City of Durham

Council

26th February, 2008

Report of Director of Financial Services

Members are asked to note that the County Council and Fire Authority Precept data contained within the Report of the Director of Financial Services (Agenda Item No. 10) is currently provisional until these Authorities have met, and that the Police Authority Precept figure is still awaited.

A revised copy of the report will therefore be circulated to Members in advance of the Council Meeting.

CITY OF DURHAM COUNCIL

COUNCIL

26 FEBRUARY, 2008

REPORT OF DIRECTOR OF FINANCIAL SERVICES

1. 2008/09 REVENUE AND CAPITAL BUDGETS

The General Fund and Housing Revenue Account, Revenue, Capital and Leasing Plant Replacement Budgets 2008/09 were submitted to and approved by Cabinet 13 February 2008. The 2008/09 Budget Report (attached at Appendix A) sets out the Council's proposed budgets and includes full details of the rationale behind and changes within the 2008/09 budget framework. It also includes details relating the recommended Council Tax for 2008/09.

The key features of the Budget Report 2008/09 are as follows:

- The Council will receive Total Formula Grant Support of £8,606,785 in 2008/09.
- The Council Tax tax-base represents the estimated amount of Council Tax income the Authority will raise from each £1 of Council Tax levied – the City Council has determined its Council Tax tax-base for 2008/09 at 26,374.59.
- There is an estimated surplus on the Council Tax Collection Fund for 2008/09 of £330,000 and the net City Council proportion to be taken into account in setting the 2008/09 Council Tax is £46,332.
- After taking into account the views of residents, the business community and the financial pressures this Council faces, it is proposed that a Budget Requirement (excluding parishes) of £13,575,134 be set.
- To fund this Budget Requirement, it is proposed that after taking into account the City Council's share of the Collection Fund surplus it considers setting the Council Tax at Band D for 2008/09 at £186.62, an increase of 1.9%.
- That the policy on reserves and balances (as reviewed by Council 27/09/07) be maintained. It is estimated that the General Reserve will stand at £559,693 at the 31.3.08 and that £502,637 of this balance will be used to support non-recurring revenue commitments within the budget in 2008/09 – including provisions in relation to Business Continuity / Service Initiatives during the transition year.
- That financial forecasts for 2008/09 identify forecast spending at current service levels and for known commitments and developments. The assumptions used to prepare this are based on those shown in the Medium Term Financial Plan, amended to take into account recent developments and changes most notably local government review.
- That challenging efficiency targets are included in the 2008 Budget Report and that to achieve these the Council should continue to strengthen its existing arrangements and build on its past successes.
- That the expenditure on the capital programme in 2008/09 is estimated at £6.845M, of which £4.704M relates to spending on Council housing, primarily in relation to the achievement of Decent Homes.
- That financial forecasts anticipate revenue financing costs of borrowing £248,000 to fund capital expenditure in 2008/09.

- ♦ That the major schemes within the General Fund capital programme are private sector grants (Disabled Facilities and Renovation Grants); contributions to DVRC in relation to the Freemans Quay LC (being the transfer of funding from grants and contributions payable to the City Council); and modest investment in public realm / small scale environmental initiatives in the coming year;

- ♦ That the capital programme for housing is funded from the major repairs allowance of £3.866M, capital receipts of £277,450 and a contribution from the HRA of £312,000.

- ♦ That the capital programme anticipates the application of usable capital receipts totalling £1.172M in 2008/09. A disposal strategy / schedule of land to be sold is included in the budget report.

- ♦ That the capital programme assumes grants and contributions (excluding the major repairs allowance) of £1.147M in 2008/09

- ♦ That the gross expenditure budget for the HRA be set at £17.056M being funded by rents and other income as shown in the attached papers

- ♦ That the HRA factors in the revised subsidy determinations and changes to the rent restructuring formula for 2008/09. Average rents will increase by 5.50% in 2008/09.

Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an Authority is now required to report on the following matters:

a) the robustness of the estimates made for the purposes of determining its budget requirement for the forthcoming year

b) the adequacy of the proposed financial reserves

There is then a requirement for the Authority to have regard for the report of the Chief Finance Officer when making decisions on its Budget Requirement and level of financial reserves.

This report will first consider the robustness of the Council's budgets and this brings with it an assessment of the risks the Council faces. The 2008/09 Budget Report (attached at Appendix A) considers the financial and operational risks the Council faces in the current year, the measures put in place to mitigate these, notably the establishment of realistic budgets, the level of reserves and the implementation of sound financial, performance and risk management, monitoring and reporting arrangements, based on this assessment, and the recommended level of reserves, the risk inherent within these budgets lies within the operational, managerial and financial capacity of the City Council during 2008/09

The 2008/09 Budget Report also draws attention to the Comprehensive Spending Review 2007, which has led to a tighter fiscal position and a requirement for increased efficiency savings. The financial forecasts demonstrate the need for challenging efficiency savings.

On 27 September 2007, Council reviewed its policy with regard to reserves and balances, both in terms of the purpose and level of those reserves and balances and the delegated approvals required to apply them to strategic priorities. A number of earmarked reserves and balances were consolidated into the General Reserve and approval was gained to apply sums to the financing of a number of capital projects / commitments in 2007/08 – as a result of reductions in capital receipts from Right to Buy sales and delays in the disposal of land earmarked for sale in 2007/08. At this meeting Council approved the establishment of three reserves from the existing General Reserve.

- a Strategic Emergency Reserve of £700,000
- a General Reserve of £500,000
- a Capital Fund – Revenue Contributions of £2,005,000

The Capital Fund has been fully utilised / allocated to finance the 2007/08 capital programme. The following paragraphs give an overview of the current policy with regards to reserves and balances

a) The purpose of the Strategic Emergency Reserve is to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve currently equals 5% of the Council's net General Fund revenue budget and the Bellwin sum and is the recommended minimum amount of reserves that should be retained by the Council as a contingency

   Only the Council itself may authorise the use of this reserve, except in the circumstances where a major emergency is declared, requiring the deployment of the Council's emergency planning arrangements and the establishment of Gold and Silver Command. In these circumstances, Council gives the Chief Executive, as the designated Gold Commander, delegated powers to authorise the deployment, if necessary, of all available resources, including this reserve;

b) The purpose of the General Reserve is to support one-off and limited ongoing revenue expenditure - provided that this expenditure cannot be met from existing earmarked revenue/reserves and/or anticipated savings in the year, currently 2008/09. These include the costs of Job Evaluation, maintaining Business as Usual during transition under Local Government Review and the impact of the Comprehensive Spending Review in 2008/09. Cabinet approves the deployment of this reserve, via the quarterly budget monitoring reports, the 2008/09 estimates report or other reports. Council will review this reserve annually when considering the estimates and at that point identify requirements for the following financial year

c) the purpose of the Council's earmarked reserves is to meet identified spending commitments. These reserves will only be used to the purposes for which they were created and will be reviewed annually. If they are no longer required, they will be transferred to the general reserve

d) with regard to the HRA Balance, the Council will maintain a minimum balance of £0.5M and will aim to increase this to around £1M by the end of March 2008.

e) with regard to the Insurance Fund, the Council will maintain a minimum balance of £400,000.

The Council's General Fund balances are in a reasonably healthy position and at 31 March 2008 are expected to total £2.102M – of this, £0.842M is earmarked for specific purposes such as Insurances and s106 Planning Consents, leaving a non-earmarked General Reserve of £0.560M and a Stragic Emergency Rsererve of £0.700M. The Strategic Emergency Reserve will be maintained at (at least) £0.700M at 31 March 2009, whereas the General Rsereve is forecast to fall to £57K by 31 March 2009.

The balance on the Housing Revenue Account is forecast to be £0.954M on 31 March 2008 and will be maintained at this level in 2008/09. This fulfils the requirements of the previous medum term strategy.

Thus, the current and forecasted level of reserves in 2008/09 is in line with the Council's policy. This policy was based on assessment of the Council's risks and does not require amendment in the light of the revised assessment in the 2008/09 Budget Report. Thus, the General Reserve should be sufficient to meet the risks the Council faces during its transition year.

Recommendation

Council is recommended to resolve that:

1.1 the revenue budgets (General Fund and Housing Revenue Account) for 2008/2009 be approved (including the application of a 5.50% rent increase in 2008/09)

1.2 the revised capital programmes (General Fund and Housing Revenue Account) for 2007/08 and 2008/09 be approved

1.3 the Council endorse the policy on reserves and balances as reviewed in September and set out in summary above

2. STATUTORY DETERMINATIONS – COUNCIL TAX SETTING

Summary of Net Expenditure and Income

If the Cabinet recommendations are approved, and after taking into account the County Council, Fire Brigade and Police Authority demands, the position is as follows:-

	£	£
Durham City Council's Net Expenditure	**13,575,134**	
Add: Parish Precepts	431,946	14,007,080
Less: a) Revenue Support Grant	1,051,726	
b) National Non Domestic Rate	7,555,059	8,606,785
		5,400,295
Less Surplus on Collection Fund:		
Council Tax	46,332	46,332
Billing Authority Demand		**5,353,963**
County Council Demand		27,017,602
County Durham & Darlington Fire & Rescue Authority		2,179,069
Police Authority Demand		X,XXX,XXX
TOTAL DEMAND		**XX,XXX,XXX**

2.1 That the following, as submitted in the Council's Revenue and Capital Budgets 2008/09, be approved:-

a) the revenue budgets (General Fund and Housing Revenue Account) for 2008/2009;

b) the capital programmes (General Fund and Housing Revenue Account) for 2008/2009;

2.2 That it is noted that at its meeting on 8 January 2008, the Council calculated the following amounts for the year 2008/2009 in accordance with regulations made under Section 33(5) of the Local Government Finance Act 1992.

a) 26,374.59 being the amount calculated by the Council, in accordance with Regulation 3 of the Local Authorities (Calculation of Council Tax Base) Regulations 1992 as its Council Tax base for the year.

b) <u>Part of the Council's Area</u>

Parish	
Bearpark	625.48
Belmont	2,978.02
Brancepeth	215.82
Brandon & Byshottles	5,453.61
Cassop-cum-Quarrington	1,410.75
Coxhoe	1,293.24
Croxdale & Hett	310.86
Framwellgate Moor	1,568.46
Kelloe	407.88
Pittington	504.41
Shadforth	637.36
Sherburn	952.18
Shincliffe	709.53
West Rainton	764.08
Witton Gilbert	802.89

Being the amounts calculated by the Council, in accordance with Regulation 6 of the Regulations, as the amounts of its Council Tax base for the year for dwellings in those parts of its area to which one or more special items relate.

2.3 That the following amounts be now calculated by the Council for the year 2008/2009 in accordance with Sections 32 to 36 of the Local Government Finance Act 1992:-

a) £61,822,325 being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (a) to (e) of the Act.

b) £47,815,168 being the aggregate of the amounts which the Council estimates for the items set out in Section 32 (f) to (j) of the Act.

c) £14,007,080 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 Section 32(4) of the Act, as its budget requirement for the year.

d) £8,653,117 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 grants (reduced by the amount of the sums which the Council estimates will be transferred from its general fund to its collection fund in accordance with Section 97 (3) of the Local Government Finance Act 1988 (Council Tax Surplus) and reduced by the amount of any sum which the Council estimates will be transferred from its general fund to its collection fund pursuant to the collection fund (Community Charges) directions under Section 98 (4) of the Local Government Finance Act 1988 made on 7th February, 1994 (Community Charge Surplus).

e) £203.00 being the amount at 2.3(c) above less the amount at 2.3(d) above, all divided by the amount at 2.2(a) above, calculated by the Council, in accordance with Section 33(1) of the Act, as the basic amount of its Council Tax for the year.

f) £431,946 being the aggregate amount of all special items referred to in Section 34(1) of the Act.

g) £186.62 being the amount at 2.3(e) above less the result given by dividing the amount at 2.3(f) above by the amount at 2.2(a) above, calculated by the Council, in accordance with Section 34(2) of the Act, as the basic amount of its Council Tax for the year for dwellings in those parts of its area to which no special item relates.

h) Part of the Council's Area

Parish	**£**
Bearpark	209.03
Belmont	208.54
Brancepeth	212.64
Brandon & Byshottles	209.33
Cassop-cum-Quarrington	204.02
Coxhoe	212.26
Croxdale & Hett	209.44
Framwellgate Moor	211.11
Kelloe	207.12
Pittington	211.99
Shadforth	208.75
Sherburn Village	211.93
Shincliffe	200.53
West Rainton	219.26
Witton Gilbert	216.60
All Other Areas	186.62

being the amounts given by adding to the amount at 2.3(g) above the amounts of the special item or items relating to dwellings in those parts of the Council's area mentioned above divided in each case by the amount at 2.2(b) above, calculated by the Council in accordance with Section 34 (3) of the Act, as the basic amounts of its Council Tax for the year for dwellings in those parts of its area to which one or more special items relate.

i) **COUNCIL TAX BANDS 2008/09**

Parts of the Council's Area	Valuation Bands							
	A	B	C	D	E	F	G	H
Parish of:-	£	£	£	£	£	£	£	£
Bearpark	139.35	162.58	185.80	209.03	255.48	301.93	348.38	418.06
Belmont	139.03	162.20	185.37	208.54	254.88	301.22	347.57	417.08
Brancepeth	141.76	165.39	189.01	212.64	259.89	307.15	354.40	425.28
Brandon	139.55	162.81	186.07	209.33	255.85	302.37	348.88	418.66
Cassop	136.01	158.68	181.35	204.02	249.36	294.70	340.03	408.04
Coxhoe	141.51	165.09	188.68	212.26	259.43	306.60	353.77	424.52
Croxdale	139.63	162.90	186.17	209.44	255.98	302.52	349.07	418.88
Framwellgate Moor	140.74	164.20	187.65	211.11	258.02	304.94	351.85	422.22
Kelloe	138.08	161.09	184.11	207.12	253.15	299.17	345.20	414.24
Pittington	141.33	164.88	188.44	211.99	259.10	306.21	353.32	423.98
Shadforth	139.17	162.36	185.56	208.75	255.14	301.53	347.92	417.50
Sherburn Village	141.29	164.83	188.38	211.93	259.03	306.12	353.22	423.86
Shincliffe	133.69	155.97	178.25	200.53	245.09	289.65	334.22	401.06
West Rainton	146.17	170.54	194.90	219.26	267.98	316.71	365.43	438.52
Witton Gilbert	144.40	168.47	192.53	216.60	264.73	312.87	361.00	433.20
All Other Parts of City Council's Area:	124.41	145.15	165.88	186.62	228.09	269.56	311.03	373.24

being the amounts given by multiplying the amounts at 2.3(g) and 2.3(h) above by the number which, in the proportion set out in Section 5(1) of the Act, is applicable to dwellings listed in a particular valuation band divided by the number which in that proportion is applicable to dwellings listed in valuation Band 'D', calculated by the Council, in accordance with Section 36(1) of the Act, as the amounts to be taken into account for the year in respect of categories of dwellings listed in different valuation bands.

2.4 That it be noted that for the year 2008/2009, Durham County Council, Durham Police Authority and County Durham and Darlington Fire and Rescue Authority have stated the following amounts in precepts issued to the Council, in accordance with Section 40 of the Local Government Finance Act 1992, for each of the categories of dwellings shown below:-

Precepting Authority	**A** £	**B** £	**C** £	**D** £	**E** £	**F** £	**G** £	**H** £
Durham County Council	682.92	796.74	910.56	1,024.38	1,252.02	1,479.66	1,707.30	2,408.76
Durham Police Authority								
County Durham and Darlington Fire & Rescue Authority								

2.5 That having calculated the aggregate in each case of the amounts at 3(i) and 4 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 2008/2009 for each of the categories of dwellings shown below:

Parts of the Council's Area	**Valuation Bands**							
	A £	**B** £	**C** £	**D** £	**E** £	**F** £	**G** £	**H** £
Bearpark								
Belmont								
Brancepeth								
Brandon								
Cassop								
Coxhoe								
Croxdale								
Framwellgate Moor								
Kelloe								
Pittington								
Shadforth								
Sherburn Village								
Shincliffe								
West Rainton								
Witton Gilbert								
All Other Parts of City Council's Area:								

2.6 That the Chief Executive be instructed to publish a notice to the setting of Council Tax as delineated in Paragraph 5 above, in accordance with Section 38 (2) of the Local Government Finance Act 1992.

3. TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2008/09 AND PRUDENTIAL INDICATORS 2008/09

This report outlines the Council's prudential indicators for 2008-09 and sets out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (attached at Appendix B)
- The Treasury Strategy in accordance with the CIPFA Code of Practice on Treasury Management (attached at Appendix C)
- The Investment Strategy (in accordance with the DCLG investment guidance) (attached at Appendix C)

The key requirements are set out below:

Capital Expenditure

The projected capital expenditure is expected to be:

Capital Expenditure	2007/08 Revised £000s	2008/09 Estimated £000s
Non HRA	6,881	2,141
HRA	5,296	4,704
Total	12,177	6,845

The Councils Borrowing Need (the Capital Financing Requirement)

Part of the capital expenditure programme will be financed directly (through Government Grants, capital receipts etc.), leaving a residue which will increase the Council's external borrowing requirement (its Capital Financing Requirement – CFR). The General Fund CFR is reduced each year by a statutory revenue charge for the repayment of debt (there is no requirement for an HRA charge).

Capital Financing Requirement	2007/08 Revised £000s	2008/09 Estimated £000s
Non HRA	3,889	3,734
HRA	18,793	19,041
Total	22,682	22,775
Movement in CFR	+86	+93

Against this borrowing need (the CFR), the Council's expected external debt position for each year (the Operational Boundary), and the maximum amount it could borrow (the Authorised Limit) are:

	2007/08 Revised £000s	**2008/09 Estimated £000s**
Authorised Limit	28,782	28,875
Operational Boundary	26,182	26,275

The impact of the new schemes being approved as part of this budgetary cycle on Council Tax and housing rents are expected to be:

Incremental Impact of Capital Investment Decisions (£) on	**2007/08 Revised £ p**	**2008/09 Estimated £ p**
Band D Council Tax	42.35	3.64
Housing Rents Levels	0.75	4.17

Investments

The resources applied to finance the capital spend above is one of the elements which influence the overall resources of the Council. The expected position of Council's year end resources (balances, capital receipts, etc.), is shown below supplemented with the expected cash flow position to provide an overall estimate of the year end investment position. The prudential indicator limiting longer term investments is also shown.

	2007/08 Revised £000s	**2008/09 Estimated £000s**
Total Resources	3,056	2,591
Working Capital	2,651	2,616
Total Investments	5,707	5,207
Principal Sums Invested > 364 days		£4M

Recommendations

The Council is recommended to:

3.1 Adopt the Prudential Indicators and Limits for 2008/09 contained within Appendix B of the report

3.2 Approve the Treasury Management Strategy 2008/09, and the Treasury Prudential Indicators contained within Appendix C

3.3 Approve the Investment Strategy 2008/09 contained in the Treasury Management Strategy (Appendix C), and the detailed criteria included in Annex C1

Appendix A
(30 Pages)

City of Durham

Budget Report

2008/09

Paul Darby, Director of Financial Services
February 2008

Budget Report 2008/09

Contact Officers

Paul Darby, Director of Financial Services

Tel: 0191 301 8622
E-mail: pdarby@durhamcity.gov.uk

Justin Ives, Head of Financial Services

Tel: 0191 301 8641
E-mail jives@durhamcity.gov.uk

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Budget Report 2008/09

Introduction

There is a statutory obligation upon the Council to determine its General Fund Budget and Council Tax requirements for 2008/09 on or before 10th March each year.

This report is intended to advise on the current information and to assist Members in considering final budget proposals.

Budget Process 2008/09

The following is a brief outline of the City Council's Budget process, illustrating its links to the corporate planning, business planning and financial planning processes.

Spring 2007
- portfolio Holders and Directors / Heads of Service prepare aspirational service plans (including financial forecasts and clearly setting out contributions to strategic priorities and outcomes)

Summer 2007
- review of service plans, including financial forecasts by Executive Members and identification of priority areas for investment linked to Corporate Performance Plan; Medium Term Financial Strategy (incorporating Capital Strategy and Asset Management Plan)
- briefing to Executive Members on potential impact of the Comprehensive Spending Review 2007 and consultation on revisions to the Medium Term Financial Strategy and Capital Strategy in light of priorities for investment and likely resource availability

Autumn 2007
- review of spending forecasts (including outturn predictions for 2007/08 budgets) and identification of potential budget proposals by Portfolio Holders and Chief Officers/Heads of Service
- calculation of financial implications of all budget / service development proposals and efficiencies

November 2007
- provisional Local Government Finance Settlement 2008/09
- council tax consultation with the public and businesses commenced

December 2007
- review of spending forecasts and identification of potential budget proposals with in the context of resource availability – impact of provisional Local Government Finance Settlement

January 2008
- final Local Government Finance Settlement
- proposed budget finalised by Portfolio Holders – including schedule of proposed Fees and Charges

1 February 2008
- member scrutiny training provided

7 February 2008
- proposed budget presented to Scrutiny Committee

13 February 2007 - proposed budget presented to Cabinet

18 February 2007 - consultation with NNDR/Business representatives

26 February 2007 - City Council considers and determines its Budget and Council Tax for 2008/09

In developing the draft budget, Management Team has assessed not only the implications of the grant settlement, but has also carefully examined all budgets, taking into account: -

- The balance between spending on statutory and discretionary services
- The overall allocation of resources to priority areas and the role and contribution of these budgets / services towards the achievement of strategic aims and required performance standards
- The results of previous consultation exercises and feedback from local members
- The balance between spending requirements / budget pressures and taxation / rents
- The balance between reserves and balances and the opportunity costs arising from policies in relation to these
- The sustainability of the budgets in relation to budget dependency on time limited funding streams
- The risks within the budget framework in terms of its dependency on prevailing economic conditions and forecasts of receipts from land and other asset sales etc.

Local Government Finance Settlement 2008/09

The Department for Communities and Local Government (CLG), together with other government departments and in consultation with the Treasury, assesses both the overall level of funding to be provided to local government and the distribution of those funds to individual local authorities.

Since 2006/07, the Government has focussed on grant distribution rather than national measures of notional spend and Council Tax. The system is based on four separate funding elements and these are unchanged for 2008/09 as detailed below: -

♦ A relative needs amount, calculated through relative needs formulae, with the formula for each service being based on a per client amount with top-ups to reflect local circumstances, including deprivation and area costs.

♦ A relative resource amount, to take account of different capacities to raise income from Council Tax. This is a negative amount.

♦ A central allocation amount, which is allocated on a per capita basis.

♦ A floor damping block, to ensure that all authorities receive a minimum grant increase.

The amount of cash nationally, as with the previous system, is the level of formula grant allocated via Spending Reviews. The size of the totals of the relative needs block and resources block is set by judgement.

In November 2005 the Government, in the move towards three years resource settlements, published details of the 2006/07 and 2007/08 provisional settlements. This reflected the Comprehensive Spending Review (CSR) 2004 and a commitment was given to providing details of the provisional grant to be distributed to each authority for the three years 2008/09 to 2010/11 following publication of the CSR 2007.

The Comprehensive Spending Review (CSR) 2007 was published by the Government in October 2007 and, whilst the content was largely expected, it was widely condemned by the Local Government Association as not providing the necessary resources to local authorities.

The key announcements within the CSR 2007 were as follows: -

- An increase in the Aggregate External Finance (AEF) - Revenue Support Grant (RSG) + National Non-Domestic Rates (NNDR) - funding of 4.2% in 2008/09; 3.5% in 2009/10 and 3.4% in 2010/11, which amounts to real terms increases of 1.5%, 0.8% and 0.7% over the CSR period;
- The retention of the 5% capping criteria in each of the next three years;
- The freeing up of control over £5bn former specific and Local Area Agreement (LAA) ring-fenced grants, which will be delivered in the form of general grants and which will not be ring-fenced;
- A commitment that by 2010/11 £900m worth of grant previously paid through specific grants will have been rolled into RSG, and at least £4.1bn will be paid through the new Area Based Grant;
- The withdrawal of access to Local Authority Business Growth Incentive Scheme funding in 2008/09, but allocations of £50m in 2009/10 and £100m in 2010/11 being available nationally;
- New powers to issue supplementary business rates on local businesses from 2010/11, with consultation on technical details to be undertaken in 2007/08;
- A 3% cashable efficiency target (£4.9bn over the next three years) built into and assumed within the formula;
- A single set of priority outcomes for local government, a single set of 198 national indicators (Best Value Performance Indicators are to be replaced in 2008/09) and no mandatory targets for LAA's – any and all targets reflecting national priorities (up to a maximum of 35) to be negotiated through LAA's

Taking these resource allocations into account, the CLG published the provisional Grant Settlements for each local authority in late November 2007. Although the settlements can be regarded as the worst in the last 10 years, it was broadly in line with expectations following the publication of the results of the CSR 2007.

Generally, Shire Districts received the lowest increase for any type of authority (the grant floor minimum increases being set at their lowest levels since they were introduced) and less that half of all Shire Districts had an increase in excess of the absolute minimum 1% floor increase for 2008/09 (the floor increase for Shire Districts was 2.7% in 2007/08).

In announcing the settlement, the Minister of State for Local Government has re-iterated that the Government will use its capping powers if Council Tax increases are excessive and expects the average increase in Council Tax to be no more than 5% for any authority.

The 2008/09 grant settlement for the City of Durham is £8,606,785, compared with £8,471,391in 2007/08 - an increase of £135,394 or 1.60% year on year, including the base adjustments in accordance with the (slightly) revised distribution framework - former specific grants for waste efficiency initiatives (previously payable to the City Council) and for out of hours stray dog kennelling (previously paid to the Police authorities) now form part of RSG.

Notwithstanding the need to incorporate the revenue implications of policy decisions taken some years ago – most notably the opening of the new Freeman's Quay Leisure Centre and the replacement to the Kerbit door to door recycling scheme in 2008/09 - the grant settlement falls well short of meeting the general financial pressures facing the City Council, particularly in relation to pay related costs (pay awards and pension fund contributions) and significant fuel price inflationary pressures. Members will recall that substantial increases in fuel costs have been built into the budget framework in recent years and should note that this trend looks likely to increase, with commentators anticipating price increases of between 15-20% on gas, electricity and diesel costs in the coming year.

In terms of the provisional grant settlements for 2009/10 and 2010/11, the City Council has again been allocated the minimum floor increase, which has been set at 0.50% for these two years.

On a more positive note the Government announced specific grant allocations to each authority for the implementation of the new statutory concessionary fares scheme from 2008/09. The City Council has been awarded £355,000 of the £1.4m awarded to the Durham Districts and although this falls outside if the RSG/NNDR distribution mechanism the grant is not ring-fenced to concessionary travel and can be used to reduce net costs to the authorities if the costs of the existing scheme is in excess of the estimated costs of providing the new statutory scheme (as is the case in County Durham – where the existing scheme will be retained and only inflationary costs will need to be absorbed).

Council Tax Base Calculation

The Council Tax Base determines the taxable capacity of the authority and it is the number of Band D equivalent properties in the area that is used to calculate the Band D Council Tax, often referred to as the whole Council Tax. Properties are allocated to the Council Tax bands on the basis of their property valuations in 1991, which is then converted into a Band D equivalent figure. All properties are banded by the Valuation Office and new dwellings built since 1993 (the year the Council Tax was introduced) are valued on the basis of their value had they existed in 1991.

The Band D equivalent number of properties is further reduced by single person's discounts and other exemptions to calculate a Band D Equivalent Tax Base for the District. Properties in Bands A-C pay proportionally less than Band D, whilst properties in Bands E-H pay proportionally more than Band D.

The City Council has a high proportion of properties in the lower Bands (80% Band A-C), therefore a low Band D equivalent taxbase.

Throughout the District there are 38,804 properties which are subject to Council Tax (of which 78.4% fall into Bands A-C and therefore pay a reduced proportion of the Band D Council Tax – 6/9ths at Band A).

Of these properties 2,772 are exempt from Council Tax, leaving a total of 36,197 "chargeable" properties within the District.

The tax base for 2008/09, calculated as the number of Band D equivalent properties (26,641), adjusted for discounts (single person occupancy – 25% - and empty property discount – 50%) and possible losses on collection (1%), was approved by Council on 8 January 2008 at 26,374.59 (26,111.25 in 2006/07).

This equates to an increase of 263.75 in the City Councils year on year taxable capacity – generating additional Council Tax income of approximately £48,300 next year.

Full details of numbers of properties in each Council Tax band, the Band D equivalents and overall Taxbase for the City Council is set out below:

Property Value	Council Tax Band	Proportion of Band D	Number of properties in each Band	Chargeable properties in each Band	Band D Equivalent Properties
Up to £40,000	Band A	6/9 ths	18,603	17,904	10,363.80
Over £40,000 and up to £52,000	Band B	7/9 ths	6,083	5,627	3,892.40
Over £52,000 and up to £68,000	Band C	8/9 ths	6,114	5,567	4,542.70
Over £68,000 and up to £88,000	Band D	1	4,170	3,608	3,341.30
Over £88,000 and up to £120,000	Band E	11/9 ths	1,953	1,770	2,023.10
Over £120,000 and up to £160,000	Band F	13/9 ths	1,084	1,013	1,366.80
Over £160,000 and up to £320,000	Band G	15/9 ths	711	668	1,040.40
Over £320,000	Band H	18/9 ths	86	40	70.50
Totals			**38,804**	**36,197**	**26,641.00**

2008/09 Tax Base (after accounting for empty property, discounts and other losses on collection)	**26,374.59**

Council Tax Collection Fund - Surplus

As the Billing Authority, the City Council must maintain a Collection Fund Account for administering the raising and recovery of the Council Tax and for paying precepts and demands on those funds. Any surpluses/deficits earned on this Fund are required to be estimated in advance of the financial year and redistributed amongst the major precepting authorities on the basis of the percentage of the overall demand on the fund at the beginning of the financial year in which the surplus or deficit is incurred.

Legislation dictates that any surpluses cannot be included as income in the authority's accounts and must be passed on to the Council Taxpayer in the form of a reduction in their annual bill. Likewise, a deficit cannot be charged as an authority's expenditure, but must be charged to Council Taxpayers as an increase on the bills.

In setting the 2007/08 budgets and subsequent Council Tax, members will recall that the estimated position was that the Collection Fund would be £200,000 in surplus at 31 March 2007 and therefore this was the "distributed" amount built into the 2007/08 budget framework. The actual outturn position on the Collection Fund at 31 March 2007 was a surplus of £294,076.

Taking into account the continued improvement in collection rates in 2007/08; an increase in the Council Taxbase due to a combination of new build and the impact of the University Halls of Residence; and a prudent assessment of the likely level of the provision for bad and doubtful debts, it is estimated that the City Council's Collection Fund will be £330,000 in surplus at 31 March 2008. This was reported to Council 8 January 2008, together with the 2008/09 Taxbase calculation (set out above)

The forecast surplus will be allocated to the following authorities, based on the respective proportions of the total precepts and demands on the Collection Fund in 2007/08: -

Authority	Surplus Distributed in 2008/09 £	% Share	Reduction in Council Tax 2007/08 (at Band D)
City of Durham	(46,332)	14.04	(1.76)
Durham County Council	(233,079)	70.63	(8.84)
Durham Police Authority	(31,779)	9.63	(1.20)
Durham and Darlington Fire Authority	(18,810)	5.70	(0.71)
Total	**(330,000)**		**(12.51)**

Council Tax Options

The City Council's element of the current Council Tax (net of the distributed surplus) for 2007/08 is as follows:

City Council Tax 2007/08	
Band	**£ : p**
Band A	122.09
Band B	142.44
Band C	162.79
Band D	**183.14**
Band E	223.84
Band F	264.54
Band G	305.23
Band H	366.28

As noted above, the Local Government Finance Settlement makes no assumption about the level of Council Tax for 2008/09. Whilst the Government has again not officially set a cap or budget requirement limit as part of the Settlement it still retains a reserve power to tell Local Authorities to set a lower budget requirement if it considers the budget requirement and Council Tax have increased by 'excessive' amounts.

In line with recent years, the Government has announced that it considers any Council Tax increase above 5% to be 'excessive' and has taken appropriate capping action against a number of Authorities in respect of their Budget Proposals in recent years.

Assuming the Council would wish to avoid setting a Council Tax that the Government would consider 'excessive', the following table identifies the Council Tax income that could be derived from a range of different Council Tax increases in 2008/09:

Percentage Increase %	Additional Council Tax per annum Band D Increase £ : p	Band D Council Tax for the City Council (Net of Surplus) £ : p	Additional Council Tax Income (See Note) £
Nil	Nil	183.14	48,303
1%	1.83	184.97	96,569
2%	3.66	186.80	144,835
3%	5.49	188.63	193,101
4%	7.33	190.47	241,632
5%	9.16	192.30	289,898

Note – A nil increase in the City Councils Band D Council Tax would generate additional Council Tax income of £48,303 in 2008/09 – due to the increase in the Taxbase for 2008/09. This additional income is factored into the projections for each 1% increase thereafter. In summary, each percentage point increase in Council Tax produces approx. £48,300 in additional Council Tax income, over and above the impact of the increase in the Taxbase.

Budget / Council Tax Requirement 2008/09

Having regard to all the aforementioned issues, the City Council's Budget Requirement for 2008/09 could be calculated based on a range from the current level of Council Tax and what could be considered the maximum level of Council Tax for 2008/09 (i.e. 5% increase), shown below: -

	Budget Requirement Calculation 2008/09	
	Nil% Increase Council Tax £000s	**5% Increase Council Tax £000s**
Total Formula Grant	8,606.79	8,606.79
Council Tax Income (Net of Surplus)	4,876.65	5,118.16
Potential Budget Requirement 2008/09	13,483.44	13,724.95
Actual Budget Requirement 2007/08	13,282.47	13,282.47
Additional Budget Spending Capacity	200.97	442.48

After considering the views of the public and the Business Community, identified through Council Tax consultation, and taking into account commitments within the medium term financial plan in terms of maintaining below inflation increases in the City Councils Council Tax; new spending commitments and inflationary pressures in 2008/09; and factoring in a prudent and planned use of earmarked reserves and balances the draft budgets have been prepared on the basis of a 1.90% net increase in the City Councils Band D Council for 2008/09. The Consumer Price Index (the widely published index used by the Bank of England in determining headline inflation levels) currently stands at 2.1%.

At 1.90%, the City Council will generate additional Council Tax revenue of approximately £140,000 in 2008/09 (including the additional resources generated by the increase in the Taxbase), compared with a potential maximum “uncapped” amount of around £290,000 if it applied a 5% increase next year.

Applying an increase of 1.9% (net of its element of the Collection Fund surplus) to the City Councils demand on the fund would result in a Band D Council Tax of £186.62 next year, an increase of £3.48 or 7p per week at Band D. Residents in Band A properties (which accounts for approximately 50% of the total number of chargeable properties in the District) will face an increase of £2.32 or 4.5p per week in 2008/09 in terms of the City Councils element of the Council Tax.

Thus, the net demand (called overall Budget Requirement, including parish precepts) to be made by the City Council for Council Tax purposes can be summarised as follows:

	City of Durham £	**Parishes £**	**Total £**
Budget Requirement	**13,575,134**	**431,946**	**14,007,080**
Less :			
Revenue Support Grant	1,051,726	-	1,051,726
Non-Domestic Rates	7,555,059	-	7,555,059
CoD Share of Coll. Fund Surplus	46,332	-	46,332
	8,653,117	**-**	**8,653,117**
Net Demand	**4,922,017**	**431,946**	**5,353,963**
Council Tax at Band D	**£186.62**	**£16.38**	**£203.00**

The Band D City of Durham Council Tax will increase from £183.14 in 2007/08 to £186.62 in 2008/09, an increase of £3.48 or 1.9%. The average Band D Parish Council Tax will increase from £14.79 in 2007/08 to £16.38 in 2008/09, an increase of £1.59 or 10.8%.

Council Tax Consultation

The City Council is required to consult on its spending plans and budgets on an annual basis and over the last four years, the citizens of Durham have consistently informed this Authority that they wished to see:

- increases in Council Tax kept in line with inflation
- greater efficiencies by the City of Durham
- the three key priority areas for investment as being, Improving the Environment, Waste Services and Protecting the Public

When consulting on the 2007/08 Budget / Council Tax, the Council adopted (on a pilot basis) a radically different approach. It engaged an independent company, Research for Today, to undertake a Budget Input Consultation Pilot Study using Simalto models. This method asks respondents to make their priorities from a choice of defined alternative levels of each service. In effect, they are informing the Council where services should expand or contract to better meet their needs. Their choices are therefore 'realistic' since the relative savings/extra costs of each different service level are shown to residents and they only have fixed constrained budgets to allocate across the competing service levels. It also recognises that some changes save/cost more than others and residents (Councils) cannot spend the same money twice.

In undertaking this exercise, the Council understood that a sample of respondents interviewed in their homes and 'balanced' by age, gender and ward was the most accurate method of conducting this type of survey, but at that time wanted to have a small scale survey (with two sessions being held centrally involving members of the Viewpoint Panel and City Councillors) to act as a pilot for possible future consultation.

The sessions held proved a good pilot and members had decided to consider undertaking a structured survey of residents (covering 250-300 houses) in late 2007, given the findings of the pilot and the positive reception it received from both residents and Members last year.

Using this approach coincided nicely with the requirement to re-visit the Medium Term Financial Plan in line with the outcome of the CSR 2007 and to inform future years' budgets. However, due to the prospects of local government restructuring within County Durham from April 2009, the decision was taken not to undertake this method to inform the 2008/09 budgets – which most likely will be the last prepared by the City Council. Indeed the existing Medium Term Financial will not now be re-written, rather it is to be replaced by a new Transitional Plan, with known financial issues and impacts in 2009/10 and beyond from a City Council perspective also being picked up later in this report.

In terms of 2008/09 the City Council faces a number of significant financial challenges, over and above inflationary pressures, including a particularly disappointing (if not unexpected) grant settlement as a result of the fiscal tightening within the CSR 2007; increased targets in terms of securing efficiency savings; the need to build in the running costs of the new Freeman's Quay Leisure Centre; the revenue impact of the new National Concessionary Travel scheme; and the implementation of a New Kerbside recycling scheme. In addition, 2008/09 will be a transitional year as all authorities look to work towards the creation of the new unitary authority.

The existing Medium Term Financial Plan commits the City Council to maintaining increases in its Council Tax in line with inflation – the most appropriate measure being the Consumer Price Index quoted by the Bank of England (currently 2.1%).

In preparing the budget framework it was recognised that, due to these pressures, an inflationary increase may not be sufficient. The budget / Council Tax consultation for 2008/09 was on the basis of a postal survey of its Viewpoint Panel and open meetings of its Scrutiny Committee, together with meetings with representatives of the business community.

In terms of the consultation with the Viewpoint Panel, 321 questionnaires sent out and 77 questionnaires were returned, a response rate of 24%. A summary of the responses received is set out below.

It was asked if more, less or the same amount of money should be spent on a range of the Council's services, in all cases it was stated that the same amount of money should be spent on these services except Arts, Heritage and Culture where 47% of the respondents replied that less money should be spent on these services.

In terms of the "acceptance" of Council Tax increases, 55% of the respondents said they would support an increase in Council Tax of around 2.5% next year in order to maintain Council services at their existing levels, whilst 36% said they would support an increase in Council Tax above 2.5% in order to improve council services. 78% of respondents said they would not support a decrease in Council Tax if this meant a reduction in current service provision and 68% said they would not accept a stand-still nil increase in Council tax if this meant a reduction in only some services.

The survey asked whether they felt the Council provided good value for money for the Council Tax it levies, with 55% agreeing with this statement and only 29% disagreeing – the remainder being undecided. In terms of the direction of travel with regards to value for money, the survey also asked whether the City Council provides better value for money now compared to a year ago. 22% agreed that it did, with 31% disagreeing – significantly, 47% said they didn't know or were passive in terms of this question.

The survey then asked whether they felt the City Council has the right level of Council Tax relative to other Councils. 30% agreed that it did, with 18% disagreeing – significantly, 52% said they didn't know or were passive in terms of this question.

Finally, the survey asked how satisfied they were generally with the services provided by the City Council (when considering the Council Tax they pay). 78% of respondents were fairly to very satisfied, whereas 22% were fairly (13%) or very (9%) dissatisfied.

Based on the above consultation exercise and knowledge from previous exercises it would appear that the proposed increase of 1.90% would be acceptable to the majority of residents.

The Council's Scrutiny Committee met to consider the budget proposals on Thursday 7 February 2008. The meeting was an open meeting with many non-scrutiny committee members in attendance. All members had been provided with copies of the detailed budget book and an overview of the budget framework prior to the meeting. At the scrutiny meeting the Director of Financial Services provided an overview / summary of the budget framework, highlighting key issues and changes in 2008/09. Several questions were received in writing prior to the meeting around issues including the impact of local government review, the prudence of the use of reserves and balances within the budget, HRA management allowances and operational risk registers. Questions were then taken from the floor around issues of estimated job evaluation costs, leisure centre charging policies and office accommodation requirements. All questions were answered fully by the Director of Financial Services and other members of OMT who were in attendance at the meeting. Cabinet members were provided with full details of the issues discussed and the views of Scrutiny Committee at its meeting on 13 February 2008.

The City Council intends to consult with representatives of the business community on Monday, 18 February 2008. All members will be informed of the findings of this consultation in advance of the Council meeting on 26 February 2008.

Financial Forecasts 2008/09

All the budgets have been prepared on an outturn basis taking into account all known / projected commitments. This means that if any unforeseen issues arise during the year, they will, as usual, have to be met from efficiency savings within the relevant service area wherever possible to avoid the use of the business continuity / service initiatives provision and / or further reserves and balances. Budgetary control reports presented to members during 2008/09 will identify any savings or budget pressures across the various services as the year progresses.

The budgets include provision for a 2.50% pay award in 2008/09 and a 1% increase in Employers Pension Fund contributions. The provision for savings arising from staff turnover has been increased to 3% to reflect the current position.

Overall, the budgets have been prepared on the basis of business as usual, with any growth in service provision being restricted to essential / pre-determined areas only and where these would not be to the detriment of the new authority.

As usual, numerous requests and new proposals to enhance service provision further have had to be excluded from the budget as the resources available prevent these from being included. However, as is also usual, and subject to funds becoming available during the year, these excluded items may be allowed to commence but only on a prioritised and considered basis (i.e. no detriment to the new authority and in line with existing policy initiatives within the budget framework) and subject to Cabinet approval.

Financial Forecasts – General Fund (Revenue) 2008/09

The Council prepares its budgets on the basis of the Service Expenditure Analysis identified by CiPFA within the Best Value Accounting Code of Practice. The following table shows the financial forecasts for 2008/09 across each of these headings:

	2007/08 Base Budget £	2008/09 Base Budget £	Budget Change £
Service Area			
Other Recharges to Services	-	-	-
Corporate and Democratic Core	1,821,766	1,727,175	(94,591)
Non Distributed Costs	1,797,138	2,007,817	210,679
Central Services to the Public	716,865	704,637	(12,228)
Other Operating Income and Expenditure	(1,245,140)	(1,358,000)	(112,860)
Highways, Roads and Transport Services	1,113,344	738,569	(374,775)
Housing Services (General Fund)	965,407	1,058,327	92,920
Environmental Services	3,336,508	3,583,775	247,267

	2007/08 Base Budget £	2008/09 Base Budget £	Budget Change £
Service Area			
Planning and Development services	1,398,381	1,632,722	234,341
Cultural and Related Services	5,047,645	5,477,548	429,903
Implementation of Single Status	300,000	300,000	-
Local Authority Business Growth Incentive Scheme	(300,000)	-	300,000
Business Continuity / Service Initiatives (Transition)	-	460,000	460,000
Service Total	**14,951,914**	**16,332,570**	**1,380,656**
Capital Financing Adjustment	(1,669,448)	(1,954,799)	(285,351)
Total Net Expenditure	**13,282,466**	**14,377,771**	**1,095,305**
Cont. from Earmarked Balances – Job Evaluation	-	(300,000)	(300,000)
Cont. from Earmarked GF Budget Reserve – Non-Recurring Expenditure 2008/09	-	(502,637)	(502,637)
City of Durham Council Budget Requirement	**13,282,466**	**13,575,134**	**292,668**

Other Recharges to Services

These budgets include Postage, Information Technology, Building Cleaning, Telephones/Mobiles, and Insurance charges and all costs are fully recharged to services. The Building Cleaning service provides cleaning for the Council's municipal buildings and the Gala Theatre. In 2008/09 the service has been centralised and costs included within Other Recharges to Services. The mobile phones budget has increased to accommodate the increased costs of hand held devices and increased premiums and outsourcing of part of the service has resulted in an increase in the Insurance budget.

Corporate and Democratic Core

This includes the costs of the democratic process and corporate management arrangements. Reductions in members training, conference expenses and agenda printing have been factored into the budget framework for 2008/09. Changes to the management arrangements of the Town Hall following the refurbishment during 2007/08 have been incorporated into the budget. The budget for staff training has been doubled to demonstrate the Council's commitment to investing in its staff prior to Local Government Review – the additional non-recurring costs being met by the budget support fund in 2008/09. Changes in the officer management structure in 2007/08 (the early retirement of the Chief Executive; Director of Legal and Administration and Head of Housing and associated restructure), the removal of Satisfaction Surveys budget (in lieu of discussions on the requirement to undertake the new Place Survey in 2008/09), a reduction in the contribution to the Insurance Fund and the withdrawal of the subscription to the Local Government Association account for further reductions in this budget area. External audit fees have increased following notification of charges from the Audit Commission and the cost of the Council's municipal buildings have reduced overall following changes to the accommodation used.

Non-Distributed Costs

The change in the budget from 2007/08 to 2008/09 comprises: an increase in leasehold rental income; an increase in costs to meet the pension fund deficit and the additional cost of ERVR applications approved in 2007/08; and a change in the accounting treatment of the administration costs of incomplete Right to Buy applications which are now charged to the HRA.

Central Services to the Public

Central Services to the Public includes Local Tax Collection (including Council Tax, NNDR, Council Tax Benefits), Registration of Electors, Local Land Charges and General Grants and Donations. The 2008/09 budgets have been uplifted by pay and price inflation and reflect the restructuring of the revenues service as a result of the withdrawal of the Door to Door Collection service in April 2008. Other movements in the budget from 2007/08 include the removal of the budget for the local elections held in May 2007; a reduction in the NWA Collection Allowance; a restructure in Benefits Service to deal with the impact of the Local Housing Allowance (which is being funded from a one off DWP grant in the year); and additional contributions approved during 2007/08 to be paid to Durham City CVS and Volunteer Service and Victim Support.

Other Operating Income and Expenditure

An increase in interest received on investments of £126,160 has been built into the budget for 2008/09 reflecting the increase in reserves and balances held by the Council and improvements to the Councils Treasury Management arrangements. A dividend of £750,000 from DVRC has been retained within the budget framework for 2008/09.

Highways, Roads and Transport Services

The major changes incorporated in the 2008/09 budgets for next year are an increase in income from car parking charges (the 2007/08 budget understated expected income when projections were made of the impact of closing Sands 2 and 3 in 2007/08) and a net reduction in the concessionary travel scheme. The Concessionary Travel Scheme is subject to change in 2008/09 with the introduction of free concessionary bus travel throughout England. This is anticipated to increase the budget by £60,000 in 2008/09 but in the grant settlement the Council received additional grant funding of £355,000 so reducing the cost to the Council by £295,000 overall.

Housing Services – Housing General Fund

The 2008/09 budgets have been uplifted by pay and price inflation. The increase in the Improvement grants budget reflect the intangible asset charges in relation to the City Council's share of Disabled Facilities Grants and Renovation grants in the year. This is a technical accounting adjustment and a corresponding credit entry appears "below the line" in the Capital Financing Adjustment budget to reverse out this entry. The City Care service budget has increased in 2008/09 to fund the purchase of disbursement alarms (in accordance with the contract requirements) and to accommodate the leasing costs of the control room equipment upgrade, approved by Cabinet in 2007/08. An additional post, financed from homelessness grant, has been created in the Homelessness Budget. The restructure of the Benefits service to accommodate the impact of the Local Housing Allowance have also been included in the budget framework.

Environmental Services

Environmental Services comprises Crematoria, Environmental Health, Community Safety, Street Cleansing and Waste Collection (including Refuse Collection, Recycling, Kerbside Recycling). The 2008/09 budgets have been uplifted by pay and priced inflation. The other main changes in the service include: a new Kerbside Recycling scheme increasing the budget by £99,800 (£72,000 of this relates to a non-recurring one off item in relation to the purchase of sacks and is being met by the budget support fund in 2008/09); changes in arrangements for Stray Dog Kennelling; and a reduction to the Contaminated Land Surveys budget. Increases in income are anticipated from the Crematorium of £40,000 and from Gambling licence fees.

Planning and Development Services

The main change in the Planning and Development Service is the replacement of the Planning Delivery Grant by the Housing & Planning Delivery Grant. The distribution of the grant will be focussed on the delivery against housing targets rather than on the performance of Development Control. The amount the Council is likely to receive is unknown at this stage but it has been anticipated that total grant awarded will be in line with the current year's actual allocation, which was £87,461 less than the 2007/08 budget provision. The contribution to the countywide planning partnership has been withdrawn and the contribution to Planning Aid North reduced. There has been an increase in the Planning administration budgets but planning fee income is anticipated to increase by £45,400. The Building Control service is increasing its fees to achieve its income budget. The Community Development budget has increased as a result of increased office accommodation following the move to Humber House and a loss of funding from SRB grant.

Cultural Services

The Cultural Service budget for 2008/09 incorporates the opening of the Freeman's Quay Leisure Centre in July 2008 and the simultaneous closing of the swimming pool at Elvet Waterside. The income projections for the Freeman's Quay facility factor in staged build of usage of the facility and therefore a £75,000 contribution from the budget support fund has been included within the budget framework to offset this year one issue. The subsidy to the Gala Theatre has been reduced by £25,000 to £550,000 for 2008/09. Other changes within the service for 2008/09 are: provision for additional staffing costs within the Tourist Information Centre; additional provision for an on-going commitment to City Centre Christmas lighting; additional fleet management costs in the Parks Service; and additional income from the increase in fees and charges income from the leisure facilities.

Capital Financing Adjustment

This budget includes the costs of servicing borrowing and other treasury management related expenses, plus a minimum revenue provision for depreciation costs. The 2008/09 budgets factor in the replacement of two £1m maturity loans (taken out many years ago at high coupon debt rates) with new loans at half the rate previously paid. Also included is a £100,000 revenue contribution to the financing of the Capital Programme. There is no debt rescheduling planned in 2008/09. A significant proportion of these financing costs are associated with and therefore charged to the HRA under the regulations. Also included within the budgets is the "reversing out" of capital financing charges included within the services above such that they do not impact on the taxpayer.

Other Issues

Included within the 2007/08 budget framework was a contingency sum of £300,000, financed from anticipated Local Authority Business Growth Incentive Scheme Grant (LABGI), for the implementation of job evaluation / single status in 2007/08. There is no LAGBI grant in 2008/09 and discussions continue with regards to job evaluation. It is proposed that (at 31 March 2008) an earmarked reserve of £300,000 be created to carry this resource forward to 2008/09 to offset the estimated year one costs of implementing job evaluation during next year if an agreement can be reached. This effectively means that implementation dates for an agreement would need to be renegotiated if an agreement could be found during 2008/09.

The City Council has an earmarked Budget Support Fund set aside for this purpose. Included within these figures is non-recurring one off commitments in 2008/09 in respect of an increase in the central training budget to deal with expected increased demands during the transition year (£51,000); the business build / facility commissioning costs in relation to the Freeman's Quay Leisure Centre (£75,000); and the purchase of the new re-usable sacks for the expansion of the kerbside recycling scheme (£72,000). All these costs are included within the relevant service budgets.

The balance (£304,637) relates to part-financing of the £460,000 business continuity / service initiatives provision included within the budget framework to deal with unknown costs associated with business as usual activities during transition to the new authority – for example additional training, agency, overtime payments etc. This provision can also be applied to finance one off small capital environmental schemes / projects during transition, but only where such schemes result in no ongoing detriment to the new authority.

Financial Forecasts – Housing Revenue Account 2008/09

The Council has prepared financial forecasts for 2008/09 as shown in the table below:

2007/08		HOUSING RENENUE ACCOUNT	2008/09	
£000	**%**		**£000**	**%**
		INCOME		
15,839	98	Housing Rents (Net of Voids)	16,760	98
176	1	Garage Rents (Net of Voids)	178	1
16		Other Non-Dwelling Rents	16	
57	1	Heating Charges and Other Income	54	1
33		Item 8 Credit	48	
16,121	**100**	**Total Income**	**17,056**	**100**
		EXPENDITURE		
3,503	22	Housing Repairs & Maintenance	3,629	21
4,945	31	Supervision & Management	5,301	31
100	1	Provision for Bad and Doubtful Debts	100	1
		Government Grants:		
1,988	12	- Negative Subsidy payable to Government	1,897	10
		Financing Charges:		
1,814	11	- Item 8 debit	1,751	10
3,536	22	- Depreciation (Major Repair Allowance)	3,866	22
160	1	- Direct Revenue Financing	312	3
75	-	Provision – Implementation of Job Evaluation	100	1
-	-	Business Continuity - LGR Transition	100	1
16,121	**100**	**Total Expenditure**	**17,056**	**100**

The funding of the Housing Revenue Account (HRA) is very much driven by central Government policy and regulation. The Housing Subsidy System, via the annual HRA Subsidy Determinations, provides the resources to fund Council Housing provision throughout the county. The Government, via its rent restructuring methodology, also controls the Councils annual rent increases. Both these systems have undergone substantial change over recent years, which have impacted significantly on the City Councils HRA - 2008/09 sees further significant changes to the rent restructuring formula in particular.

Housing Subsidy

The Government was extremely late in issuing the draft 2008/09 HRA Subsidy Determinations and the consultation on these proposals did not end until 14 January 2008. The final determinations were received 16 January – which confirmed that the rent constraint allowance, introduced for 2006/07 and 2007/08 to compensate Councils for the 5% cap on rent increases in those years, was to be discontinued from 2008/09.

Notwithstanding the loss of the rent constraint allowance, the 2008/09 HRA Subsidy Determinations have left the Councils HRA in a slightly better position in terms of the overall negative subsidy payable to central Government. Spending allowances for management and maintenance have increased well above the rate of inflation.

The management allowance per property has increased by 7.40% (from £369.58 in 2007/08 to £396.94 in 2008/09), whereas maintenance allowances have increased by 12.52% (from £884.68 in 2007/08 to £995.48 in 2008/09). In addition, the Major Repairs Allowance per property has been increased by 11.56% (from £558.22 in 2007/08 to £622.75 in 2007/08). Taking into account reduced stock levels; this has resulted in increases in Management and Maintenance Allowances of £699,626 year on year, whilst MRA Grant funding (used to finance the HRA Housing Business Plan Capital Programme) has increased by £330,233 next year.

Included within the management allowance is a sum of £4 per property to cover the production of Energy Performance Certificates in 2008/09.

In terms of Guideline Rent income within the Subsidy calculation, the Government have increased guideline rents by 5.68% (increasing the average guideline rent from £49.94 in 2007/08 to £52.78 in 2008/09), resulting in additional income within the Notional HRA (after reductions in stock numbers and accounting for voids of 2%) of £576,114.

There has been a major shift in central Government policy towards rent convergence. In contrast to 2006/07 and 2007/08, the Rent Constraint Allowance has been removed from the formula. To offset the effects of this, the guideline increases (see above) are lower than expected in 2008/09 (the guideline increase was 6.85% in 2007/08) and modelled on the basis of rent convergence by 2016/17, but for one year only and subject to future review. The cap on rent increases above 5% has therefore been removed for 2008/09 only, whilst the Government considers the future direction of the subsidy system.

Housing Rents

The impact of the changes to the rent restructuring / rent convergence model (used to determine the rent increases the City Council) is that rents will increase by 5.50% in 2008/09, increasing the average rent from £50.80 in 2007/08 to £53.59 in 2008/09. As at the 07 April 2008, no Council properties will be at their target rent levels, however, 61% of the tenancy rents will be between 90-99% of their target rent and another 38% will be at 80-89% of their target rent.

The 2007/08 budgets estimated that the opening stock at 31 March 2007 would be 6,189 and it was forecast that there would be 108 sales from Right to Buys, together with a further 10 demolitions in the year. The estimated housing stock at 31 March 2008 was therefore forecast to be 6,071. However, Council house sales slowed considerably in the last few months of 2006/07 and this has continued throughout 2007/08 and is expected to continue throughout 2008/09. Whilst this produces additional income into the HRA it does come at the expense of capital resources that available to the HRA Housing Capital programme through retained elements of the right to buy capital receipts.

The budgets build in the additional income to HRA from these retained stock numbers and, together with a 5.50% increase in rents, have resulted in additional gross rental income of around £850,000. The latest forecasts show that the stock at 31 March will be 6,138, with expected right to buy sales of 55 next year, giving a closing position at 31 March 2009 of 6,083 dwellings. Rent lost from voids is forecast to be 1.50% of gross rents next year.

HRA Expenditure

The 2008/09 HRA maintains a £100,000 provision for Bad and Doubtful debts as part of a medium term strategy to increase this provision to a more prudent level – in line with the Council's approved Debt Management Strategy. New recurring commitments include increases in the budget for relet and disturbance allowances, whilst non-recurring expenditure of £51,000 for the HRA share of the increase in the Corporate Training budget has also been included.

The additional resources generated through rents and the reductions in the negative subsidy payments have allowed an increase in Direct Revenue Financing to the HRA Housing Capital Programme next year. This, plus the additional MRA grant, has helped mitigate against the capital resources lost through the considerable slow down in right to buy sales.

Also included within the HRA is a £100,000 provision for the impact of job evaluation on the HRA, together with a further £100,000 provision for business continuity / service initiatives. Like the General Fund, the business continuity /service initiatives provision is there to deal with unknown costs associated with business as usual activities during transition to the new authority – for example additional training, agency, overtime payments etc. that may be required. This provision can also be applied to finance one off small capital environmental schemes / projects during transition, but only where such schemes result in no ongoing detriment to the new authority

There is no planned use of HRA Working balances in 2008/09.

Financial Forecasts – Capital Programmes 2008/09

In previous years the Council prepared a three-year rolling programme for both Council Housing and General Fund services. However, due to the local government review process only a one year (2008/09) programme has been prepared this year.

The table below shows the original and revised capital spending programmes for 2007/08. Members will recall that the General Fund programme was reduced, amended and refinanced by Cabinet in the year as a result of less than anticipated capital receipts within the original programme and also as a result of a need to secure the financing of the Freeman's Quay Leisure Centre (funded though DVRC) regarding risks associated with the receipt from the sale of the Elvet Waterside development.

The table shows in summary the capital spending plans for both Council Housing (which is in line with the planned commitments to deliver Decent Homes by 2010) and the General Fund, also included in the table is a financing statement for the programme: -

2007/08 Original Programme	2007/08 Revised Programme		2008/09 Programme
		Expenditure	
5,154	5,296	Council Housing	4,704
		General Fund: -	
139	139	- Administration / Architects Fees	-
533	481	- Flourishing Communities	475
3,277	3,970	- Quality Public Services	1,006
880	1,158	- Capital City	240
150	228	Flourishing Communities Fund	100
600	556	Bowburn Community Investment Fund	320
120	349	Ushaw Moor Community Investment Fund	-
10,853	**12,177**	**Gross Expenditure**	**6,845**
		Financed By	
		Government Allocations:	
248	248	- Supported Borrowing	248
3,536	3,536	- Major Repairs Allowance	3,866
5,051	2,763	Capital Receipts	1,172
764	992	Capital Grants / Contributions	1,147
		Direct Revenue Financing:	
2	1,014	- General Fund	100
172	206	- Housing Revenue Account	312
1,080	3,418	Use of Earmarked Reserves and Balances	-
10,853	**12,177**	**Gross Capital Income**	**6,845**

Capital Resources

The Major Repairs Allowance (MRA) forms the major part of central Government capital resources allocated to the Council. The City Council's MRA for housing has been set at £3.866m for 2008/09 and increase of £330,000 over 2007/08. The basic allocation under the Single Capital Pot has been set at £248,000 and is unchanged from 2007/08.

The City Council also expects to receive capital grants for Disabled Facilities Grants totalling £177,000, and £190,000 from SHIP 3 Grant funding in relation to private sector improvement grants.

Total central Government support to the capital programme will be £4.481m in 2008/09, compared with £3.952m in 2007/08.

The budget framework includes provisions for direct revenue financing contributions of £100,000 from the General fund and £312,000 from the HRA. There is no planned use of earmarked reserves or balances in 2008/09 to finance the programmes.

In terms of capital receipts, forecast right to buy's receipts account for approximately 70% of the total receipts required to finance the programme in 2008/09. This is based on right to buy completions of 50 in the year, generating a usable receipt per unit of £17,000. The land identified for disposal in 2008/09 is identified below: -

New Brancepeth	- Land at Waltons Terrace - Land at 124/126 Braunespath Estate
Quarrington Hill	- Land at 24 Neil Crescent - Land at 16 David Terrace
Coxhoe	- Land at Lansowne Road
Witton Gilbert	- Land at Front Street (3 no.) - Land next to Glenville House - Land at Rose Lea - Land next to The Cottage

Spending Plans

The 2008/09 capital programme incorporates a number of initiatives which will assist the Council in achieving its key three strategic objectives for Flourishing Communities, Quality Public Services and Capital City. However, the programme also reflects a pragmatic approach in terms of spending public resources during a transition year.

No new major investments are planned within existing facilities such as office accommodation, leisure centres etc. or in new ICT systems in the run up to vesting day. There will be no spend incurred by the City Council which would result in undue detriment / ongoing commitments for the new authority.

Approximately 70% of total capital spending will be on Council Housing in 2008/09, with resources continuing to be focussed on the achievement of the decent homes standard, plus – the "Durham Standard". In terms of the General Fund Programme, this is dominated by a small number of schemes, as identified in detail in the Budget Book.

2008/09 will see the completion of the Freeman's Quay Leisure Centre, financed through the City Councils innovative partnership with Keepmoat plc (the Durham Villages Regeneration Company). This scheme falls outside of the Councils capital programmes set out above, other than for capital contributions receivable by the City Council and subsequently paid over to DVRC as part of the development arrangement. The 2008/09 revenue budgets include provision for the estimated running costs of this facility, which is expected to open in July 2008.

2007/08 Financial Position and Review

The financial report for the period 1 April 2007 – 31 December 2007 (to be presented to Cabinet 5 March 2008) identifies that overall Council expenditure would be contained within approved budgetary resources – with a forecast contribution to the General Reserve of £59,963. If the forecast position is achieved, the General Fund Budget Support Reserve would rise to £559,963 at 31 March 2008.

The report to Cabinet in March also estimates that the HRA will return an underspend / saving of £102,814 in 2007/08, thus, the HRA Working balance is estimated to rise to £953,629 at 31 March 2008.

Reserves and Balances

The Local Government Act 2003 requires all local authorities to reach and maintain a minimum level of resources – balancing risk against the opportunity costs of maintaining balances at too high a level.

During the year Council (at its meeting of 27 September 2007) reviewed its policy with regard to reserves and balances, both in terms of the purpose and level of those reserves and balances and the delegated approvals required to apply them to strategic priorities. A number of earmarked reserves and balances were consolidated into the General Reserve and approval was gained to apply sums to the financing of a number of capital projects / commitments in 2007/08 – as a result of reductions in capital receipts from Right to Buy sales and delays in the disposal of land earmarked for sale in 2007/08.

On 27 September 2007 Council approved the establishment of three reserves from the existing General Reserve.

- a Strategic Emergency Reserve of £700,000
- a General Reserve of £500,000
- a Capital Fund – Revenue Contributions of £2,005,000

The following risk based policy on reserves and balances was also approved by Council:

Strategic Emergency Reserve
The purpose of the Strategic Emergency Reserve is to cover emergency events such as unforeseen financial liabilities or natural disasters. This reserve currently equals 5% of the Council's net General Fund revenue budget and the Bellwin sum and is the recommended minimum amount of reserves that should be retained by the Council as a contingency

Only the Council itself may authorise the use of this reserve, except in the circumstances where a major emergency is declared, requiring the deployment of the Council's emergency planning arrangements and the establishment of Gold and Silver Command. In these circumstances, Council gives the Chief Executive, as the designated Gold Commander, delegated powers to authorise the deployment, if necessary, of all available resources, including this reserve;

General (Budget Support) Reserve
The purpose of the General Reserve is to support one-off and limited ongoing revenue expenditure in the existing financial year (provided that this expenditure cannot be met from existing earmarked revenue/reserves and/or anticipated savings in the year, currently 2008/09). These include the costs of Job Evaluation, maintaining Business as Usual during transition under Local Government Review and the impact of the Comprehensive Spending Review in 2008/09. Cabinet approves the deployment of this reserve, via the quarterly budget monitoring reports, the 2008/09 estimates report or other reports. Council will review this reserve annually when considering the estimates and at that point identify requirements for the following financial year.

Capital Fund – Revenue Contributions
The purpose of the earmarked Capital Fund - Revenue Contributions is to finance, if required, the existing capital programme in 2007/08 and 2008/09, to meet, if necessary, the costs of contractually committed capital works/programmes undertaken by DVRC on the Council's behalf in 2007/08 and 2008/09 and to fund further capital schemes outlined in existing Corporate Plans, including the Capital Strategy, Medium Term Financial Plan. The S151 Officer, in conjunction with the Leader and Deputy Leader, are authorised to:

i) make any necessary transfers / provisions / adjustments from this reserve when preparing the Statement of Accounts in 2007/08 and 2008/09

ii) deploy this resource, if required, to suitably finance the General Fund / Housing Capital Programmes (including payments for all contractually committed schemes to DVRC) in 2007/08 and 2008/09

Subject to the agreement of the S151 Officer and the Monitoring Officer that funds are available, Cabinet is currently authorised to approve further capital schemes, with such schemes being financed from this reserve, or from other earmarked reserves, such as the Unapplied Capital Receipts Reserve, Flourishing Communities Fund etc. All reserves and balances are reviewed quarterly via the quarterly budget monitoring report presented to Cabinet.

The Strategic Emergency Reserve currently stands at £700,000 and will remain at (at least) this level until vesting day of the new authority. The Capital Fund – Revenue Contributions Fund has been fully allocated to finance the 2007/08 programme and therefore there will be no balance on this fund at 31 March 2008.

In terms of the General (Budget Support) Reserve, as noted above, the estimated balance at 31 March 2008 currently stands at £559,693. The budget framework includes support of £502,637 from this reserve during 2008/09. Included within this figure is non-recurring one off commitments in 2008/09 in respect of an increase in the central training budget to deal with expected increased demands during the transition year (£51,000); the business build / facility commissioning costs in relation to the Freeman's Quay Leisure Centre (£75,000); and the purchase of the new re-usable sacks for the expansion of the kerbside recycling scheme (£72,000).

The balance (£304,637) relates to part-financing of the £460,000 business continuity / service initiatives provision included within the budget framework to deal with unknown costs associated with business as usual activities during transition to the new authority – for example additional training, agency, overtime payments etc. This provision can also be applied to finance one off small capital environmental schemes / projects during transition, but only where such schemes result in no ongoing detriment to the new authority.

The current estimated balance on the General (Budget Support) Reserve at 31 March 2009 is therefore £57,056, however, it must be noted that this is based on a forecast probable outturn position for 2007/08 – as will be reported to Cabinet in March 2008. It also assumes that the full £460,000 business continuity / service initiatives provision will be expended in 2008/09 and that all other budgets come in at their forecast levels next year, which is unlikely. The City Council has consistently come in slightly under-budget in recent years and there is no reason to suggest 2008/09 will not be the same.

The balance on the Housing Revenue Account is forecast to be around £1m at 31 March, 2008 and will be maintained at this level in 2008/09. This fulfils the requirements of the previous Medium Term Strategy, which has seen the HRA Working Balance almost double over the last four years, providing capacity and flexibility to respond to housing investment needs as they arise, plus the medium term issue of needing to finance a further stock options appraisal by 2010 – in line with the conditions imposed by Government Office following the original stock options appraisal in 2005.

Financial and Operational Risks

The City Council is determined to continue to provide clear "Community Leadership" in 2008/09. The Council has long-standing embedded fundamental guiding principle of securing the services the public require, to a quality they deserve and at a cost they consider affordable. 2008/09 will be no different and the City Council strive to maintain business as usual and effectively contribution to the establishment of the new authority and as such is in the process of developing a Transitional Plan to address these issues.

2008/09 will pose a unique challenge in terms of the transition to the new authority. This will most likely be the last budget prepared by the City Council; however, it continues to be a robust budget. The budgets have been prepared on a low / medium risk basis to ensure that the City Council continues to effectively balance levels of service provision and spending required.

Among the highest risks and issues that have been considered and addressed are:

- the implementation of Local Government Restructuring in County Durham;
- the implementation of Single Status and Job Evaluation;
- the opening of the new Freeman's Quay Leisure Centre;
- the continued implementation of the e-Government and access to services initiatives;
- the rationalisation programme for office and civic buildings;
- the continued changes to the City Care Service, as a result of the introduction of new service standards by City of Durham Council
- the Trading Position of the Gala Theatre;
- the achievement of projected investment income and DVRC dividends;
- the volatility of energy and fuel markets, regionally, nationally and internationally
- the achievement of efficiency targets and programmes; and
- the achievement of performance targets and outcomes, which release Government grants and funding;

There are strong financial governance and risk management frameworks embedded within the Council that provide a high degree of comfort and assurance. These will be maintained and used throughout 2008/09.

In 2008/09 the City Council will continue to monitor ongoing risks, principally surrounding many of its income sources, notably fees and charges and the continuing requirement to ensure all expenditure is rigorously controlled. The budgets take full account of all known commitments, the impact of the loss or receipt of all external finance streams where appropriate.

In addition, the Council is facing greater inflationary pressures than in previous years. The 2008/09 pay award negotiations will not be concluded until well into the financial year. The estimated impact of a 0.50% increase in the pay award over and above the 2.5% built into the budget framework next year is £165,000 on the General Fund and £60,000 on the HRA.

In revenue terms, the City Council's higher theoretical financial risk will always be its ability to collect Council Tax, rents and other income due. The investment in staff and IT systems in recent years has improved its capacity to fulfil this function and these improvements are expected to be maintained. In addition, the City Council holds substantial bad debt provision on its balance sheet.

The City Council is also faced with implementing Job Evaluation / Single Status Agreements for all staff in the coming year. The Budget Framework makes some financial provision for these costs (£300,000 in the General Fund and £100,000 in the Housing Revenue Account), financed from an earmarked reserve that will be created at 31 March 2008, however, this subject to current and ongoing negotiations with Trade Union representatives.

The budgets incorporate the revenue running costs associated with the opening of the Freeman's Quay Leisure Centre in July 2008 and the simultaneous closing of the swimming pool at Elvet Waterside. The income projections for the Freeman's Quay facility take into account the fact that there will be staged build of usage of the facility and included within the budget framework is a £75,000 contribution from the budget support fund to offset this year one issue. The operating costs of this facility will be closely scrutinised throughout 2008/09.

In 2008/09, like in 2006/07, one of the major risks was the statutory changes in the Concessionary Fares Scheme. The City Council has worked closely with all local authorities in County Durham to establish a scheme that mitigated the financial risks in the coming year, whilst maintaining the benefits to those eligible. In 2008/09, the outstanding risk is the level of inflationary increase which will not be known until April. However, the evidence suggests that the County scheme can be maintained with the existing resources (plus inflation).

The City Council will continue to target its resources at meeting its statutory requirements in Licensing, Environmental Health and in managing and maintaining the property is owns. This investment should assist in mitigating the risks these statutory obligations bring.

The Gala Theatre, once a major financial risk to the City Council, has successfully met its financial targets in recent years and this is expected to continue. Therefore, the Council has reflected this in the 2008/09 budget, reducing the provision for the operating costs to £550,000.

The Budget makes provision for a substantial dividend from Durham Villages Regeneration Company. This is somewhat dependent on prevailing conditions within the housing market and will require close monitoring during 2008/09. The Council already has robust arrangements in place to do so, through its representation on the DVRC board.

The City Council will need to continue to carefully monitor the income it receives from fees and charges. Planning and Building Control Fees and Land Charges are partly dependent on the local housing market, a thriving construction industry and favourable interest rates. The income from charges in its Leisure and Cultural facilities is also partly driven by the disposable income of its customers. This is heavily influenced by general economic trends and interest rates.

The Council has also maintained within its revenue budgets a 3% efficiency savings on employee related costs for staff turnover. These will require continued careful management during 2008/09. However, the Council has effective financial and performance management systems in place to monitor these.

It is important to note that the City Council has continued to develop its systems for risk management. It has a well established Risk Management Working Group and embedded within the governance framework is a process of regularly reviewing assessing the City Council's strategic and major financial risks as well as robust systems and procedures in place to manage operational risks.

In terms of the Capital Programme, there are two main risks, the robustness of funding streams and the achievability of capital schemes, in terms of timeliness and cost.

There is clearly an inherent risk in the reliability of funding streams. The level of receipts from the sale of Council houses is reliant on the strength of the housing market and interest rates. The Council will also need to complete its planned programme of disposals (identified above).

There are robust arrangements in place, both to plan and monitor individual capital schemes and the financing of the capital programme. In addition, regular financial monitoring reports (covering Revenue and Capital Budgets for the General Fund and H.R.A. and incorporating forecasts of estimated outturns) are submitted to Cabinet and subsequently considered by the Scrutiny Committee. The Council has also established a corporate project management framework, based on the Prince 2 methodology.

The Council's largest capital scheme (currently on site) is the construction of the Freeman's Quay Leisure Centre, due for practical completion in June 2008. This facility was procured and financed through the City Council's innovative Joint Venture Company, DVRC and as such is not included with the Council Budgets. It is funded through a combination of land transferred for development to DVRC (members will recall that DVRC hold the majority of the development land available within the District), capital receipts from land sales (jointly marketed by the City Council and DVRC), and contributions from the private sector leisure operator / grants from other bodies – both of which come direct to the City Council and are then paid over to DVRC on a staged payments basis.

The Council is required to meet any shortfall on practical completion (June 2008), however, the risks inherent with this development have been assessed in detail and reviewed consistently throughout the last two years. Contingency arrangements have been put in place to ensure that no shortfall exists and therefore no financial liability accrues to the City Council next year.

Summary

In light of the comments and issues identified above, the Director of Financial Services is satisfied that the risk inherent within the budgets lies within the operational, managerial and financial capacity of the City Council during 2008/09.

Conclusions – 2008/09 Budgets

Over recent financial years the City Council has made significant progress in meeting its operational and financial pressures. It has developed and embedded sound financial governance arrangements. This has been recognised with its Use of Resources assessment scores.

In the period 2004/05 to 2006/07 the General Fund Reserve was progressively and substantially increased to provide the necessary contingency to cover the financing of the significant capital investment programmes during 2006/07 and 2007/08. This financial strategy proved extremely prudent and beneficial in 2007/08. The Council was able to respond to and accommodate the loss of resources from a number of land sales in 2007/08 and secure the financing of the revised programmes by utilising these resources.

In 2008/09, the Council is facing a more difficult financial environment than in recent years, carrying with it an increased degree of risk. This is exacerbated by the fact that 2008/09 will most likely be the last year for the City Council and as such will be a transitional year to the new authority.

This will place significant added burdens and risks on the Council and its staff. The budgets recognise and accommodate this through the creation of a business continuity / service initiative budget.

Through prudent management and the establishment and planned improvement of efficiency programmes and robust financial performance and risk management systems, the Council should be able to meet these pressures whilst keeping its commitment to keep Council Tax increases in line with inflation by setting a below inflation increase of 1.9%.

Parish Precepts

In accordance with the Local Government Finance Act 1992, Parish Council precepts must be issued against the City Council's General Fund and for 2008/09 these total £431,946, compared with £386,205 for 2007/08, which represents an average increase of £45,741 or 11.84%. A detailed breakdown of the individual precepts for each parish area is shown below:

2007/08	Parish	2008/09	Increase (£)	Increase (%)
12,000	Bearpark	14,000	2,000	16.67
65,000	Belmont	65,000	-	-
4,436	Brancepeth	5,600	1,164	26.24
103,560	Brandon & Byshottles	124,914	21,354	20.62
23,000	Cassop-Cum-Quarrington Hill	24,150	1,150	5.00
28,000	Coxhoe	33,473	5,473	19.55
7,200	Croxdale & Hett	7,200	-	-
36,200	Framwellgate Moor	38,200	2,000	5.52
8,231	Kelloe	8,566	335	4.07
11,495	Pittington	12,875	1,380	12.00
13,500	Shadforth	14,000	500	3.70
23,550	Sherburn Village	24,468	918	3.90
10,000	Shincliffe	10,000	-	-
20,000	West Rainton	25,000	5,000	25.00
20,033	Witton Gilbert	24,500	4,467	22.30
386,205	**Total**	**431,946**	**45,741**	**11.84**

Principal Precepting Authorities

The Local Government Finance Act 1992 establishes the City Council as the 'Billing Authority' for Council Tax. The County Council, Police Authority and (latterly) the Durham and Darlington Fire and Rescue Authority are designated as 'Principal Precepting Authorities'. Each of these sets its own budget requirements and levies this on the Billing Authority, who includes their requirements on the annual Council Tax Demand notice (the Council Tax Bill).

The County Durham and Darlington Fire and Rescue Authority meet on 19 February to set its precept, Durham Constabulary on 22 February and Durham County Council on 26 February. Details of their precepts (which were provisional at the date of compiling this report) are shown below: -

Durham County Council

Durham County Council has considered its expenditure plans for 2008/09 and, after taking into account grant and business rate income, together with its share of the Collection Fund Surplus redistributed in 2008/09, has issued a precept in the sum of £27,017,602.48 (£25,993,488.25 in 2007/08). **This equates to a Council Tax of £1,024.38 at Band D, an increase of £28.89 or 2.9% over 2007/08.**

Durham Police Authority

The Durham Police Authority have considered its expenditure plans for 2008/09 and, after taking into account grant and business rate income, together with its share of the Collection Fund Surplus redistributed in 2008/09, has issued a precept in the sum of £X,XXX,XXX (£3,543,819 in 2007/08). **This equates to a Council Tax of £XXX.XX at Band D, an increase of £XX.XX or XX.XX% over 2007/08.**

Durham and Darlington Fire and Rescue Authority

The Durham and Darlington Fire and Rescue Authority have also prepared its expenditure plans for 2008/09 and, after taking into account grant and business rate income, together with its share of the Collection Fund Surplus redistributed in 2008/09, has issued a precept in the sum of £2,179,068.63 (£2,096,211.09 in 2007/08). **This equates to a Council Tax of £82.62 at Band D, an increase of £80.28 or 2.91% over 2007/08.**

Responsibilities of the Chief Financial Officer

Under Part 2 of the Local Government Act 2003, the Chief Finance Officer of an Authority is required to report on the following matters:

a) the robustness of the estimates made for the purposes of determining its Budget Requirement for the forthcoming year

b) the adequacy of the proposed financial reserves

There is then a requirement for the Authority to have regard to a report of the Chief Finance Officer when making decisions on its Budget Requirement and level of financial reserves.

In addition, under the Prudential Code Framework, the Chief Finance Officer of an Authority is required to prepare and report upon a series of Prudential and Affordability Indicators. These arise from capital and revenue Budget proposals which the Authority is then required to have consideration to when making decisions as to their future capital investment expenditure. These Indicators are the subject to a separate report to Council.

In the City of Durham, the Chief Financial officer is the Director of Financial Services, Paul Darby. For the purposes of the Local Government Act 2003, the 'financial reserves' of the City Council would incorporate Earmarked Reserves and Working Balances.

There is also a requirement upon the Chief Finance Officer of an Authority to prepare a Treasury Management Policy Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities. This is the subject of a separate report to Council.

To fully satisfy the Chief Finance Officer in respect of the robustness of estimates, any proposed Budget or amendment should therefore:

- be fully based upon the advice of Service Officers (supported by Finance Officers) – or based upon or supported by information the Chief Finance Officer considers reasonable to accept
- provide only for Budget proposals that are fully costed to service level and where the implications – both financial and upon service performance – are estimated and identified
- provide for all known future developments, either through direct service Budget allocations or the establishment of specific reserves for such purposes
- provide for an adequate of balances and reserves consistent with the requirements of any Regulation that may be earmarked and/or the Authority's own risk assessment
- provide for the full revenue implications of the Capital Programme
- establish clear targets for income collection in respect of key income streams
- ensure there are no unidentified savings targets
- where appropriate, ensure that the consequences of current over and under spendings have been taken into account

In addition, the Chief Finance Officer is required to report if, in his view, the level of balances and reserves are likely to be inadequate. Therefore, any proposed Budget or amendment should provide for an adequate level of reserves based upon the advice of Officers and having regard to the Authority's own risk assessment.

APPENDIX B
(6 Pages)

City of Durham

Treasury Management & Prudential Indicators 2008/09

Paul Darby, Director of Financial Services
March 2008

The Prudential Indicators 2007/08 – 2008/09

Introduction

1. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2007/08 and 2008/09. Each indicator either summarises the expected activity or introduces limits upon the activity, and reflects the outcome of the Council's underlying capital appraisal systems.

2. Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy for 2008/09 is included as Appendix C to complement the indicators, and this report includes the prudential indicators relating to the treasury activity.

The Capital Expenditure Plans

3. The Council's capital expenditure plans are summarised below and this forms the first of the prudential indicators. This expenditure can be paid for immediately (by resources such as capital receipts, capital grants etc.), but if these resources are insufficient any residual expenditure will form a borrowing need.

4. A certain level of capital expenditure will be grant supported by the Government; anything above this level will be unsupported and will need to be paid for from the Council's own resources. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been required.

5. The key risks to the plans are that the level of Government support has been estimated and is therefore subject to change. Similarly some of estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale.

6. The Council is asked to approve the summary capital expenditure projections below, full details are included in the Budget Report at Appendix A. This forms the first prudential indicator:

2007/08 Revised	£m	2008/09 Estimated
	Capital Expenditure	
6,881	Non-HRA	2,141
5,296	HRA	4,704
	Financed by:	
2,763	Capital receipts	1,172
4,746	Capital grants	5,013
3,214	Capital reserves	0
1,206	Revenue	412
248	**Net financing need for the year**	**248**

The Council's Borrowing Need (the Capital Financing Requirement)

7. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of Council's underlying borrowing need. The capital expenditure above which has not immediately been paid for will increase the CFR.

8. The Council is required to pay off 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.

9. 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.

10. 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 outline 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;
- **Depreciation method** – MRP will follow standard depreciation accounting procedures.

11. The Council is asked to approve the CFR projections set our below:

2007/08 Revised		**2008/09 Estimated**
Capital Financing Requirement		
3,889	CFR – Non Housing	3,734
18,793	CFR - Housing	19,041
22,682	**Total CFR**	**22,775**
+86	**Movement in CFR**	**+93**

Movement in CFR represented by		
248	Net financing need for the year (above)	248
(162)	MRP/VRP and other financing movements	(155)
86	**Movement in CFR**	**93**

The Use of the Council's resources and the Investment Position

12. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

2007/08 Revised	Year End Resources £000	2008/09 Estimated
2,214	Fund balances (General Fund & HRA)	1,711
54	Unapplied Capital Receipts	92
400	Insurance Fund	400
388	Other Earmarked Reserves & Balances	388
3,056	**Total Core Funds**	**2,591**
2,651	Working Capital*	2,616
5,707	**Expected Investments**	**5,207**

***** Working capital balances shown are estimated year end; these may be higher mid year

Limits to Borrowing Activity

13. Within the prudential indicators there are a number of key indicators to ensure the Council operates its activities within well defined limits

14. For the first of these the Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2008/09 and the following two financial years. This allows some flexibility for limited early borrowing for future years.

2007/08 Revised	£000	2008/09 Estimated
22,014	Gross Borrowing	21,322
5,707	Investments	5,207
16,307	Net Borrowing	16,115
22,597	CFR (Previous Year Only)	22,682

15. The Director of Financial Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the coming year. This view takes into account current commitments, existing plans, and the proposals in this budget report.

16. A further two prudential indicators control or anticipate the overall level of borrowing. These are:

17. **The Authorised Limit for External Debt** – This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

18. **The Operational Boundary for External Debt** –This indicator is based on the expected maximum external debt during the course of the year; it is not a limit.

19. The Council is asked to approve the following Authorised Limit and Operational Boundary:

2007/08 Revised		2008/09 Estimated
28,782	**Authorised (Borrowing) limit £000**	28,875
26,182	**Operational (Borrowing) Boundary £000**	26,275

Affordability Prudential Indicators

20. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council's finances. The Council is asked to approve the following indicators:

21. **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

2007/08 Revised		2008/09 Estimated
13.39%	HRA	19.01%
0.02%	Non-HRA	-0.92%

22. The estimates of financing costs include current commitments and the proposals in this budget report.

23. Estimates of the incremental impact of capital investment decisions on the Council Tax – This indicator identifies the revenue costs associated with new schemes introduced to the capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support.

24. **Incremental impact of capital investment decisions on the Band D Council Tax**

2007/08 Revised £ p	£	Budget 2008/09 £ p
42.35	**Council Tax - Band D**	3.64

25. Estimates of the incremental impact of capital investment decisions on Housing Rent levels – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

26. **Incremental impact of capital investment decisions Housing Rent levels**

2007/08 Revised	**£**	**Proposed Budget 2008/09**
0.75	**Weekly Housing Rent levels**	4.17

27. This indicator shows the revenue impact on any newly approved schemes, although any discrete impact will be constrained by rent controls.

APPENDIX C
(13 Pages)

City of Durham

Treasury Management & Investment Strategy 2008/09

Paul Darby, Director of Financial Services
March 2008

Treasury Management Strategy 2008/09

1. The Treasury Management function covers the borrowing and investment activities of the Council and the effective management of associated risks in relation to these activities. It is an important part of the overall financial management of the Council's affairs and forms part of a process which ensures the Council meets balanced budget requirement under the Local Government Finance Act 1992.

2. This report outlines the strategy to be followed by the Council in the coming year in relation to its Treasury Management activities and takes into account the impact of the Prudential Code for Capital Finance in Local Authorities. The prudential indicators in Appendix B consider the affordability and impact of the Councils capital investment decisions, and set out the Council's overall programmes and capital framework. There are specific treasury prudential indicators included in this strategy which require approval.

3. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 15 September 2003, and as a result adopted a Treasury Management Policy Statement (15 September 2003). This adoption meets the requirements of the first of the treasury prudential indicators.

4. The Constitution requires an annual strategy to be reported to Council outlining the expected treasury activity for the forthcoming year. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. A further treasury report is produced after the year-end to report on actual activity for the year.

5. This strategy covers:

    - The Council's debt and investment projections;
    - The expected movement in interest rates;
    - The Council's borrowing and investment strategies;
    - Treasury performance indicators;
    - Specific limits on treasury activities;
    - Any local treasury issues

<u>Debt and Investment Projections 2008/09</u>

6. The borrowing requirement comprises the expected movement in the Councils Capital Financing Requirement and any maturing debt which will need to be re-financed. The table below shows this effect on the treasury position over the next year. It also highlights the expected change in investment balances.

2007/08 Revised £000s		2008/09 Estimated £000s
	External Debt	
22,492	Debt at 1 April	22,014
86	Movement in CFR	93
(4,250)	Maturing Debt to be Replaced	0
4,250	Replacement of Maturing Debt	0
0	Adjustment for prior years	0
22,014	Debt at 31 March	21,322
(478)	Annual change in debt	(785)
	Investments (inc. Cash Balances)	
5,707	Total Investments at 31 March	5,207
(3,005)	Investment change	(500)

7. The related impact of the above movements on the revenue budget is as follows:

2007/08 Estimated £000s		2008/09 Estimated £000s
	Revenue Budgets	
1,907	Interest on Borrowing	1,758
(1,590)	Related HRA Charge	(1,521)
317	Net General Fund Borrowing Cost	237
640	Investment Income	656

<u>Expected Movement in Interest Rates</u>

8. The Council employs Butlers as its Treasury Management Consultants, to advise on the Treasury Strategy, to provide economic data and interest rate forecasts, to assist in planning and reduce the impact of unforeseen adverse interest rate movements. The Council's Treasury Management consultants have supplied the following medium-term forecasts:

	Bank Rate	**1 Year LIBOR**	**5 Year Gilt**	**20 Year Gilt**	**50 Year Gilt**
2007/08	5.6	6.0	5.3	4.9	4.5
2008/09	4.8	4.7	4.7	4.8	4.6
2009/10	4.8	4.8	4.8	4.7	4.6
2010/11	5.0	5.3	4.9	4.8	4.8

9. **Short Term Interest Rates** - While the December and February cuts in the Bank Rate ultimately came as no great surprise to the financial markets it did reflect the Monetary Policy Committee's growing unease about the state of the domestic economy.

10. The November Inflation Report did highlight the threat of a comparatively steep decline in economic activity in 2008. However, until then there had been few decisive signals that this process had commenced in earnest. More recently, the economic data has been transmitting an increasing amount of evidence that this may indeed be the case.

11. The cooling in the housing market has been noted for some time although it is only in the past few months that the two key indicators on this front (the Nationwide & Halifax Indices) have moved down in unison. The deciding factors behind the MPC's decision were probably the November CIPS surveys of the manufacturing and service sectors.

12. Both these indicators pointed towards a marked deceleration in activity on a broad front and may well have been interpreted by the policy doves as a sure sign that the effects of the summer's credit squeeze are beginning to spread beyond the confines of the financial markets.

13. The squeeze on credit represents a sharp and involuntary tightening of domestic monetary policy. The fact that it is likely to take some time to evaporate suggests that consumers' expenditure (which has still to see the full effects of the adjustment of discounted, fixed-rate mortgages) will eventually respond through a marked contraction.

14. This, along with an easing of capacity constraints as the economy slows down, is expected to reduce inflation pressures and ensure CPI growth reverts to the 2% central target rate over the medium term.

15. Nevertheless, the Bank of England does note that the upside risks to inflation remain. Many of the current pressures are externally generated (oil, food, commodity prices etc) and will not respond to UK interest rate policy.

16. Hopes rest upon the anticipated deceleration in international activity reversing at least some of these trends. In the mean time, the MPC is hoping that domestic inflation expectations do not deteriorate and that weakening household consumption prevents companies passing cost increases on to the retail level. The outcome of this "central case" scenario will not be known for some time.

17. **Longer Term Interest Rates** - Bond markets (which underpin the Council borrowing rates) will remain aware of the risks policy makers are taking with inflation for the sake of engineering a gradual and moderate dip in economic activity. Concerns about the health of the financial sector will persist for some time and these will maintain the downward bias to bond yields in the near term.

18. However, investors may be unsettled by the risks central banks are taking with long-term inflation control in their attempts to shore up faltering activity. Worries about inflation prospects in the medium to long term are expected drive yields higher through 2008/09 and beyond.

Borrowing Strategy 2008/09

19. In recent years the Council has not needed to incur additional borrowing to finance the capital programme, instead utilising capital receipts, external grants and contributions and funding directly from revenue.

20. The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will continue to take a cautious approach to its treasury strategy in the coming year.

21. Long-term fixed interest rates are expected to be higher over the medium term. The Director of Financial Services, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. Longer term fixed rates will be considered earlier if borrowing rates deteriorate. This may include borrowing in advance of future years requirements, although this is not anticipated at this stage.

22. With the likelihood of increasing interest rates debt restructuring is likely to take place later in the financial year or in future years, although the Director of Financial Services and treasury consultants will monitor prevailing rates for any opportunities during the year.

23. A key change in the options for borrowing and rescheduling occurred on 1 November 2007 when the PWLB changed its interest rate structure to a more sensitive pricing method and also increased the relative cost of repaying debt. This will prompt a more cautionary approach to both borrowing and rescheduling than in previous years.

Investment Counterparty and Liquidity Framework

24. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested;
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

25. The Director of Financial Services will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparties the Council will choose rather than defining what its investments are.

The rating criteria use the lowest common denominator method of selecting counterparties and applying limits.

- **Banks** – the Council will use banks which have at least the following Fitch, Moody's and Standard and Poors ratings (where rated):
  - **Short Term** – F1 or equivalent
  - **Long Term** – A or equivalent
  - **Individual / Financial Strength** – C (Fitch / Moody's only)
  - **Support** – 3 (Fitch only)
- **Bank Subsidiary and Treasury Operations** – the Council will use these where the parent bank has the necessary ratings outlined above.
- **Building Societies** – the Council will use all Societies with assets in excess of £500M
- **Money Market Funds** – AAA
- **UK Government** (including gilts and the DMO)
- **Local Authorities, Parish Councils etc**
- **Supranational institutions**

26. The time limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Fitch	Moody's	Standard & Poors	Money Limit	Time Limit
Upper Limit Category	F1+/AA-	P-1/Aa3	A-1+/AA-	£2.5M	3 years
Middle Limit Category	F1/A-	P-1/A3	A-1/A-	£2M	2 years
Lower Limit Category	-	-	-	£1M	6 months
Other Institution Limits	-	-	-	£2.5M	-

The Upper and Middle Limit categories will include banks and building societies. The Lower Limit Category will normally just be used for unrated subsidiaries and unrated building societies. The Other Institution Limit will be for other local authorities, the DMADF, Money Market Funds and Gilt and Supranational investments.

27. The proposed criteria for Specified and Non-Specified investments are shown in Annex C1 for approval.

28. In the normal course of the council's cash flow operations it is expected that both Specified and Non-specified investments will be utilised for the control of liquidity as both categories allow for short term investments.

29. The use of longer term instruments (greater than one year from inception to repayment) will fall in the Non-specified investment category. These instruments will only be used where the Council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator below.

Investment Strategy 2008/09

30. Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 5.50% Bank Rate being the peak in 2008/09 with a potential further fall in mid 2008. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise, subject to over riding credit counterparty security. The Director of Financial Services, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

Sensitivity to Interest Rate Movements

31. In future the Council's accounts will be required to disclose the impact of risks on the Council's treasury management activity. Whilst most of the risks facing the treasury management service are addressed elsewhere in this report (credit risk, liquidity risk, market risk, maturity profile risk), the impact of interest rate risk is discussed but not quantified. The table below highlights the estimated impact of a 1% increase/decrease in all interest rates to treasury management costs/income for next year – based on the strategy and assumptions built into the 2008/09 budget framework. The element of the debt and investment portfolios which are of a longer term, fixed interest rate nature would not be affected by interest rate changes in 2008/09.

	2008/09 Estimated +1%	**2008/09 Estimated -1%**
Revenue Budgets :		
Interest on Borrowing	3,500	(3,500)
Related HRA Charge	(3,783)	1,892
Net General Fund Borrowing Cost	(283)	1,608
Investment Income	115,000	115,000

32. The 2008/09 budget framework assumes no new borrowing in the year. Of the external debt, only £350,000 (in relation to the Durham Crematorium) relates to variable rate loans. The rate payable is linked to interest earned on investments in the year, discounted by 0.25%. Assuming no further borrowing or debt rescheduling activity in 2008/09 then a 1% reduction in rates would save £3,500 in gross interest – a 1% increase in rates producing additional gross costs of £3,500.

33. In terms of external investments, the average rate of interest on external investments assumed in the budget framework was 5.70%. A 1% reduction in rates would cost approximately £115,000 – a 1% increase in rates producing additional income of £115,000. In terms of investment income projections in 2008/09, a cautious / prudent assessment of average level of investments has been assumed to mitigate against interest rate fluctuations.

Treasury Management Prudential Indicators and Limits on Activity

34. There are four further treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

- Upper limits on variable interest rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.
- Upper limits on fixed interest rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates.
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.
- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

35. The Council is asked to approve the following prudential indicators:

	2008/09	
	Lower	**Upper**
Interest Rate Exposures :		
Limits on fixed interest rates based on net debt	N/A	200%
Limits on variable interest rates based on net debt	N/A	50%
Maturity Structure of fixed interest rate borrowing 2008/09		
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
10 years and above	50%	90%
Maximum principal sums invested > 364 days		
Principal sums invested > 364 days	N/A	£4M

Performance Indicators

36. The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators, which are predominantly forward looking. Examples of performance indicators often used for the treasury function are:

- Debt – Borrowing - Average rate of borrowing for the year compared to average available
- Debt – Average rate movement year on year
- Investments – Internal returns above the 7 day LIBID rate

The Councils performance against these indicators will be reported in the Treasury Annual Report for 2008/09.

Local Issues

37. In light of the Council's cash balances, and the level of external investment activity during 2007/08, the Council and its Treasury Management advisors have again reviewed the Council's credit risks and counterparty lists.

The review took into account the changes to the way limits are applied to institutions and the criteria for selecting counterparties, as reported to Council as part of the Treasury Management Strategy 2007/08.

The Council's Investment Strategy incorporates the use of all credit rating categories when selecting counterparties, with the aim of ensuring any 'rogue' institutions who may have a weak rating other than short or long are not used. The Council has reviewed and maintained its existing counterparty limits. The aim of the Investment Strategy being to:

- enable the Council to prudently invest with wide range of high quality institutions;

- use credit ratings where possible to supplement the counterparty lists and decrease the rating threshold for investments over one year

- apply maximum time and money limits for individual institutions, though this does have a significant impact on limits for the Council's own bank. The Council is making exception to the formalisation of limits with regards to its own bank and that details of this are included in Annex C1 overleaf under Non-Specified Investments.

- to have greater scope when investing through the potential use of additional banks and building societies, especially for smaller sums that other counterparties may not bid for

- have a broader spread of investments

- put in place suitable parameters to avoid undue risk

ANNEX C1

Treasury Management Practice (TMP) 1 (5) – Credit and Counterparty Risk Management

The Office of the Deputy Prime Minister (now CLG) issued Investment Guidance on 12th March 2004, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which are under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for Councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 15 September 2003 and will apply its principles to all investment activity. In accordance with the Code, the Director of Financial Services has produced a range of treasury management practices. This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual Investment Strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for decision making on investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

This strategy is to be approved by full Council.

The investment policy proposed for the Council is:

Strategy Guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified Investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society.

For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's or Fitch rating agencies.

For category 5 this covers bodies with a minimum rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

Upper Limit – £2.5M and 3 years

Short Term – F1+ (or equivalent from Moody's and Standard & Poors)
Long Term – AA- or better (or equivalent from Moody's and Standard & Poors)

Lower Limit - £2M and 2 years

Short Term – F1 (or equivalent from Moody's and Standard & Poors)
Long Term – A- or better (or equivalent from Moody's and Standard & Poors

Non-Specified Investments – Non-specified investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

	Non Specified Investment Category	**Limit (£ or %)**
A	**Supranational Bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.) **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the Government and so very secure, and these bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	 £2.5M* £2.5M*
B	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£2.5M*

* The £2.5M limit for Supranational Bonds and Gilts is an aggregate limit for Categories A & B. These types of investment would normally be carried out by the Council's external fund manager.

	Non Specified Investment Category	Limit (£ or %)
C	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies which have a minimum asset size of £500M but will restrict these type of investments to 6 months.	£5M
D	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£10M
E	**Co-operative Bank plc** – The Co-operative Bank is the main recipient of the Council's short term deposits and may at any time hold the majority of the Council's liquid monies.	£10M
F	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. The Council will restrict these types of investments to 6 months.	£2M
G	**Share capital or loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies.	NIL

Within categories C, D & F, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested individually in these bodies. This criteria is:

Category D

Upper Limit - £2.5M and 3 years

Short Term – F1+ (or equivalent from Moody's and Standard & Poors)
Long Term – AA- or better (or equivalent from Moody's and Standard & Poors)

Lower Limit - £2M and 2 year

Short Term – F1 (or equivalent from Moody's and Standard & Poors)
Long Term – A- or better (or equivalent from Moody's and Standard & Poors)

Categories C & F - Unrated Building Society / Subsidiary Limit - £1M and 6 months

The Monitoring of Investment Counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating advice from its advisers, Butlers, on a daily basis and as and when ratings change, and counterparties are checked. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Director of Financial Services, and if required new counterparties which meet the criteria will be added to the list.

CITY OF DURHAM

COUNCIL
26th February 2008

REPORT OF DIRECTOR OF CORPORATE SERVICES

STANDARDS COMMITTEE – LOCAL ASSESSMENT OF COMPLAINTS

With effect from 1st April, 2008, the City Council's Standards Committee will be responsible for carrying out local investigation of complaints received regarding Members of both parish and district councils, a function which is currently carried out by the Standards Board for England.

Accordingly, the volume of work to be undertaken by the Standards Committee may increase, requiring a number of additional Committee Meetings to be scheduled.

At present, the Committee meets on a bi-monthly basis, and it is proposed, therefore, that with effect from April 2008, the cycle of Meetings be amended and Meetings be arranged on the following dates:-

	9.30 a.m.	5.30 p.m.
April, 2008	2nd	24th
May, 2008	7th	22nd
June, 2008	4th	26th
July, 2008	2nd	24th
August, 2008	-	-
September, 2008	3rd	18th
October, 2008	1st	16th
November, 2008	5th	20th
December, 2008	3rd	18th
January, 2009	6th	19th
February, 2009	4th	19th
March, 2009	4th	19th
April, 2009	1st	23rd

Recommended: That the likely increase in the workload of the Standards Committee be noted, and that the Schedule of Meetings be amended to make provision for this.

CITY OF DURHAM

COUNCIL
26th February 2008

REPORT OF HEAD OF LEGAL & STRATEGIC SERVICES

Amendments to the Constitution

Following the resolution at Cabinet on 17 December 2007 (Minute 421) regarding the application for Early Retirement/Voluntary Redundancy of the Chief Executive and the appointment of the Executive Director to Head of Paid Service, it is necessary to amend the City Council's Constitution in order to reflect the management structure that will be adopted once the Chief Executive retires.

In view of the number of amendments, a proposed amended copy of the Constitution (showing amendments in red) has been placed on Members on Line and a hard copy placed in the Members' Room.

Essentially, throughout the constitution, all references to the Chief Executive have been deleted, with the functions being transferred to the Executive Director. Minor amendments have also been made to ensure that accurate job titles are used, and to ensure that the delegations to all Chief Officers are accurate and appropriate. A more detailed summary of the amendments is contained within Appendix A.

It is therefore recommended that, with effect from 5th April 2008, the Council adopt the amended constitution.

Appendix A

Part 1: Summary & Explanation	All references to Chief Executive replaced with Executive Director
Part 2: Articles	All references to Chief Executive replaced with Executive Director

Part 3: Responsibility of Functions

Delegations to the Chief Executive – changed to Executive Director and incorporating duties previously reserved for Executive Director with the following delegations re-assigned as follows:-

3.1, 3.2 and 3.3 removed
3.4 - *To deputise for the Executive Director and in the absence of the Executive Director exercise all powers and duties delegated to the Executive Director* - Delegated to the Director of Corporate Services
3.5 - *To consider all matters relating to the Council's administrative offices subject to the power of the Head of Cultural Services to deal with applications to hire the Town Hall* – remains with the Executive Director
3.6 - *To act as the Pantmaster to the Council* – Delegated to the Head of Environment and Leisure Services
3.7 - *To act as the Returning and Electoral Registration Officer* – remains with the Executive Director
3.8 - Removed

Delegation to the Director of Financial Services – To include being the officer responsible for nominating the deputy S151 Officer.

Delegation to the Head of Environment and Leisure Services – to add – Anti Social Behaviour Act 2003 and to act as Pantmaster for the Council.

Delegations to Head of Financial Services – to be removed and all reference to the Head of Financial Services removed from the Constitution.

Part 4: Rules & Procedures	All references to Chief Executive replaced with Executive Director
Part 5: Codes & Protocols	All references to Chief Executive replaced with Executive Director

Following on from the recommendation of Council on the 27 September 2007 The Code of Corporate Governance has been included within Part 5 of the Constitution at 97E

Part 6: Members' Allowances	All references to Chief Executive replaced with Executive Director
Part 7: Management Structure	All references to Chief Executive replaced with Executive Director