserve, any remaining balance would fall into the Capital Fund.
- 7.3 The actual LABGI money received in 2006/7 was £18.6m and so after the £10m contribution to the General Fund and the £3.5m contribution to SIF, some £5m was transferred into the Capital Fund.
- 7.4 In order to develop the capacity of the City Council to manage change and growth in the regeneration agenda it is proposed that a number of major regeneration activities be funded from receipts from the Local Authority Business Growth Incentive Scheme (LABGI). The proposed funding is shown in the table below:

**Projects seeking LABGI funding**

	<b>Amount Requested 2007/08</b>	<b>Amount Requested 2008/09</b>	<b>Amount Requested 2009/10</b>	<b>Amount Requested 2010/11</b>	<b>All Years Total</b>
City Centre Regeneration	£35,000	£307,500	£315,000	£322,500	£980,000
Oxford Road Corridor	£90,000	£102,500	£105,063	£112,563	£410,126
South Manchester Regen Team	£0	£164,000	£168,100	£175,600	£507,700
Manchester Innovation Investment Fund	£130,000	£300,000	£300,000	£170,000	£900,000
Manchester Knowledge Capital	£100,000	£100,000	£100,000	£0	£300,000
Subvention	0	£535,000	£535,000	£535,000	£1,605,000
Dressing the City	0	£100,000	£100,000	£100,000	£300,000
<b>Total</b>	<b>£355,000</b>	<b>£1,609,000</b>	<b>£1,623,163</b>	<b>£1,415,663</b>	<b>£5,002,826</b>

7.5 In order to fund the above, it is proposed that the LABGI sums transferred to the Capital Fund and not yet spent should be set up as a separate reserve to be utilised to fund the above schemes. This new reserve is shown on the list of reserves in Appendix 6.

7.6 The Government's operation of the LABGI fund is currently undergoing review following a number of successful Judicial reviews brought by councils and because of this there is still uncertainty as to how much LABGI we might receive in 2007/8, if any. Currently the budget assumes that there will be a £3.5m contribution from LABGI to SIF and a further £3.5m contribution to the General Fund. If the 2007/8 receipt turns out to be more than this then any balance will be transferred to the Capital Fund to replace the proposed contribution from this fund to revenue as described earlier in the report.

**8. A Balanced MTFP 2008/9 to 2010/11**

**Use of one off funding and reserves:**

8.1 Within the budget growth bids for 2008/9 there is a significant level of one off items including the WNF transitional year funding of £2.15m and the one-off corporate bids of £3.131m. There are also items included within the contingency to meet one-off costs in 2008/9. The Medium Term Financial Plan 2007/8 to 2009/10 assumed use of reserves in 2008/9 of £2.985m and in 2009/10 of £2.204m to meet some of these one off costs.

8.2 It is recommended that for 2008/9 £1m be utilised from the Capital Fund to meet a proportion of the one off costs identified above and that the

balance of these be met from a contribution from general reserves of £6.772m.

- 8.3 As can be seen in section 10.4 below, the above amounts can be taken from the General Fund reserve whilst maintaining the balance on the reserve at around the recommended level of £20m. The Capital Fund after taking out the £1m contribution will still contain sufficient to meet project calls on it in 2008/9 and the contribution to revenue can be made good when / if sufficient LABGI monies above those already assumed within the budget (see later paragraph) are received.
- 8.4 It is considered prudent for the MTFP to be based on the above figures with a net contribution into the general fund reserve in 2009/10 and 2010/11 of £495,000 and £6,066,000 respectively particularly given the volatile nature of some of our major budget areas and the level of savings that currently underpin the budget assumptions for these years.
- 8.5 the Table below summarises the proposals for the Medium Term Financial Plan as discussed above:

	2008/9 £'000	2009/10 £'000	2010/11 £'000
<b>Resources :</b>			
Government Support	328,087	336,051	342,438
Council Tax receipts	132,383	135,980	139,738
Dividends	5,460	5,370	5,540
Use of Parking Reserves	2,437	2,492	2,548
Contribution from Capital Fund (revenue)	1,000	0	0
Contribution from / (to) General Reserves	6,772	(404)	(6,066)
<b>Total Resources</b>	<b>476,139</b>	<b>479,489</b>	<b>484,198</b>
<b>Calls on resources :</b>			
Departmental Requirements	394,973	403,439	408,152
Corporate Requirements:			
Levies	28,298	30,127	32,074
Capital Financing Costs	47,490	51,101	55,223
Contingency	12,229	12,494	11,547
Corporate Growth Proposals	6,481	5,050	4,760
Area Based Grant transitional costs	2,150	0	0
Less: MIP efficiency savings	(15,482)	(22,722)	(27,558)
<b>Total Call on resources</b>	<b>476,139</b>	<b>479,489</b>	<b>484,198</b>
Surplus of Resources	0	0	0

## 9. Robustness of the estimates

- 9.1 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.
- 9.2 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 Corporate Support Team 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 and the efficiency savings put forward by Heads of Service within their business plans 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. The achievement of these savings will be monitored by the MIP Board on a monthly basis throughout the coming year.
- 9.3 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, are now well embedded and are designed to specifically monitor high level risks and volatile budgets.

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

## 10. Financial Reserves

- 10.1 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.

- 10.2 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.
- 10.3 Details of the reserves held by the Council have been included as Appendix 6 to this report.
- 10.4 **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 level of around £20m and the draft budget is based on maintaining this level. Although this figure is relatively high compared to many other authorities, including many of the core cities, it reflects the scale and complexity, and hence the inherent risks, of the activities carried out by the City Council. In November 2006 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, however, new groups of staff with valid claims continue to be identified (albeit these groups generally contain only small numbers) and there are still a number of cases where the voluntary compensation payments were refused and the individuals continue to seek settlements through tribunals.

- 10.5 **Housing Revenue Account Reserve** – The HRA Reserve currently comprises four components. The general reserve reflects the cumulative effect of year on year differences between income and expenditure associated with providing the housing service. The draft budget for 2008/9 proposes a planned excess of expenditure over income reducing the balance from a forecast £2.84m at 31/3/2008 to £845k at 31/3/2009. Compensation payments received in respect of the construction of the M60 are held within the reserve and are being used to fund a number of specific projects. Reserves are also being built up to meet future commitments in respect of PFI schemes, and potential, non insurable, liabilities in respect of stock transfers to Registered Social Landlords.
- 10.6 **Service Improvement Fund (SIF)** - The estimated opening balance of the Service Improvement Fund (SIF) as at the start of 2008/9 is £6.649m. This includes £3.5m of LABGI receipts anticipated in 2007/08. In view of DCLG's recently announced review of the operation of LABGI in 2007/08 this amount must currently be considered as potentially at risk. (see section on LABGI above). It is currently anticipated that Performance Reward Grant receivable from the achievement of our LPSA2 stretch targets will be received amounting to £6m and that this will be added to the SIF in two instalments, £3m in 2008/9 and £3m in 2009/10.
- 10.7 The schemes funded through SIF are currently being reviewed and bid forms for continued funding are in the process of being completed. Most of the schemes currently being funded have submitted continued bids for next year. In addition, there are further commitments against the SIF funding including money set aside for Crime and Disorder from Performance Reward Grant received relating to Crime and Disorder targets, funds to support CRM and the MIP programme. Taking into account these commitments and assuming that current schemes will continue to be subject to funding requests in future years at about the same levels, the balance on the fund at the end of 2008/9 would be just £1.707m and by the end of 2009/10 calls against the fund would be c£3m more than the fund can support.
- 10.8 It is proposed therefore that all SIF allocations other than CRM, MIP SIP funding requirements and the remaining allocations of the Crime and Disorder Performance Reward Grant allocation, cannot be guaranteed after 2008/09. The potential impact of withdrawing SIF funding after 2008/9 and the potential impact on mainstream services will need to be assessed by Heads of Service and corporately considered before the next round of business planning begins. Future use of the SIF fund after 2008/9 will be picked up within the overall review of the use of resources referred to above.

10.9 As a further means of improving service delivery and its targeting to meet local neighbourhood needs and priorities it is suggested that the Chief Executive and City Treasurer identify appropriate spend at ward level from existing budgets for Environmental Services, Street Scene Services and Leisure Services budgets and in consultation with the Leader of the Council and Executive Members with responsibility for Finance and Human Resources, Neighbourhood Services, Environment and Arts and Leisure, bring forward a scheme to Executive early in the coming financial year to complement CASH Grants to enable that spend to reflect local neighbourhood level needs and priorities identified through Ward Co-ordination arrangements.

## **11. Prudential Indicators**

11.1 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 6 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.

11.2 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 any unsupported borrowing will be met from spend to save options or external funding streams, the net impact on council tax and housing rents is virtually nil.

## **12. Budget Consultation and Scrutiny**

12.1 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.

- 12.2 A total of 28 responses to the consultation have been received and these are summarised in Appendix 7 to this report. A hard copy of the responses received will be made available for Executive members at the meeting.
- 12.3 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 5 March.

### 13. **Trading Organisation Targets for 2008/9**

- 13.1 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 planning process that underpins 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.
- 13.2 Generally it is expected that trading organisations will make a return based on 1% or more of their turnover, however in recent years some of the trading services have seen significant changes that have impacted on their ability to make such a return including the transfer of the bulk of work from City Works to Manchester Working and equal pay issues. As a consequence some now find it difficult to make the required rate of return and others expect to operate at a loss for the foreseeable future. Further details of the trading position facing these services is contained below:

**City Works** - City Works has been subject to a transfer of a large proportion of its work to Manchester Working, this included the transfer of the more profitable work. As a consequence City Works estimated that they would make a loss in 2007/8 of £764,00. 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. It is expected that the loss in 2008/9 will be £564,000.

**Manchester Contracts** - are predicting a profit of £80,000 in 2008/9, slightly lower than their target profit for 2007/8.

**Street Scene Services** – street scene services is normally expected to break even and is not set a target profit however in the current year it has had difficulty in achieving its income streams from work carried out on behalf of the arms length management companies to which some of the housing stock transferred. As a consequence it is projecting a loss in the current year of around £700,000. The service has put forward the loss of income as a budget pressure (included on Appendix 2) to adjust its income target to a more realistic level. Provided this is agreed then the service should be able to move back to a break even position next year.

**Manchester Fayre** – have not as yet finalised its business plan for 2008/9 as there remains an outstanding issue around the provision of school meals. It is proposed that the charge for a school meal should increase with effect from September 2008. In order to contain required price increases it is proposed to remove the requirement for Manchester Fayre to plan to achieve a surplus on catering (i.e. catering would plan to break even over the next three years). The increase could then be kept down to 11p in 2008/9, 13p in 2009/10 and 15p in 2010/11 making primary school meal prices increase to £2.11. These figures assume that the schools forum would be willing to release to Manchester Fayre the TSF grant for all three years of the business plan (they have currently only agreed to release the grant for 2008/9). It also assumes that any loss in the current year is written off in order to allow the service to break even over the three years of the 2008/9 to 2010/11 business plan. Due to the uneven occurrence of meal days year on year the business plan shows a surplus in 2008/9 of £234,000, a deficit in 2009/10 of £458,000 and a surplus in 2010/11 of £221,000. Members are asked to agree that the Manchester Fayre Business Plan be finalised on this basis.

**MEDC** – has been set a target surplus for 2007/8 of £115,000 which it is expecting to achieve. It is proposed that for 2008/9 the service is set a target trading profit of £115,000 the same as the current year.

- 13.3 Members are asked to approve the targets for the trading organisations in 2008/9 as discussed above and summarised in the table below:

Trading Organisation	Adjusted Target 2007/8 (Surplus)/Loss £	Proposed Target 2008/9 (Surplus)/Loss £
City Works	764	564
Manchester Contracts	(82)	(80)
Street Scene Services	(9)	0
Manchester Fayre	476	(234)
MEDC	(115)	(115)
Total Loss / (Surplus)	1,034	135

## **Appendices**

1. Departmental Business Plan Budget Totals (Summary)
2. List of Departmental Budget Pressures
3. List of Departmental Options for Savings
4. List of Growth Bids
5. List of Prudential Indicator's
6. List of specific reserves
7. Feedback from Budget Consultation exercise

## APPENDIX 1

### Proposed Departmental Cash Limit Targets

	Adjusted Budget 2007/8 £'000	Proposed budget 2008/9 £'000	Proposed budget 2009/10 £'000	Proposed budget 2010/11 £'000
<b>Chief Executive's:</b>				
Head of Legal Services	2,369	2,751	2,884	3,020
Head of Statutory Services	1,790	2,094	2,168	2,220
Assistant Chief Executive (Culture)	6,094	6,136	6,126	6,116
Head of Regeneration	3,294	3,272	3,249	3,225
Head of Adult Education	297	304	311	318
Head of Planning	1,644	1,460	1,272	1,081
Assistant Chief Executive (Performance)	5,704	5,820	5,764	5,449
Director of Manchester Health Unit	(11)	(11)	(11)	(11)
Head of Crime and Disorder	1,182	1,156	1,131	1,096
Head of Executive	1,834	1,934	1,977	2,020
Head of Transport*	2,247	2,385	2,452	2,520
Outside Business Plans	4,650	4,726	4,832	4,940
Total Chief Executive's	<b>31,094</b>	<b>32,027</b>	<b>32,155</b>	<b>31,994</b>
<b>Corporate Services:</b>				
Head of Financial Management	5,377	5,403	5,525	5,600
Corporate Procurement	251	257	263	269
Head of Valuation and Property	6,085	6,222	6,362	6,505
Capital Programme Director	755	747	737	725
Head of CTU	8,042	8,223	8,408	8,597
Head of Human Resources	2,020	2,065	2,111	2,158
Head of Council Tax and Benefits	2,880	3,331	3,406	3,483
Outside Business Plans	(12,474)	(12,609)	(12,520)	(12,428)
Total Corporate Services	<b>12,936</b>	<b>13,639</b>	<b>14,292</b>	<b>14,909</b>
<b>Children's Services:</b>				
Strategy, Performance and Operations	25,523	27,069	27,777	28,402
Chief Education Officer	14,511	15,730	15,876	16,158
Children and Young People	88,018	90,543	91,037	90,407
Total Children's Services	<b>128,052</b>	<b>133,342</b>	<b>134,690</b>	<b>134,967</b>
<b>Neighbourhood Services:</b>				
Adult Social Care	108,028	122,239	126,394	131,349
Head of Environmental and Contracting Services	24,129	25,920	26,078	26,105
Head of Contracting Services	(79)	719	735	752
Head of Engineering Services *	12,062	12,183	12,107	12,379
Waste Levy	16,949	17,859	19,413	20,287
Housing - General Fund	3,123	4,032	4,729	4,584
HATs	1,862	1,789	1,689	971
Total Neighbourhood Services	<b>166,074</b>	<b>184,741</b>	<b>191,145</b>	<b>196,427</b>

<b>Cultural Services:</b>				
Manchester Leisure	15,144	14,911	14,804	14,491
Libraries and Theatres	12,096	12,282	12,485	11,639
Manchester City Galleries	3,562	4,031	3,868	3,725
Total Cultural Services	<b>30,802</b>	<b>31,224</b>	<b>31,157</b>	<b>29,855</b>
Total all Services	<b>368,958</b>	<b>394,973</b>	<b>403,439</b>	<b>408,152</b>

**NOTE: Cash Limits as shown above assume all budget pressures, growth bids and savings options are accepted.**

**APPENDIX 5**

**Note:** figures agreed last year shown in brackets

<b>No.</b>	<b>PRUDENTIAL INDICATOR</b>	<b>2008/9</b>	<b>2009/10</b>	<b>2010/11</b>
<b>1</b>	<b>Ratio of Financing Costs to Net Revenue Stream</b>			
	Non – HRA	10% (11%)	11% (12%)	11%
	HRA	13% (15%)	13% (15%)	12%
<b>2</b>	<b>Incremental impact of Capital Investments on :-</b>			
	Council Tax (Band D, per annum)	£2.80p	£12.44p	£23.81p
	Housing Rent per week	0.07p	0.09p	0.09p
	* See note below			
<b>3</b>	<b>Capital Expenditure</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Non - HRA	231 (209)	301 (129)	274
	HRA	57 (48)	38 (47)	28
	TOTAL	288 (257)	339 (176)	302
<b>4</b>	<b>Capital Financing Requirements (as at 31 March)</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Non - HRA	600 (600)	600 (620)	650
	HRA	400 (450)	400 (365)	450
	TOTAL	1,000 (1,050)	1,000 (985)	1,100
<b>5</b>	<b>Authorised Limits for External Debt -</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Borrowing	1,304 (1,223)	1,304 (1,223)	1,304
	Other Long Term Liabilities	0 0	0 0	0
	TOTAL	1,304 (1,223)	1,304 (1,223)	1,304
<b>6</b>	<b>Operational Boundaries for External Debt -</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Borrowing	1,104 (947)	996 (1,046)	1,053
	Other Long Term Liabilities	0 0	0 0	0
	TOTAL	1,104 (947)	996 (1,046)	1,053
<b>7</b>	<b>Authority has adopted CIPFA's Code of Practice for Treasury Management in the Public Services</b>		Yes (Yes)	
<b>8</b>	<b>Upper Limits on Fixed Interest Rate Exposures</b>			
	Net Borrowing at Fixed Rates as a percentage of Total Net Borrowing	83% (99%)	87% (100%)	93%
<b>9</b>	<b>Upper Limits on Variable Interest Rate Exposures</b>			
	Net Borrowing at Variable Rates as a percentage of Total Net Borrowing	63% (77%)	92% (80%)	94%

<b>10</b>	<b>Maturity Structure of borrowing (2008/9 only)</b>		Lower Limit	Upper Limit	
		under 12 months	0% (0%)	50% (50%)	
		12 months and within 24 months	10% (0%)	60% (60%)	
		24 months and within 5 years	10% (10%)	60% (60%)	
		5 years and within 10 years	0% (0%)	60% (60%)	
		10 years and above	10% (10%)	60% (70%)	
<b>12</b>	<b>Upper Limits for Principal Sums Invested for over 364 days</b>		<b>£</b>	<b>£</b>	<b>£</b>
		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 Revenue Support Grant settlement 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 6

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

	Opening Balance 01/04/08 £	Withdrawals £	Additions £	Closing Balance 31/03/09 £	Who Responsible for use (see key above)	Purpose
<b><u>EARMARKED RESERVES</u></b>						
<b><u>HOSPITALITY AND TRADING SERVICES</u></b>						
Dissatisfied Customers Fund	39,336			39,336	1	To provide for refunds to customers
New Smithfield Market Initiative Fund	749,613			749,613	1	Legal requirement. 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
NSM – Car Boot	211,024			211,024	1	To fund initiatives that will benefit the development of New Smithfield wholesale market (can be drawn down by traders in settlement of service charge)
Compensation	26,242			26,242	1	To provide against claims against the council not met by the insurance fund
Investment from Surpluses	263,881	100,000	46,000	209,881	1/3	Repayable finance to schools for service improvement. Balance of additional surpluses over the Business Plan target from previous years agreed by members for investment within the catering service

## APPENDIX 6

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

	Opening Balance 01/04/08 £	Withdrawals £	Additions £	Closing Balance 31/03/09 £	Who Responsible for use (see key above)	Purpose
<b><u>EDUCATION</u></b>						
LMS Reserve	7,644,248	3,702,230		3,942,018	2	Schools reserves.
Education Endowments	16,551	16,551		0	1	Sums gifted to schools to provide scholarships, prizes and awards to Manchester school children
Temple Schools PFI	608,776		30,000	638,776	4	Established to fund the requirements re. PFI contract for the Temple school via our external contractors.
Closed school balances	1,906,007			1,906,007	4	Closed schools balances
<b><u>CITY VALUERS</u></b>						
St Johns Gardens Contingency	349,800		10,900	360,700	1	Contributions from St Johns Gardens tenants for maintenance works
Eastlands Management and Maintenance	20,888			20,888	1	To be spent on maintenance of the site around the Eastlands area
<b><u>OPERATIONAL SERVICES</u></b>						
Cemeteries Replacement	80,000		40,000	120,000	3	To provide additional grave spaces.
Great Northern Square Maintenance Fund	256,148		30,000	286,148	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	7,284,067	299,079		6,984,988	4	Established to fund the requirements over 25 years re. the PFI contract for Street Lighting service via our external contractors

## APPENDIX 6

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

	Opening Balance 01/04/08 £	Withdrawals £	Additions £	Closing Balance 31/03/09 £	Who Responsible for use (see key above)	
<b><u>MANCHESTER PARKING</u></b>						
On Street Parking	2,463,863	2,437,000	1,869,000	1,895,863	3	Reserve set aside from On-Street Parking surplus's year on year, which is set aside to support expenditure on transport and environmental improvements
<b><u>REVENUE GRANTS</u></b>						
European Social Co-op	28,950	28,950		0	4	Committed to ESF Projects
<b><u>MANCHESTER CITY GALLERY</u></b>						
Art Fund	238,401	10,000		228,401	1	Purchase of Works of Art
<b><u>CHILDREN'S SERVICES AND ADULT SOCIAL CARE</u></b>						
Care Home placements	1,000,000			1,000,000	4	A fund created to deal with volatility of forecasting expenditure on Care Home Placements
<b><u>GENERAL FUND</u></b>						
Development Fund	3,578,054	100,000	165,794	3,643,848	3	To invest in schemes that will pay back investments from savings
Building Schools for the Future	2,970,000		1,000,000	3,970,000	4	Building Schools for the Future
LABGI reserve	4,747,879	1,609,000		3,138,879	4	Projects being met from LABGI monies

## APPENDIX 6

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

	Opening Balance 01/04/08 £	Withdrawals £	Additions £	Closing Balance 31/03/09 £	Who Responsible for use (see key above)	Purpose
Unused Dividends Reserve	3,710,000	13,590,000	13,750,000	3,870,000	3	Balance of dividends received not yet used
Capital Fund	18,863,783	23,933,000	16,105,000	11,035,783	3	Council's contribution to major capital schemes
Direct Revenue Reserve	6,050,058	79,000	446,000	6,417,058	3	To fund general capital expenditure
Service Improvement Fund	6,381,524	7,674,000	3,000,000	1,707,524	4	To fund improvements in Council Services
Capital Financing Costs Reserve	4,500,000			4,500,000	4	Smoothing Reserve for Capital Financing Costs
Pension Risk Fund	50,978		589,000	639,978	4	To meet future increases and any pensions liabilities at the end of the Joint Venture
General Fund Reserve	26,985,320	6,772,000		20,213,320	3	General Reserve
Pension Augmentation Fund	41,039			41,039	4	To meet potential future pension liabilities
Housing Loans	5,948,752		250,000	6,198,752	4	To meet future interest costs

## APPENDIX 6

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

	Opening Balance 01/04/08 £	Withdrawals £	Additions £	Closing Balance 31/03/09 £	Who Responsible for use (see key above)	Purpose
Insurance Fund	14,705,078		250,000	14,955,078	4	To meet future uninsured losses and self insured costs
Collection Fund	2,309,000	2,309,000		0	4	Surplus on collection fund
<b><u>Total all General Fund Reserves</u></b>	<b>124,029,260</b>	<b>62,659,810</b>	<b>37,581,694</b>	<b>98,951,144</b>		
<b><u>HOUSING REVENUE</u></b>						
HRA General Reserve	2,839,700	3,020,000	1,025,000	844,700	4	General Reserve
M60	2,530,000	1,025,000		1,505,000		
PFI Reserves	22,190,945		8,629,037	30,819,982	4	Smoothing reserve to meet future PFI liabilities
Residual Liabilities Fund	4,350,475		7,500,000	11,850,475	4	To meet possible future claims for environmental contamination
<b><u>Total all Housing Reserves</u></b>	<b>31,911,120</b>	<b>4,045,000</b>	<b>17,154,037</b>	<b>45,020,157</b>		



## CONSULTATION FEEDBACK

The budget consultation process generated 28 responses – 1 via the budget consultation answer phone, 6 letters and 21 emails. The responses do not always state the capacity in which they are responding. However as far as such information was provided, the profile of the responders was as follows:

Residents	13
Staff	4
Associations	3
Not disclosed	8

The issues raised in the responses are summarised below:

### **Climate Change**

7 of the responses related solely to the issue of climate change and requested that a proportion of the Council's budget be allocated to tackling issues related to climate change. It was felt that such an allocation was needed if Manchester City Council was to achieve its aim of being a green city. It was also noted that climate change was not mentioned as a specific priority within the budget consultation leaflet. Reference was also made to Sir Nicholas Stern's analysis of the economic impact of climate change.

An initial response has been sent to those raising this issue stating that although not specifically mentioned in the priorities for 2008/09, Manchester City Council are in the process of identifying funding to finance infrastructure and service improvements to significantly reduce carbon emissions and to enable the Council to be a leading exemplar in terms of climate change mitigation and adaptation. Also although the budget consultation leaflet does not specifically list climate change as a priority, it does state that improving the environment of the city is a priority.

### **Law Enforcement**

1 response advocates more police officers rather than investment in cameras, Community Support Officers and Wardens, in order to promote "proper law enforcement".

### **Youth Services**

2 of the responses received related to the provision of youth services within Manchester. Of these one was received from an individual whilst the other was sent on behalf of the Board of Voluntary Youth Manchester.

The response sent in an individual capacity states that the city would benefit from paying more attention to general youth provision and good quality youth work than it currently does. It is submitted that the city spends far less than

the Government Sub Block Estimate on Youth Service, less than other authorities and that expenditure has not kept pace with inflation over the last 10 years. Councillors and officers are asked to invest in a substantive programme of meaningful youth provision to compliment the district service developments.

Voluntary Youth Manchester (VYM) is the infrastructure body supporting voluntary, community and faith sector (VCFS) groups in Manchester. In their response the Board of Voluntary Youth Manchester state that over the last 6 years the amount allocated by the Council for the provision of Youth Services in Manchester (and hence the funding to VCFS Youth Services) has remained static. The Board submits that this is compromising their ability to deliver the Local Authority's priorities. It therefore urges an increase in Manchester Youth Service's budget, to enable an increase in the budget available to the VCFS to £500,000 for 2008/09 with staged increases in future years.

### **Health**

1 response pointed to health improvement not being explicitly mentioned in the "Where the money goes" section of the consultation leaflet. It was presumed that this was because all departments were expected to contribute to this priority. However it was felt that health spend should be presented in a more "clearly stated way". In addition more money should be invested in a health and well-being strategy to better exploit resources for the health of residents whilst targeting people living in poverty, social exclusion and areas of low social capital. This would include better and safer facilities in parks, more staff for parks, more sports development and affordable activities in better locally managed and prioritised leisure facilities.

### **Manchester People Magazine**

A request was made to spend less than "£110k" on the Manchester People magazine by including advertisements or by reducing page numbers and the quality of colour the print run.

### **Suggestions for Savings**

The following suggestions for savings (and job creation) were made in one response:

- Purchase of small apartments to save on the high costs of temporary accommodation for children and their relatives
- Booking staff travel arrangements on-line rather than via the Council's (often more expensive) associate travel company
- The creation of a Council run transport company rather than the use of taxis.

## **Allotments**

The Association of Manchester Allotment Societies (AMAS) have submitted a response which states that the budget consultation leaflet makes no mention of any budget allocation to allotments despite it being a statutory requirement. The Association detail the contribution plot holders make to the city's economy, well-being and other council priorities. It believes that there is "an overwhelming case for the specific allocation of substantial funds within the new budget, in order to generate our decaying allotment sites".

## **Overall Priorities**

A response was received from a member of the Manchester Green Party via email. The response was received via a personal email address and other than stating that the responder is a member of the Manchester Green Party, no further indication is included as to whether the response should be considered as representing the views of the Green Party or an individual.

The response states that it would be useful to know the order of, and emphasis placed on, each of the priorities listed in the budget consultation leaflet. The emphasis on economic growth in other council documents is questioned including the validity of using Gross Value Added (GVA) as an economic model.

Priorities such as increasing the amount of workers in the city, ensuring people get on well together and building the quality and reputation of schools are questioned. The responder also asks for clarification of the meaning of "the environment" and suggests problems exist at a political level in managing the budget.

## **Consultation/Owner Occupier Concerns**

1 response was received from a resident who wished to make the following comments from the perspective of an owner occupier residing within a mixed tenure neighbourhood:

A request for budget consultation leaflets (in plain English) to be delivered to every household. The responder spent 3 weeks obtaining copies to distribute to the "groups' catchment area".

The response submits that the most important omission from the Council's priorities was a commitment to engage all residents and communities in a fair and equal manner. The responder points to a lack of engagement with the main barriers/examples of exclusion being:

- The narrow definition of residents within the Manchester Community Engagement Strategy means that private sector housing based groups are never invited as of right to participate and influence any statutory led research, partnerships or policy development

- Manchester's Housing's exclusion of private residents and communities in the Community Engagement Action Plans
- The marginalisation of Homewatch by MCC councilors and officers
- The Ward Co-ordination Service Group (WSCG) has never reflected the mixed tenure make-up of Charlestown ward with invited community representation only being drawn from public housing based groups
- Lack of consultation on Academies
- Lack of engagement of private sector housing on local level environmental issues
- Lack of engagement in the implementation of the Quality Bus Corridor along Rochdale Road and criticism over its actual implementation.

Attention was also drawn to the Danish methods of resident recycling.

Another separate response also raised the issue of homeowners in the private sector stating that it was hoped that private sector homeowners were not subsidising the cost of council housing. The responder also expressed the hope that new schools to be built in their area would demonstrate improved results.

Similarly a further responder called for greater involvement in how the Council spends its money with a request for more help for private sector housing tenants/owner occupiers and further investment in education.

### **Adult Education**

1 response criticised the fees being charged for Adult Education classes. It was felt that these were beyond the reach of most older people.

### **Social Democracy/Inclusion**

2 separate responses were received from one individual and the issues raised included:

- The slight movement towards social democracy in Manchester
- A request to the Council to ensure that stakeholders "will not have to use a crystal ball re the implementation of decisions of MCC"
- Proposals submitted via involvement in the budget consultation process will act as a catalyst for implementation rather than be ignored
- The lack of achievement stemming from the review of the Council's physical disability service i.e. "The Partnership Board"
- Issue in relation to the Hardy Lane Co-op store, including implementation of the 2004 Disability Discrimination Act
- Criticism of the Council's housing provision for disabled tenants
- Request for representations to be considered on "Council day in a motion hopefully supported by all 96 MCC members"
- Request that the majority of what the responder has stated be directly restated to MCC.

## **Others**

Another response raised a number of issues as follows:

- Urbis, Big Bang and similar sculptures were “frivolous waste”
- Green issues such as green bins not being collected on time and an excessive number of buses
- The costs and damage caused by “travelers”
- Lack of road sweeping
- Causes of congestion
- Lack of access to a local police station and the need for more police officers on the streets

## **Council Tax Notice**

A resident requested that future Council Tax notices include budget and income inflation.

## **Requests for Further Information**

The following separate requests for further information were received (and met):

- 150 consultation leaflets for the Rochdale Road Residents Action Group
- Details of expenditure on Member Services – Overview and Scrutiny Committees
- Details of total expenditure figures
- The cost of heating the Town Hall Complex over the last twelve month period
- An explanation of why the council tax for Band A properties had increased by 12% (information was provided in response to this request which demonstrated that the increase was in fact just under 3%).

## **Three Year Capital Programme 2008/09 to 2010/11 (including Capital Strategy and 2007/08 capital monitoring update)**

This Annex presents the three year capital programme 2008/09 to 2010/11. 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.

The three year capital programme uses the most up to date forecast of outturn figures for 2007/08 as the base point for its calculation.

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 that the latest estimate of capital outturn for 2007/08 is £280,424,000
3. Note the capital programme report as presented.
4. Agree to reserving resources £9,550,000 towards proposals outlined in paragraph 9 "Treatment of Resources" and to request that the City Council delegate authority to the Executive to increase the capital budget by up to £9,550,000 subject to the Executive receiving and agreeing the detail of further reports on these proposals.
5. Recommend to the City Council for approval the three year capital programme 2008/09 to 2010/11 as presented in Appendix C
  - a) Noting that government have yet to confirm the level of resources available to the housing programme from the Regional Housing Pot and
  - b) Agreeing that the housing programme is subject to the confirmation by the City Treasurer in consultation with the Executive Member for Finance and Human Resources as to its affordability following government's announcement of Regional Housing Pot resource allocations.

- c) Noting that the resources available for transport will to be top sliced by an amount (as yet unspecified) to provide a contribution for Metrolink provision and that the transport capital programme will be reduced accordingly.
6. Delegate authority to;
- (a) The Chief Executive in consultation with the Leader and Executive Member for 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 Environment on the final details and estimated costs.
7. To approve unsupported borrowing of up to £15,000,000 in 2008/09 and a further £5,000,000 in each of the two following years for spend to save proposals where the cost of borrowing (interest and principal repayment in full) for each project can be financed from additional income and / or savings within existing revenue budget limits for the lifetime of the loan period.
8. Delegate authority to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to add qualifying spend to save projects to the capital budget accordingly.
9. Delegate authority to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources to accelerate schemes when necessary from 2009/10 to 2008/09 subject to resource availability.
10. 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.
11. 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.

12. 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 2008/09 to 2010/11 prior to their submission to Council for approval, subject to no changes being made to the overall estimated total cost of each individual project
13. That authority be delegated to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget for the Cheetham District Centre public realm works, and the Powerhouse project (see paragraph 16 of this report) subject to affordable funding packages being identified to enable the delivery of each project.

## 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

Footnote – The Corporate Asset Management Plan 2007 is available from the City Treasurer upon request and will be reported to the Resources and Governance Overview and Scrutiny Committee in the near future.

## Background

1. The current 3 year capital programme 2007/08 to 2009/10 originally approved by the Executive in February 2007 is being implemented, subsequently enhanced by a number of amendments and additions approved by the Executive and Council throughout the year. The proposals for the new three year programme 2008/09 to 2010/11 are based on the general understanding that the current 3-year programme will continue to conclusion as planned, apart from projects whose funding has still not been secured - these have been reviewed and reconsidered alongside new bid proposals.
2. The capital programme 2008/09 to 2010/11 will therefore be formed by the continuation of the current three-year programme plus approved new proposals that will be outlined later in this report. The figures relating to the programme continuation are based on estimates compiled during the most recent monitoring exercise. The three year programme 2008/09 to 2010/11 has been calculated on the expectation that the current year (2007/08) outturn will be £280,424,000. This figure compares with the previous forecast of £302,488,000 reported to Executive in November 2007. The reduction is slightly in excess of £22,000,000 and is attributable mainly to (a) the removal of provisions for spend to save projects no longer required £4,000,000, (b) a revised delivery timetable for Building Schools for the Future £10,000,000, (c) slippage £4,500,000 including Schools Devolved Capital, Sure Start Children's Centres and strategic acquisitions (d) changes to timetables on joint initiatives £2,000,000, (e) other strategic changes to projects within the programme £1,500,000. No external funding has been lost as a consequence of these changes.
3. The estimated spending profiles in 2008/09 and 2009/10 have been reviewed to check that the original forecasts were still realistic and achievable, and where necessary amendments have been made. The three year programme has also been formulated in recognition that there capacity constraints that could limit the size of programme that the City Council can deliver each year. (It must be appreciated that if outturn 2007/08 slips below its current predicted figure then any expenditure slipping into 2008/09 may have a "knock-on" effect and cause subsequent delay to the delivery of other projects causing corresponding slippage into 2009/10 and beyond due to these capacity constraints.)
4. Resources available for Housing, Transport and Children's Services have been ring fenced. Proposals relating to the Housing and Transport local transport plan (LTP) capital programmes for 2008/09 to 2010/11 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 £118,814,000 for 2008/09, £95,930,000 in 2009/10 and £84,967,000 in 2010/11 The

Transport Programme is estimated to be £20,287,000 in 2008/09, £17,382,000 in 2009/10, £17,223,000 in 2010/11 and £3,036,000 in future years.

## Bids 2008/09 to 2010/11

5. Service departments have submitted bids identifying capital investment requirements supporting service and budget strategies in accordance with the Gateway evaluation process to ensure that bids are strategically sound and meet corporate objectives.
6. All bids including items in the current three year budget that are under review due to concerns relating to funding availability have been assessed for their relative corporate priorities. The vast majority have already 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. Gateway appraisal on the few remaining bids is in progress and will be complete shortly.
7. A number of bids relate to the delivery of cultural strategies and certain specific proposals identified in this report are recommended for inclusion in the capital programme. The remainder of the cultural bids still require prioritisation and until this exercise is undertaken and completed it is suggested that resources are reserved to provide funding for the top priority projects.
8. 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

9. The total amount of resources that are expected during the three years 2008/09 to 2010/11 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 £9,550,000 of these resources be reserved for
  - (a) Ronald Johnson Playing Fields £750,000
  - (b) Contingency pending further decisions on academies £2,000,000
  - (c) Irwell City Park £2,000,000
  - (d) Libraries in Academies excluding New Beswick and Brookway £1,800,000
  - (e) Cultural priority projects £3,000,000

In addition members should note that there has been agreement that local transport plan resources are to be top sliced to provide funding for Metrolink projects and that this reduction in resources available to the transport programme will require a

corresponding decrease in the size of the programme. As yet the amount of top slice has yet to be announced therefore the precise amount of reduction is not yet known.

## Proposed Programme 2008/09 to 2010/11

10. The continuation of current capital programme strategy will require the following levels of capital investment
  - (a) Settlement of outstanding liabilities relating to old CPO's £30,000 for each of the three years 2008/09 to 2010/11
  - (b) Disabled employees equipment & adaptations 2010/11 £30,000
  - (c) Disabled access grants 2010/11 £145,000
  - (d) Ongoing IT infrastructure investment 2010/11 £500,000
  - (e) Shudehill Transport Interchange 2008/09 final settlement £3,500,000
  - (f) Longley Lane - relocations £1,034,000 (£234,000 in 2008/09 & £800,000 in 2009/10)
  - (g) Piccadilly Green Roof £25,000 in 2008/09 (from revenue budget savings)
11. The BSF Phase 2 programme (BSF Wave 4) has secured government funding of £94,000,000 of which £3,650,000 is already in the programme. The additional £90,350,000 will be spent £24,000,000 in 2009/10, £35,000 in 2010/11 and the remaining £31,350,000 in future years.
12. A combination of capital allocations and grant earmarked by Government for schools £26,464,000 (£9,141,000 in 2009/10 and £17,323,000 in 2010/11) will be applied towards the primary rebuilding programme. A further £16,398,000 is available to Education through further allocations of Devolved Capital Grant (preliminary spending profile £2,970,000 in 2008/09, £5,114,000 in 2009/10, £5,114,000 in 2010/11 and £3,200,000 in later years). There is also a continuation of supported borrowing funding for Schools Access initiative £1,354,000 (£677,000 in each of 2009/10 and 2010/11).
13. Further resources of £10,500,000 are available for the Manchester Partnership Programme (£3,000,000 in 2008/09, £4,000,000 in 2009/10 and £3,500,000 in 2010/11). Government funding of £2,586,000 is also earmarked for extended services for schools (£992,000 in 2008/09, £1,051,000 in 2009/10 and £543,000 in 2010/11).
14. Grants totalling £4,918,000 have been secured for ICT Harnessing (£1,390,000 in 2008/09, £1,664,000 in 2009/10 and £1,864,000 in 2010/11) and in addition supported borrowing resource has been obtained for other £2,330,000 ICT investment in 2008/09.

15. The City Council has proposals for improvements to a number of Early Years buildings £200,000 that should qualify for government grant and it is recommended that the capital budget should be increased accordingly.

16. External funding support is expected to be available to enable the following proposals to be introduced into the programme subject to final funding confirmation. As a consequence it is suggested that delegated authority should be given to the City Treasurer in consultation with the Executive Member for Finance and Human Resources to increase the capital budget for the following projects subject to viable funding packages being agreed and obtained:

- (a) Cheetham District Centre £1,200,000
- (b) Powerhouse £1,105,000

17. 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) City Centre Public Realm (inc Mosley Street) £3,000,000 (£2,000,000 in 2008/09 & £1,000,000 in 2009/10)
- (b) Manchester Art Gallery £152,000 (£92,000 in 2008/09, £60,000 in 2009/10)
- (c) New Beswick and Brookway Libraries £1,200,000 (£600,000 in 2008/09, £600,000 in 2009/10, funded 50% external grant, 50% from the city council's own resources)
- (d) Sustainability £2,000,000 in 2008/09
- (e) Daisy Mill substation £500,000 in 2008/09

18. There are a number of proposals that require capital expenditure funded from unsupported borrowing, where the cost of borrowing (interest and provision for loan repayment) will be recovered by revenue budget savings and / or additional income generated. Thus these projects can be delivered at net nil cost to the City Council.

These projects are:

- Pavement repairs £2,669,000 in 2010/11
- Manchester Central (note previously approved by Executive £3,000,000 in each of 2008/09 and 2009/10 and £6,000,000 in 2010/11 as well as £5,000,000 of mainstream funded expenditure)

19. In addition it is recognised that further "spend to save" investment opportunities may arise and in order to deliver these type of projects it is recommended that delegated authority is given to the City Treasurer, in consultation with the Executive Member for Finance and Human Resources to increase the capital budget accordingly. The extent of this delegation should be limited to a total of £15,000,000 in 2008/09 and £5,000,000 per year in the two subsequent years. This is on the understanding that the cost of borrowing (interest and principal) of any such additions to the capital budget are financed in full by additional income / revenue budget savings.

The proposals contained in this report would create a three year capital programme of £287,992,000 in 2008/09, £338,844,000 in 2009/10, £301,651,000 in 2010/11 and planned commitments in future years of £37,586,000, if approved. A summary of estimated spend by department is contained at the front of Appendix C followed by schedules containing individual scheme details.

20. The estimated funding profile for the financial year 2008/09 is as follows:

	£000
Supported Borrowing	62,756
Unsupported Borrowing	6,039
Grants	180,772
Contributions	1,474
Revenue	2,297
Capital Receipts	34,654
Total	287,992

21. Work is continuing to produce the best estimate of figures for the three years 2008/09 to 2010/11. This will include the effect on 2008/09 and future years of any changes in the delivery of the current 3 year programme 2007/08 to 2009/10. If changes to figures in 2007/08 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

22. Financial regulations currently stipulate that it is the responsibility of Chief Officers to ensure that 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.
23. 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.

24. 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

25. Approval of the recommendations contained in this Annex will authorise the capital programme detailed in Appendix C.

# APPENDIX A

## HOUSING INVESTMENT PROGRAMME 2008/09 to 2010/11

### 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 2008/09 to 2010/11 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 Government's 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. Two major stock transfers to purpose built new local housing companies i.e. Parkway Green Housing Trust and Southway Housing Trust were successfully completed in October 2006 and November 2007 respectively. During the first year of the Plan/Budget further transfers to new/existing RSLs will take place and two further PFI schemes are planned for completion in the budget period.

The Capital Budget for the three-year period 2008/09 to 2010/11 is displayed in appendix 1 by year of anticipated spend. The capital budget is limited by the sources and levels of funding available. These are as follows -

- Supported capital expenditure (SCE) from Government, and which may be in the form of cash grant or borrowing powers
- Supported capital expenditure specifically for NHT to effect the investment to achieve decent homes standard in the north of the City
- 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
- English Partnerships

### **Risks:**

The timing of the allocation of funding has changed this year such that this submission is made in the absence of the known funding allocation. As such, there are potential risks associated with the current proposed budget programme as there may be reductions in the sources of funding available.

In the event that funding allocations, when known, are found to be reduced the Manchester/Salford Pathfinder have an agreed mechanism for appraising and prioritising non contractually committed and new environmental face-lift, (block repair), projects. These projects form a significant part of the 2008/11 capital programme, (circa £8m HMR and £7.6m RHP). The detailed appraisal process will be carried out by the Pathfinders' technical consultant, EKOS, who will measure the strategic context and relevance of each individual project. This activity, although a desirable element of the programme, is not essential or statutory. Beyond this process other non-contractually committed elements of the programme will be revisited for prioritisation, for example the city wide alley-gating programme and environmental improvements.

Also, despite having reduced substantially (compared to last year's submission) the estimated usable capital receipts from sales of RTB and other properties, the anticipated future sales for the projected capital receipts must be considered uncertain in the current economic climate. As such, the estimates may be based on numbers and valuations that may not be achieved.

### **PUBLIC SECTOR PROGRAMME 2008/09**

The public sector budget totals £57.369m, of which £51.010m is for Northwards Housing with £6.359m for the remaining City Council Stock.

The programme continues to invest in projects that will contribute to achieving the decent homes standard and maximise the energy efficiency of our properties – such as modern heating systems, the installation of UPVC double glazed windows, insulation, re-roofing, rewiring, - and the modernisation of old and inadequate kitchens and bathrooms. The bulk of this work will be delivered by Northwards Housing.

Alongside this are environmental and security works to help combat crime and disorder, and the provision of equipment and adaptations to enable disabled tenants to live in safe and suitable housing.

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, to achieve 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. Some resources have been set aside within the proposed programme to assist in this process.

## **PRIVATE SECTOR PROGRAMME**

The City's regeneration strategy is supported by the Private Sector Housing Capital Budget, totalling £61.445m in 2008/09. The programme focuses on affordability 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 2008-2011, and is effectively the third tranche of HMRF funding. The programme of interventions consists primarily of ongoing plans to clear surplus stock and to restructure the housing market, building on residential neighbourhoods of choice, improvements to the physical fabric of properties in potentially 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 RSL's 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 people with disabilities.

## **Capital Programme**

There is, therefore, a total capital programme of £118.814M in 2008/09, £95.930M in 2009/10 and £84.867M in 2010/11. This programme is funded through a variety of sources as displayed in Appendix 1

This investment complements the objectives as follows:-

### **Achieving decent homes standard by 2010 including successful stock transfers.**

Following the successful creation of Northwards Housing, we will be commencing the third year of the £201m capital programme, with total investment over the next three years anticipated to be:-

2008/09	2009/10	2010/11
£51.010M	£34.219M	£25.678M

Originally the decent homes programme was due to complete in 2010/11, but CLG have recently re-profiled the ALMO Supported Capital Expenditure, and the final £8m is now planned to be released in 2011/12 (the re-profiling also resulted in £13m of the ALMO SCE being accelerated to 2007/08). The impact of the re-profiling, whilst advancing substantial elements of work, may be that the achievement of the decent homes target is delayed by a few months. However every effort will be made to minimise any potential delay.

The PFI projects of Miles Platting, Collyhurst and Brunswick will require support over and above the mainstream PFI support for related issues such as site assembly. It is estimated that these capital requirements can be met from within Housing's Capital resources, however, as the sources of funding are only approved on an annual basis this estimation will necessarily have to be revisited annually. Current estimates of the costs extend beyond the three-year Plan/Budget cycle.

2008/09	2009/10	2010/11
£7.976M	£12.619M	£7.624M

There will be a continuing need to invest in our own stock until transferred or being part of a PFI scheme. This investment is:-

2008/09	2009/10	2010/11
£6.359M	£3.661M	£2.450M

## **Access to Affordable Housing and Delivering the Housing Market Renewal Programme and its ongoing commitment to continue to transform the housing markets**

Resources within the Housing Market Renewal, ERDF and Mainstream are directed to achieving decent affordable homes within the private sector. The investment will be:-

2008/09	2009/10	2010/11
£48.792M	£35.702M	£39.203M

### **Loans Assistance**

Loans to owner-occupiers for home improvements.

2008/09	2009/10	2010/11
£0.730M	£0.730M	£0.730M

### **Funding for Environmental and empty property management**

2008/09	2009/10	2010/11
£0.890M	£1.000M	£1.200M

### **Ensure vulnerable people have access to accommodation**

The Housing service supports through Disabled Facilities Grant and mainstream resources adaptations to homes in the public and private sector. This supports people within their own homes and increases the stock of adapted properties.

2008/09	2009/10	2010/11
£4.250M	£4.250M	£4.250M

### **Home Repair Assistance**

This is for the provision of grant to organisations who provide handyman and other services to vulnerable owner occupiers.

2008/09	2009/10	2010/11
£0.500M	£0.500M	£0.500M

## Provide a Strategic Housing Lead across the City

2008/09	2009/10	2010/11
£5.153M	£3.249M	£3.232M

## Funding 2008/09 and effectively thereafter

In terms of the capital expenditure, 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.

*Supported capital expenditure* - the funding for 2008/09 – this has now been confirmed within the HRA Subsidy Determination, the total SCE has been reduced by £1.4m from the previous years allocation which has a significant impact on the usable capital receipt unallocated margin.

*Regional Housing Grant* - The level of funding is based on 2007/08 figures. Forward figures, especially relating to private sector expenditures are based on informal discussions with CLG.

*Capital receipts* - The utilisation of the capital receipts “fund” is based on requirements available from the usable portion of the capital receipts. The “fund” is estimated to have a positive balance of some £398k by the end of the financial year 2010/11. This balance is based on estimated projected receipts, including the sale of some parcels of land in the Charlestown area which has been valued in this projection as £8.5m in 2008/09, this value has a significant risk impact on the projected balance, due to the scale of this project, there is no margin if the sale generates a lower value.

*ALMO Funding* – The planned funding is based on the recent agreement with CLG implementing the advanced take up of the ALMO specific funding referred to earlier in this report.

# **APPENDIX B**

## **TRANSPORT CAPITAL PROGRAMME**

### **Transport Services Regeneration – 2008/09 Local Transport Plan and other Highway Capital Funding Requirements**

**(Reference: Transport Services Regeneration Business Plan 2008/09 – 2010/11)**

#### **1.0 Introduction and Background**

The City Council wants Manchester to have a transport system equal of the best in Europe. An effective transport system is a pre-condition of continued economic growth, progressing our transformation agenda and to securing the social and environmental well being of the City.

At the end of July 2007, the Greater Manchester Authorities submitted a bid to the Government's Transport Innovation Fund (TIF). The bid for a package of £2.5 billion pounds of transport investment coupled with the introduction of a peak hour congestion charging scheme and institutional reform, has the potential to revolutionise the local transport network in the city with major changes to capacity and quality of bus, rail and tram networks, and a congestion management regime.

In addition to these developments, Government has already committed resources to funding the delivery of the second Greater Manchester Local Transport Plan and has agreed to fund a major expansion of the Metrolink system.

To achieve its transport objectives Manchester will work with other AGMA authorities, including the Greater Manchester Passenger Transport Authority and key business and community 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, there is an urgent requirement for higher and sustained levels of investment if our transport network is not to constrain growth of the City and the well-being of its people. The Regional Centre is set to experience significant employment growth over the next 15 – 20. The Manchester City Region Development Plan forecasts over 100,00 jobs for the area in and around the Regional Centre. The transport programme will need to meet the demand for forecast changes in trips patterns. The continuing success of the Regional Centre is critical to addressing the long-standing challenges of social exclusion faced by many Manchester residents, in particular those in the inner areas immediately on its periphery. The challenge is to translate the sustained economic growth and competitiveness of the Regional Centre into real quality of life benefits for all residents and users.

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. Connectivity must be improved to support labour movement and promote accessibility. Our challenge is to support measures that encourage a higher proportion of journeys to be made by public transport, (on foot and by bike) thereby making a contribution to reducing congestion, improving air quality and reducing carbon emissions.

**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. There is a need to maximise the use of the existing infrastructure and make efficient use of the available capacity.

**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. Improving linkages and permeability will help drive our regeneration objectives for local districts.

**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 to improve air and noise quality.

**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. Changing travel behaviour will contribute to ease the congestion that results from our peak journey to schools and the workplace.

**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 (2008/09 – 2010/11), the 2<sup>nd</sup> Local Transport Plan and Local Public Service Agreements. The emergence of Local Area Agreements as the expression of local vision and priorities set out in the Community Strategy will include transport indicators from the Local Transport Plan. Local transport capital block allocations will continue to be part of the single capital pot, paid directly from the Department for Transport, and authorities have flexibility about how to invest them across the full range of their responsibilities.

In generic form the funding for each of these headings are set out below.

#### 3.1 Summary of Transport Initiative Funding Initiatives

<b>Summary of Headline Priorities (Reference: Transport Services Regeneration Business Plan 2008/09 – 2010/11 – Priorities for Improvement)</b>	<b>Proposed Funding Source (2008/09)</b>	<b>Amount (£k)</b>		
		<b>2008/09</b>	<b>Indicative 2009/2010</b>	<b>Indicative 2010/11</b>

	<b>Summary of Headline Priorities (Reference: Transport Services Regeneration Business Plan 2008/09 – 2010/11 – Priorities for Improvement)</b>	<b>Proposed Funding Source (2008/09)</b>	<b>Amount (£k)</b>		
			<b>2008/09</b>	<b>Indicative 2009/2010</b>	<b>Indicative 2010/11</b>
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 2008/09	2,761	4,862  Total Of "1- Public Transport" and "2 - Reducing Casualties"	5,156  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 2008/09	1,823	See "1 - Public Transport" above	See "1 - Public Transport" above

	Summary of Headline Priorities (Reference: Transport Services Regeneration Business Plan 2008/09 – 2010/11 – Priorities for Improvement)	Proposed Funding Source (2008/09)	Amount (£k)		
			2008/09	Indicative 2009/2010	Indicative 2010/11
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 2008/09 (SEMMMS)	1,464	1,503	1,504
4.	Maintenance of highway assets including bridges to be fit for purpose in	Department for Transport - Local Transport	4,219 (inc. 350 PRN Bridge strengthening)	4,256 (+ 1.092m PRN Bridge strengthening)	4,894

	<b>Summary of Headline Priorities (Reference: Transport Services Regeneration Business Plan 2008/09 – 2010/11 – Priorities for Improvement)</b>	<b>Proposed Funding Source (2008/09)</b>	<b>Amount (£k)</b>		
			<b>2008/09</b>	<b>Indicative 2009/2010</b>	<b>Indicative 2010/11</b>
	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	Transport Capital Settlement 2007/08 (Structural Maintenance)		<i>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>	
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 approved via Gateway 5 £500k over 07/08 & 08/09	City Council Capital Resources	250	-	-

### Greater Manchester Urban Traffic Control (UTC) Major scheme

The Department for Transport is fully funding this £13.6m major project through the Local Transport Plan process. This project includes the introduction of safer and more

efficient traffic control systems and the renewal of obsolete traffic control equipment with the introduction of new technology. This project will also enhance road safety measures. The migration of the existing UTC towards a modern communications platform will permit the implementation of a wide range of Intelligent Transport Systems throughout Greater Manchester.

Manchester City Council is the lead Authority on this project with approximately a third of the cost to be spent in the City and the capital budget already contains £13,536,000 in respect of this initiative (£1,500,000 in 2007/08, £3,000,000 in 2008/09, £3,000,000 in 2009/10 and £6,036,000 in future years) funded by Department for Transport direct grant.

### 3.2 Summary of Transport Initiative Funding Source Requirements

<b>3.2.1 Total Department for Transport - Local Transport Capital Settlement 2008/09</b>			
	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11 and F/Years</b>
	£000	£000	£000
<b>Minor Works</b>	4,584	4,862	5,156
SEMMMS	1,464	1,503	1,504
<b>Maintenance</b>	3,869	4,256	4,894
PRN Bridge Strengthening scheme	350	1,092	
<b>Total</b>	<b>10,267</b>	<b>11,713</b>	<b>11,554</b>
<b>3.2.2 Non LTP Transport</b>			
City Centre Signage (£500k split over 07/08 & 08/09)	250	-	-
Pavement Repairs (Spend to Save)	2,669	2,669	2,669
UTC	3,000	3,000	6,036
QBC	581		
Shudehill Transport Interchange	3,500		
Grand Car Park Access Alterations	20		
<b>3.2.3 Total Transport</b>	<b>20,287</b>	<b>17,382</b>	<b>20,259</b>

Note also

In addition, not included in above there is –

Greater Manchester Specific Road Safety Grant (Capital & Revenue)  
£2, 986,000 (2008/09), £3,387,000 (2009/10) and £3,525,000 (2010/2011)  
to be split between the Manchester districts at the end of January 2008

The significant differences in Minor Works comparative to previous year are due to both the phasing in of the revised apportionment system and the ceasing of the large QBC topslice, which used to go initially to GMPTA.



## **Treasury Management Strategy Statement & Borrowing Limits and Annual Investment Strategy 2008-09**

### **1. Introduction**

The Council's Treasury Management policy complies with the CIPFA Code of Practice on Treasury Management. This was adopted by the Council on 8 October 2003.

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 2008/09 is based upon the views of Treasury officers on interest rates, informed by leading market forecasts. The report covers the following:

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

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 2008/09 to 2010/11

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 2008/09 – 2010/11

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 5 to Annex 1 of this report.

## 4. Current Portfolio Position

The Council's estimated treasury portfolio position at 31 March 2008 will comprise:

	£000	£000	Average Rate
<u>Fixed Rate Funding</u>			
PWLB	202,493		8.89%
Airport Debt Recharge	(86,575)		10.21%
Market	348,250		5.35%
Stock	8,253		3.36%
		472,421	
<u>Variable Rate Funding</u>			
PWLB	0		0%
Market	211,390		5.02%
		211,390	
Temporary Investments		(16,653)	5.63%

## 5. Borrowing Requirement

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

	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
New Long-term borrowing	235,944	77,332	57,479

2008-09 figures include the potential refinancing of £198.3m of PWLB loans, repaid early in June and July 2006 and June and July 2007, using temporary cash balances. 2009-10 and 2010-11 figures include borrowing requirements for the Building Schools for the Future programme, which is being funded by direct government grant in earlier years.

However, cash balances remain strong and new borrowing will only be undertaken after using other funding sources (grants, capital receipts, revenue earmarked for capital funding) having regard to the relative costs (difference between debt interest and minimum revenue provision compared to investment interest rates).

## 6. 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 Southway estate took place in November 2007.

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 £109.957m.

Further transfers are expected to take place between April and October 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.

## 7. 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 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	Q/E4 2010	Q/E1 2011
Bank Rate	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	4.55%	4.55%	4.50%	4.50%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%	4.85%	4.85%	4.85%
10yr PWLB rate	4.60%	4.55%	4.50%	4.50%	4.55%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%	4.85%	4.85%
25yr PWLB rate	4.55%	4.50%	4.50%	4.50%	4.50%	4.55%	4.60%	4.65%	4.70%	4.70%	4.75%	4.75%	4.75%
50yr PWLB rate	4.50%	4.45%	4.45%	4.45%	4.45%	4.50%	4.55%	4.60%	4.60%	4.65%	4.65%	4.65%	4.65%

## Economic background

### Introduction

- The sub prime crisis and the major downturn in the housing market in the US has prompted fears around the world of the potential impact on world banking systems and on world growth. This has led to a sharp downturn in economic sentiment at the start of 2008, which caused the U.S. Federal Reserve to take emergency action in January to counteract these hugely negative developments. This has led some forecasters to make a sharp downward re-assessment of forecast interest rates in 2008 and 2009.

### International

- The US, UK and EU economies have all been on the upswing of the economic cycle during 2005 and 2006 and so interest rates were successively raised in order to cool their economies and to counter the build up of inflationary pressures.
- The US is ahead of both the UK and EU in the business cycle and started on the downswing of the economic cycle during 2007. The US Federal Reserve rate peaked at 5.25% and was first cut in September by 0.5% to 4.75%. This was a response to the rapidly deteriorating prospects for the economy in the face of the downturn in the housing market, the sub prime mortgage crisis and the ensuing liquidity crisis, which started in August 2007 and has subsequently resulted in banks making major write offs of losses on debt instruments containing sub prime mortgages. Banks have also tightened their lending criteria, which has hit hard those consumers with poor credit standing.
- The Federal Reserve cut its rate again, to 4.5% in October 2007 and to 4.25% in December. A steep plunge in equity markets around the world in January, precipitated by widespread concerns as to recession in the US, the financial viability of bond insurers in the US as a result of the sub-prime crisis and the unwinding of huge unauthorised positions taken by a rogue trader at the French bank Societe Generale, triggered an emergency between meetings cut of 0.75% by the Federal Reserve, followed by another cut of 0.50% at its regular meeting a few days later on 30 January.

- There may be additional cuts to try to stimulate further the economy and to soften the effects of the expected downturn. However, the speed and extent of these cuts may be inhibited by inflationary pressures arising from oil prices, the falling dollar increasing the costs of imports, etc. The US could be heading into stagflation in 2008 – a combination of inflation and a static economy (but the economy could even tip into recession if the housing downturn becomes severe enough).
- The major feature of the US economy is a steepening downturn in the housing market, which is being undermined by an excess stock of unsold houses, stoked by defaulting sub prime borrowers pushed into forced sales. 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. Petrol prices have trebled since 2003 and, with similar increases in the price of home heating oil, this will also depress consumer spending, with knock on effects on house building, employment etc.
- The downturn in economic growth in the US in 2008 will depress world growth, (especially in the western economies), which will also suffer directly under the impact of high oil prices. However, strong growth in China and India will partially counteract some of this negative pressure.
- EU growth has been strong during 2006 and 2007 but will be caught by the general downturn in world growth in 2008.

## UK

- GDP (Gross Domestic Product): Growth has been strong during 2007 and hit 3.3% year on year in the third quarter and 2.9% in quarter 4, despite expectations of a significant slowdown in the pace of the economy. Growth is expected to slow to 2.0% in 2008.
- Higher than expected immigration from Eastern Europe has underpinned strong growth and dampened wage inflation.
- House prices started on the downswing in the third quarter of 2007 and this is expected to continue into 2008.
- The combination of increases in Bank Rate and, hence, mortgage rates, short term mortgage fixes expiring and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, have all put consumer spending power under major pressure.
- Banks have also tightened their lending criteria since the sub prime crisis started and this will also dampen consumer expenditure via credit cards and buying houses through obtaining mortgages.
- Government expenditure will be held under a tight reign for the next few years, undermining one of the main props of strong growth during this decade.
- The Monetary Policy Committee (MPC) is very concerned at the build up of inflationary pressures, especially the rise in the price of oil, reaching \$90 – \$100 per barrel from time to time (was \$30 in 2003), and the consequent likely knock on effects on general prices. The prices of UK manufactured goods have risen at the fastest rate in 16 years in December 2007 – 5.0%. Food prices have also risen at their fastest rate for fourteen years (7.4% annual increase), driven by strong demand from China and India. Consequently, the MPC is going to be much more cautious about cutting rates, compared to the Federal Reserve, in the face of these very

visible inflationary pressures. In addition, UK growth was still strong in quarter four, despite expectations of a significant slowing down. The downward trend in Bank Rate is now expected to be faster than at first thought, after the initial cut in December 2007 to 5.50%, in view of the MPC minutes, which showed a unanimous vote for a cut and consideration given to a half per cent cut. This demonstrated how concerned the MPC is at the potential impact of the credit crunch on the economies of the western world. However, the MPC's room for cutting rates is currently limited by concerns over inflationary pressures. If those pressures subside, there is further downward risk to the Sector forecast, which currently only allows for 0.25% cuts, to reach 4.75% in the third quarter of 2008.

## 8. Borrowing Strategy

The Sector forecast is as follows:-

- The 50 year PWLB rate is expected to fall marginally from 4.50% in quarter 1 of 2008 to 4.45% in the second quarter of 2008, before rising back again to 4.50% in quarter 2 of 2009, to eventually reach 4.65% in the second quarter of 2010.
- The 25 year PWLB rate is expected to fall from 4.55% to 4.50% in the second quarter of 2008 and then to rise, in gradual steps, from quarter 2 of 2009, to reach 4.75% in the third quarter of 2010.
- The 10 year PWLB rate is expected to fall from 4.60% in quarter 1 of 2008 to 4.55% in the second quarter and to 4.50% in quarter 3 of 2008, and to then gradually rise from quarter 1 of 2009, to reach 4.85% in the third quarter of 2010.
- The 5 year PWLB rate is expected to fall from 4.55% in quarter 1 of 2008 to 4.50% in the third quarter of 2008 and then to gradually rise, starting in the first quarter of 2009, to reach 4.85% in quarter 2 of 2010.

This forecast indicates, therefore, that there are a range of options available for the borrowing strategy for 2008/09. Variable rate borrowing is expected to be more expensive than long-term borrowing and will, therefore, be unattractive throughout the financial year compared to taking fixed rate borrowing. There is expected to be little difference between 5 – 50 year PWLB rates, so this may open up a range of options for new borrowing, which would allow the Council to spread their debt maturities away from a concentration in long dated debt. There is also expected to be little variation in rates during the year, so borrowing could be undertaken at any time in the year.

On 1 November 2007, the PWLB introduced different rates for new borrowing, as opposed to early repayment of debt

The main strategy is therefore as follows:

- Focus on the cheapest PWLB borrowing, which will be found in 50 year borrowing, which will provide marginally cheaper rates than 25-30 year borrowing. As little variation is expected during the year, borrowing could be undertaken at any time in the year.
- However, despite the minimally more expensive new borrowing rates expected in the 25 – 30 year period, these could be seen as being much more attractive than 50 year borrowing as the spread between the PWLB new borrowing and early repayment rates is considerably less. This then maximises the potential for debt rescheduling at a later time by minimising the spread between these two rates.
- This strategy would also mean that, after some years of focusing on borrowing at or near the 50 year period, the Council would be able to undertake borrowing in a markedly different period and so achieve a better spread in its debt maturity profile.
- There is expected to be little difference between PWLB rates in the 5 – 30 year range, so consideration will also be given to creating a greater spread of maturities in the debt portfolio by taking new borrowing at shorter periods.

- When PWLB rates fall back to the central forecast rate of about 4.50%, borrowing should be made at any time in the financial year. A suitable trigger point for considering new fixed rate long term borrowing, therefore, would be 4.50%.
- The central forecast rate will be reviewed in the light of movements in the slope of the yield curve, spreads between PWLB new borrowing and early payment rates, and any further changes that the PWLB may introduce to its lending policy and operations.
- Consideration will also be given to borrowing fixed rate market loans at 25 – 50 basis points below the PWLB target rate.

Against this background, caution will be adopted with the 2008/09 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 rate 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.*

## 9. Debt Rescheduling

The introduction of different PWLB rates on 1 November 2007 for new borrowing, as opposed to early repayment of debt, and the setting of a spread between the two rates (of about 40 – 50 basis points for the longest period loans, narrowing down to 25 – 30 basis points for the shortest loans), has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, significant interest savings will still be achievable through using LOBO (Lenders Option Borrowers Option) loans and other market loans.

As average PWLB rates in some maturity periods are expected to be minimally higher at the start of the financial year than later on in the year, and as Bank Rate is expected to fall significantly, this will mean that the differential between long and short term rates will narrow during the year and there should, therefore, be greater potential for making interest rate savings on debt by doing debt restructuring earlier in the year.

Reasons for any rescheduling to be undertaken will include:

- the generation of cash savings at minimum risks and without delivering short-term benefits at the expense of longer-term costs;

- to help fulfil the strategy outlined in Section 8 above;
- to enhance the balance of the long-term portfolio, e.g., amend the maturity profile and/or the balance of volatility.

As reported in the latest Global Monitoring report, rescheduling of £50m of market debt is to be undertaken late in 2007/08 which will cost £1.031m in 2007/08 but yield total savings of £2.641m over the period 2008/09 – 2013/14.

## 10. Minimum Revenue Provision (MRP) Strategy

The Council is required to make provision for repayment of an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments.

Draft CLG Regulations are currently issued for comment which, if implemented, will require full Council to approve **an MRP Statement**. This will need to be approved in advance of each year. Whilst the regulations will revoke current MRP requirements, councils are allowed to continue historical accounting practice. A variety of options are provided to councils to replace the existing Regulations, so long as there is a prudent provision. The timetable for implementation is very tight and so Members are asked to approve the following policy, based on the draft Regulations. Should the final regulations change this Statement, it will be re-submitted for approval.

Based on the draft regulations, the Council is recommended to approve the following MRP Statement:-

- For capital expenditure incurred before 1 April 2008 or which in the future will Supported capital Expenditure, the MRP policy will be:
  - **Existing practice** - MRP will follow the existing practice outlined in former CLG Regulations.
- From 1 April 2008 for all unsupported borrowing the MRP policy will be:
  - **Asset Life Method** – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive).
- From 1 April 2008, for all borrowing in relation to expenditure which is capital by virtue of a Ministerial direction or is capital expenditure which does not create a council asset MRP will be provided as follows, starting in the year after the capital expenditure is .....or in the case of operational assets in the year the asset becomes operational, in accordance with the draft regulations.

<u>Expenditure type</u>	<u>Maximum period over which MRP to be made</u>
Expenditure capitalized by virtue of a <b>direction</b> under s16(2)(b).	20 years.
<b>Regulation 25(1)(a)</b> . Expenditure on computer programs.	Same period as for computer hardware.
<b>Regulation 25(1)(b)</b> . Loans and grants	The estimated life of the assets in relation to

towards capital expenditure by third parties.	which the third part expenditure is incurred.
<b>Regulation 25(1)(c).</b> Repayment of grants and loans for capital expenditure.	25 years.
<b>Regulation 25(1)(d).</b> Acquisition of share or loan capital.	20 years.*
<b>Regulation 25(1)(e).</b> Expenditure on works to assets not owned by the authority.	The estimated life of the assets.
<b>Regulation 25(1)(ea).</b> Expenditure on assets for use by others.	The estimated life of the assets.
<b>Regulation 25(1)(f).</b> Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings.	25 years.

\* The recommended policy is in line with the draft regulations, but should the final regulations permit, it is recommended the policy in relation to Regulation 25(1)(d) items be amended to equal the estimated life of assets associated with the acquisition expenditure.

## 11. 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 undertaken 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.

	<b>Minimum 'High' Credit Criteria</b>	<b>Use</b>
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.

## **Non-Specified Investments**

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

The only Non-specified investments the Council will make use of are term deposits with unrated building societies with assets in excess of £1 billion. A maximum limit of 20% of average total investments at any one time is in place for these non rated institutions and a maximum investment period of 90 days.

## **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 2008-09 is estimated to range between £0m and £68m. The higher level can sometimes arise where, for instance, the City Council takes advantage of favourable long-term interest rates to borrow in advance of need.

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.

As noted in paragraph 5 above, 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**

Bank Rate started on a downward trend from 5.75%, with the first cut to 5.50% in December 2007. This is forecast to continue, with further cuts to 5.25% in quarter 1 of 2008, 5.00% in the second quarter of 2008 and 4.75% in quarter 3 of 2008. It is then expected to rise back to 5.0% in Q4 2009 and stabilise there for the foreseeable future. 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:-

1. The Prudential Indicators referred to in section 3 and listed in Appendix 5 to Annex 1 of this report.
2. The Borrowing Requirements listed in section 5.
3. The Borrowing Strategy outlined in section 7.
4. The MRP Strategy outlined in section 10.
5. The Annual Investment Strategy detailed in section 11.

## 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 – 1 February 2008

	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	Q/E4 2010	Q/E1 2011
Bank Rate	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%	4.75%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	4.55%	4.55%	4.50%	4.50%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%	4.85%	4.85%	4.85%
10yr PWLB rate	4.60%	4.55%	4.50%	4.50%	4.55%	4.55%	4.65%	4.70%	4.75%	4.80%	4.85%	4.85%	4.85%
25yr PWLB rate	4.55%	4.50%	4.50%	4.50%	4.50%	4.55%	4.60%	4.65%	4.70%	4.70%	4.75%	4.75%	4.75%
50yr PWLB rate	4.50%	4.45%	4.45%	4.45%	4.45%	4.50%	4.55%	4.60%	4.60%	4.65%	4.65%	4.65%	4.65%

#### Capital Economics interest rate forecast – 7 January 2008

	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank rate	5.25%	5.00%	4.75%	4.50%	4.25%	4.00%	4.00%	4.00%
5yr PWLB rate	4.45%	4.35%	4.05%	3.95%	4.05%	4.25%	4.35%	4.75%
10yr PWLB rate	4.45%	4.25%	4.15%	4.15%	4.25%	4.45%	4.65%	4.85%
25yr PWLB rate	4.55%	4.45%	4.45%	4.35%	4.45%	4.55%	4.75%	4.95%
50yr PWLB rate	4.55%	4.45%	4.35%	4.25%	4.35%	4.55%	4.65%	4.75%

**UBS Economic interest rate forecast (for quarter ends) – 7 January 2008**

	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009
Bank Rate	5.25%	5.00%	4.75%	4.50%	4.50%	4.50%	4.50%	4.50%
10yr PWLB rate	4.75%	4.70%	4.70%	4.65%	4.65%	4.65%	4.65%	4.70%
25yr PWLB rate	4.60%	4.60%	4.65%	4.55%	4.55%	4.55%	4.55%	4.60%
50yr PWLB rate	4.43%	4.50%	4.60%	4.55%	4.60%	4.65%	4.65%	4.70%

**2. SURVEYS OF ECONOMIC FORECASTS**

**HM Treasury** – January 2008 summary of forecasts of 24 City and 13 academic analysts for the fourth quarter of 2007 and 2008. (2009 – 2011 are based on 21 forecasts)

BANK RATE FORECASTS		quarter ended		annual average Bank Rate		
	actual	Q4 2007	Q4 2008	ave. 2009	ave. 2010	ave. 2011
Median	5.75%	5.70%	5.00%	5.20%	5.24%	5.27%
Highest	5.75%	5.75%	6.25%	6.25%	6.25%	6.25%
Lowest	5.50%	5.25%	4.50%	4.80%	4.50%	4.50%

### 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**

<b>COMMITTEE</b>	<b>EXECUTIVE</b>
<b>DATE</b>	<b>13 FEBRUARY 2008</b>
<b>SUBJECT</b>	<b>HOUSING REVENUE ACCOUNT BUDGET 2008/09 – 2010/11</b>
<b>REPORT OF</b>	<b>DIRECTOR OF HOUSING SERVICES AND THE CITY TREASURER</b>

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**PURPOSE OF REPORT**

To present details of the proposed Housing Revenue Account (HRA) budget for 2008/09 and forward estimates for 2009/10 and 2010/11.

**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 2008/09 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 2007 – Housing Revenue Account Budget  
2007/08 – 2009/10  
Executive Report 27 June 2007 – Final Out-turn of the Housing Revenue Account 2006/07

**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 29,000 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 2008/09 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 2007/08**

3.1 The budget strategy that set the base for 2007/08 was based on a rent increase for that year in accord with and making appropriate progress towards the Government's rent convergence target whilst maintaining service and investment levels. The strategy also made certain assumptions:-

- efficiency savings
- a reduction in revenue contributions to the capital programme (RCCO)

3.2 Some minor re-phasing of the Housing Investment Strategy programme, has caused some variances against budget in terms of rental income, repairs and maintenance and subsidy allowances, however, mostly to a neutral effect. Additional unbudgeted costs arising from:-

- the change in accounting for administrative costs of abortive right to buy sales,
- contributions to the leaseholders fund,
- additional heating account costs

have been offset by an increase in investment income for the previous (arising from the audit) and this financial year leaving a forecast out-turn for 2007/08 some £1m higher than that that committed at budget approval stage.

3.3 In line with previous approvals the HRA also funded:

- wardens in the North of the City
- a major survey within the area managed by Northwards Housing
- replacement windows in the Hendham Vale area (via RCCO)

3.4 This funding was provided via the compensation fund received following the major works on the M60 motorway to the North of the City.

### **4 BUDGET STRATEGY 2008/09 – 2010/11**

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 Budget 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 2008/09 is predicated on the Final Determination issued by CLG

- 4.2 As can be seen, during the budget year 2008/09, there is an excess of expenditure over income of some £3.020 million during the budget year thereby decreasing the HRA general reserve and leaving a surplus balance of some £0.845 million at 31 March 2009.
- 4.3 Following the final repayment of the SATMAN loan in 2006/07 a “surplus” was generated in 2007/08 and the opportunity was taken to make additional payments into the reserves of existing PFI schemes in order to mitigate the pressure on the HRA in forward years. It is proposed to make further additional payments into the Grove Village PFI scheme of £4m 2008/09 and £1m in 2009/10.
- 4.4 For the heating scheme, this financial strategy has eliminated the need for HRA contributions in the future. The actions to date and those planned for 2008/09 will assist in securing the long term funding of the housing role within the City Council by minimising calls upon the resources of the HRA. A surplus balance is budgeted for as at 31 March 2009 that will provide a resource against any unforeseen issues arising following divestment of the stock under the Housing Investment Programme.
- 4.5 The key budget strategy principles are as follows:-

## **5 Rent Levels**

- 5.1 Within the HRA, rent restructuring to achieve social rent reform by 2012 continues. The city wide average planned increase for 2008/09 is marginally under 5%, however, if we exclude the Stockport over spills – planned to transfer by the middle of April – the City wide average is some 4.92%. This is the level required by CLG to achieve convergence with the formula/target rent.

## **6 Total Management Costs**

- 6.1 The management costs, shown in the appendix, include the estimates of the cost of the Management Fee paid for the management and maintenance of our properties by Northwards Housing (the ALMO).

## **7 Housing Investment Strategy**

- 7.1 Overall the City would have required some £1.0 billion over the period to 2010/11 to bring the Manchester’s housing to a good standard and maintain them to meet the “decent homes” national PSA target. The PSA target could not be delivered on traditional resources alone and, as such, the Housing Investment Options 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, some 6,000 properties, to Parkway Green Housing Trust and during the current financial year some 6,000 properties were transferred to Southway Housing Trust.
- During the coming budget year 2008/09, the inner south estates are planned to transfer to City South Manchester Housing Trust in June 2008. Whilst the final large scale stock transfer of the estates east areas is planned to transfer later in 2008.
- The commercial/financial close of the Miles Platting PFI was successfully completed in March 2007.
- The completion dates for the Collyhurst and Brunswick PFIs are planned for the spring of 2010.
- Stock transfer of the smaller estates - mainly overspill estates, to existing Registered Social Landlords will be ongoing through this budget period

## **8 Cost of Pay Award**

- 8.1 The cost of implementing the outcome of the job evaluation put pressure on all services and will continue to do so until the reduction in the level of pay protection starts to impact. However, this cost has been funded without detriment to the services.

## **9 Housing Subsidy Grant**

- 9.1 Housing Subsidy Grant is delivered on an annual basis. Whilst the budget is based on the recently issued Final Determination there is no certainty beyond this in either formula or resources allocated. The original budget 2008/09 was based on an inflationary rise of 2.5%. Whilst the Final Determination did increase the allowances by 2.5%, the “dampening” by CLG meant that the final allowances were decreases in real terms. Notwithstanding this, the forward strategy, beyond the budget year, is based, on the assumption of 2.5% i.e. more than that arising within the latest determination.

## **10 Revenue Contribution to Capital Outlay (RCCO)**

- 10.1 With the substantially reduced public sector programme of investment required, no provision has been made for those elements of maintenance spend that would have been complementary to a capital programme.
- 10.2 A revenue contribution to capital outlay is provided for relating to the

capital works planned for the Hendham Vale area in order to carry out the necessary capital works within that area. The funds to carry out this work are being made available, as agreed, from the M60 compensation monies received and retained in a discrete fund within the HRA Reserve.

## **11 Provision for Bad Debts**

11.1 Following agreement with the Audit Commission, the provision for bad debts was revisited at the end of 2006/07. The budget year contains a contribution based on 1% of the budgeted rental income.

## **12 Budget Risks**

12.1 The resources provided for within the strategy are in line with the planned reductions in stock. There are risks, however, if;

- resources cannot be reduced accordingly e.g. staff rundowns are not in line with stock reductions,
- the housing investment options programme changes,
- recharges from service departments within the Council may not reduce strictly in line with the lower demand for those services.

12.2 Any changes to resources required will need to be found from savings/efficiencies generated within the HRA.

12.3 The cost of bulk purchase of gas for communal heating schemes increased substantially over recent years and the policy adopted was to smooth in the charges to tenants in anticipation of a slow down in the market in 2007/08. The policy was known to mean that HRA had to contain the delay in implementing price increases, however, this could be met from reserves without increasing rents. As anticipated bulk gas prices did stabilise in 2007/08 and the heat charge increases during the year have almost meant that we have caught up to the gas price increases. This budget continues that policy and the heat account will reach break even this coming budget year of 2008/09.

12.4 However, the bulk gas market is currently undergoing unexpected changes and this area of risk will be kept under careful review particularly in the process of procuring new supply contracts in 2008.

12.5 The Budget Strategy makes several assumptions in regards to the rental income. This income figure is therefore subject to risk of the right to buy sales have reduced substantially over the last year and the forecasts of sales have been similarly reduced, however, demand may rise again and may exceed that budgeted and thereby lead to loss of rental income. Similarly, R&M costs and subsidy income will also change

## **13 CONCLUSION**

- 13.1 The proposals contained in this report will ensure service delivery and investment is maintained. In the context of future restrictions on the HRA the recommendations will help secure HRA services for several years to come.
  
- 13.2 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 2008/09 and the two following years, displayed in Appendix 1, shows this provision being met.

**APPENDIX 1**

**Housing Revenue Account 2008/09 – 2010/11**

	<b>2007/08 Forecast £000s</b>	<b>2008/09 Plan £000s</b>	<b>2009/10 Plan £000s</b>	<b>2010/11 Plan £000s Full Year CHF</b>
<b>Expenditure</b>				
Management Costs (inc ALMO Mangt Fee)	85,354	66,067	61,105	68,324
Chief Rents	222	138	100	30
Contributions to Bad Debts	901	620	518	534
Maintenance and Repairs	17,961	6,041	2,500	0
Depreciation	33,223	17,728	11,771	11,425
Debt Management Expenses	364	738	738	738
<b>Total Expenditure</b>	<b>138,025</b>	<b>91,331</b>	<b>76,731</b>	<b>81,051</b>
<b>Income</b>				
Rental Income	92,801	61,653	51,461	53,126
Other Income –contributions	23,687	20,373	21,244	26,763
Other Income -service charges	10,782	9,183	9,500	9,849
Major Repairs Allowance	17,615	10,930	8,681	7,614
Housing Subsidy	9,501	1,848	375	-2,242
<b>Total Income</b>	<b>154,386</b>	<b>103,986</b>	<b>91,261</b>	<b>95,109</b>
<b>NET COST OF SERVICES - ( - ) = cost</b>	<b>( - ) 16,361</b>	<b>( - ) 12,655</b>	<b>( - ) 14,529</b>	<b>( - ) 14,058</b>
Interest charges (from 07-08)	34,332	20,793	16,610	16,610
MRA/Depreciation adjustment	-15,608	-6,798	-3,090	-3,811
HRA Investment Income / Mortgage Interest	-1,714	-1,700	-1,700	-1,700
Amortised Premia (net of discount)	4,033	2,694	2,694	2,694
	<b>21,043</b>	<b>14,989</b>	<b>14,514</b>	<b>13,793</b>
<b>NET OPERATING EXPENDITURE</b>	<b>4,682</b>	<b>2,335</b>	<b>-15</b>	<b>-265</b>
<b>Appropriations</b>				
RCCO	500	685	0	0
	<b>500</b>	<b>685</b>	<b>0</b>	<b>0</b>
<b>BALANCE - ( - ) = Excess of Inc over Exp</b>	<b>5,182</b>	<b>3,020</b>	<b>( - ) 15</b>	<b>( - ) 265</b>
<b>BALANCE B/F - (credit balance)</b>	<b>(8,022)</b>	<b>(3,865)</b>	<b>(845)</b>	<b>(860)</b>
<b>BALANCE C/F - (credit balance)</b>	<b>(2,840)</b>	<b>(845)</b>	<b>(860)</b>	<b>(1,126)</b>
add transfer from M60 Compensation reserve fund	<u>(1,025)</u>			
<b>BALANCE C/F - (credit balance)</b>	<u><b>(3,865)</b></u>			