

FINANCIAL STRATEGY 2008/09 TO 2010/11

1. Introduction

- 1.1 The purpose of this document is to summarise the Council's emerging medium term financial strategy. It is an early draft, and remains subject to considerable internal and external consultation.
- 1.2 The strategy complements the Council's evolving long-term vision and corporate plan, and covers both revenue and capital. It identifies those corporate priorities to which financial commitment is expected to be given over the next 3 years.

2. Aim

- 2.1 *[To be completed at the time of approval of the corporate plan. The financial strategy is consistent with the emerging corporate plan]*

3. Financial Background

- 3.1 The table below indicates the scale of the Council's spending in 2007/08:

	£m
Gross Revenue Expenditure	722
Net Revenue Expenditure	240
Capital Spending	106

- 3.2 Our ability to deliver the corporate plan is heavily dependent upon central government resources:
- a) The revenue budget is supported by substantial government grants. Some of these grants are ringfenced to specific services, and some grant is for general purposes. Two thirds of the net budget is met by general government grant, and the balance by council tax;
 - b) Council tax levels are constrained by the Government's policy of capping authorities whose increases it deems excessive;
 - c) For all practical purposes, the only capital monies we have to spend completely at our own discretion are the proceeds of property sales ("capital receipts").

4. Resources

- 4.1 The Council must plan its spending within finite resources. At the time of writing, we do not have the government's spending plans for the next three years. The expected timetable for releasing information is as follows:
- a) In early October 2007, the Government will publish national spending plans for the next three years, including spending on local authority services (but not sums payable to individual local authorities);

- b) In early December, the Government will publish the draft finance settlement, issuing details of grants to be paid to each local authority in the next three years. Details of capital funding are expected to be published at roughly the same time.

4.2 It is expected that:

- a) Public spending over the next three years will be more tightly constrained than in the previous three years. Nationally, growth in public spending will reduce to 1.9% per annum in real terms, with much of the increase targeted at health and education;
- b) Local authorities and schools will be expected to make efficiency savings of 3% in cash terms in each of the next three years;
- c) Capping of “excessive” council tax increases will continue.

4.3 The formula by which general grant is distributed to local authorities is also under review, and more specific grants will be distributed as area based grant for consideration by the Leicester Partnership.

4.4 There is, therefore, considerable uncertainty over resource levels for the next three years, and best estimates have had to be made.

4.5 Current estimates of revenue grant support to the net budget are as follows:

		%
	£m	Increase
2008/09	161.8	2.9
2009/10	166.0	2.6
2010/11	170.0	2.4

4.6 Capital resources available to spend at our own discretion are estimated to be £5m per annum. These may be supplemented by additional receipts arising from future development at Ashton Green (see below).

4.7 The overall financial position is such that the Council needs to carefully balance new commitments to meet the corporate plan with the constraints of affordability. There will be a continual need to ensure that council services are delivered as efficiently and effectively as possible so that monies can be re-directed to stated priorities.

5. Financial Priorities

5.1 The table below identifies those aspects of the corporate plan which require some degree of financial commitment, together with the **principal sources** from which it is anticipated that such commitment will be made. Any specific commitment is dependent upon affordability in the light of the forthcoming three-year settlement.

	General Fund Revenue	Neighbourhood Budgets	Local Area Agreement	Housing Revenue Account	Dedicated Schools Grant	Capital – next 3 years	Capital – longer term	Leveraged grant and other finance	Partners' mainstream budgets
an Streets	✓		✓						
sical regeneration of the centre						✓	✓	✓	
vice based provision for the early, including extra care	✓					✓		✓	
with provision that facilitates inclusion	✓							✓	
“greening” of the city	✓		✓			✓			
ool improvement			✓		✓				
vision of new affordable social housing						✓			
roving the standard of density of homes in the city				✓		✓			
roving the living environment in neighbourhoods		✓						✓	
roving transport connectivity and city gateways							✓	✓	
roving public accessibility services from enhanced facilities							✓		
roving adult skills									✓
roving Health									✓
roving community safety									✓
ancing the supply of employment opportunities.									✓

5.2 Greater definition will be given to the above priorities as the strategy is shaped through consultation.

6. Principles of detailed budget planning

6.1 This section of the strategy identifies the principles on which budget decisions will be taken.

6.2 Decisions will be taken in the context of the long term vision and corporate plan, and the financial priorities described above.

6.3 Baseline service standards will be set for each service, and publicly communicated. Budget decisions will ensure those service standards can be met.

6.4 Traditional service delivery approaches will be challenged, based upon:

- a) Ease of accessibility to the public;
- b) A “one council” approach to service delivery;
- c) Local responsiveness of the service;
- d) Ability to secure integration with other agencies, such as the Primary Care Trust;
- e) Cost efficiency.

6.5 The Council will not spend significantly more than other, comparable, local authorities in any service area without an explicit policy decision to do so. High spending services will be expected to demonstrate high levels of service achievement. Plans will be made to reduce spending on historically high spending services by 2010/11, where this is no policy commitment to maintain such spending levels.

6.6 Charges made for services will be assessed, and historic patterns of service will be reviewed. The prima facie assumption of such review will be that all services will cover their cost, unless there is an explicit decision not to, based upon:

- a) Policy choice;
- b) Statute;
- c) Securing wide and inclusive access;
- d) Market willingness to pay the price.

6.7 (In practice, it is recognised that a substantial number of services will not be charged at full cost).

7. Taxation

7.1 The Council Tax (Band D) for the city is £1061, which is below the national average, and below the average of comparable local authorities.

7.2 Future tax rises will not be excessive, and will be consistent with:

- a) The need to ensure appropriate funding levels to deliver service improvement;
- b) The need to avoid capping.

8. Neighbourhood Service Provision

8.1 The Council is committed to giving ward committees a decision making role in relation to spending budgets. The minimum amount of budget this will apply to will be those budgets presently assigned to area committees.

8.2 It is anticipated that monies spent by ward committees will be targeted to works which improve the living environment in neighbourhoods, principally local environmental improvements.

9. Value for Money

9.1 The Council is committed to providing services as efficiently and effectively as possible, and to meet the Government's expected efficiency targets.

9.2 Detailed budget planning encompasses VFM in two ways:

- a) By means of transparent analysis of the relative costs and performance of each area of service, and explicit justification for any decision to continue spending at high levels. This analysis will be made publicly available in the budget process;
- b) Through linkages to a corporately determined plan of efficiency reviews, the outcome of which will be reported as part of the budget decision making process.

9.3 Monies saved through efficiencies will be available to spend on service priorities.

10. Revenue Budget Planning

10.1 Each service department is required to prepare a three year departmental revenue strategy which meets the corporate requirements of this strategy, statutory obligations and national priorities for the service; and plans services within a pre-determined spending assumption (the "planning target").

10.2 Departmental revenue strategies should specifically address how resources are being redirected to meet priority spending needs.

- 10.3 For 2008/09 to 2010/11, planning targets have been established as follows:
- a) The starting position is the planning targets for 2007/08 to 2009/10, agreed by the Council in February 2007;
 - b) These have been rolled forward to 2010/11, based on the estimated future cost of extant decisions;
 - c) Financial plans have been inflated to cover the estimated costs of pay and price increases. The exception to this, however, is that no inflation on running expenses is to be provided in 2008/09 other than for:
 - Costs determined by reference to large value, long term contracts;
 - Costs of services procured from fragile markets;
 - Voluntary sector grants and foster care payments;
 - Business rates
- 10.4 Planning needs to reflect the demographic trends in both older people requiring services and people with learning disabilities. In response to these trends, budget planning for the Adult Services and Housing Departments will:
- a) Plan to develop more accommodation with care, both to provide greater choice and to enhance value for money;
 - b) Provide increased levels of individualised support;
 - c) Develop joint preventative strategies with the NHS.
- 10.5 To meet the demographic trends, an additional amount of £1m per annum has been added to the planning target of the Adult Services Department, with effect from 2008/09. A further (lesser) sum may be considered from 2009/10 after receiving the Comprehensive Spending Review.
- 10.6 The resultant planning targets create financial envelopes which roughly balance the needs of:
- Services which are key local priorities
 - Services which are key national priorities
 - Services subject to major demand led pressures
- 10.7 Departments are expected to ensure all growth pressures can be accommodated within these planning figures.
- 10.8 It is anticipated that savings will be required in 2009/10 and 2010/11, which will be properly assessed after receiving the Comprehensive

Spending Review. Departments are advised to anticipate this in the early stages of their planning.

10.9 Departmental revenue strategies will be published, and will contain:

- Details of expenditure and resources for the forthcoming three years;
- Baseline service standards which will be achieved by the proposed budget;
- Results of efficiency reviews carried out, and savings arising;
- Analysis of the relative costs and performance of individual services;
- Charging policies;
- Detailed growth and reduction proposals.

10.10 Spending plans for ICT, property maintenance and highways maintenance will be considered separately from the above process, and will be driven by asset management plans and strategic spending needs of the services.

10.11 Budget planning for the Children and Young People's Department will incorporate a review of the use to which dedicated schools grant (DSG) is being put. The aim of this review will be to ensure that DSG and departmental funding are used in a complementary fashion to deliver the corporate objective of school improvement.

11. Specific Policies applicable to capital spending

11.1 The following sources of funding are available to support capital expenditure:

- a) Government grant;
- b) Supported borrowing – borrowing of amounts allocated by central government, and for which the government provides revenue funding to service the debt;
- c) Capital receipts;
- d) Unsupported borrowing – borrowing which the council has to service at its own expense.

11.2 Government supported capital resources (grant and supported borrowing) are almost entirely ringfenced for specific purposes, either as a condition of the funding, or arising from the expectations of the department or body awarding the money.

11.3 Capital receipts are treated as corporate resources, with the exception of:

- a) Receipts from the sale of council housing, which are ringfenced for housing purposes;

- b) Receipts which are required to fund projects which enable the property to be sold in the first place (e.g. relocation of services from one building to another). Decisions on ringfencing such receipts are taken on a case-by-case basis.

11.4 Unsupported borrowing is only used in the following circumstances:

- a) "Spend to save" schemes, where principal and interest costs of unsupported borrowing can be met from savings achievable from the initial investment;
- b) "Once in a generation" investment opportunities, being substantial projects which can attract significant leverage;
- c) As a last resort, for cost avoidance measures (i.e. where it is cheaper to borrow now than face a bigger problem later).

12. Ashton Green

12.1 The council owns development land at Ashton Green in the north west of the city which has significant value.

12.2 The council's vision for Ashton Green is to facilitate development of an exemplar housing scheme, which demonstrates exceptional levels of sustainability. Achievement of this vision will depend on a balance to be struck between sustainable development, the achievement of capital receipts, and the ability to lever in additional finances to support the vision.

12.3 Receipts from Ashton Green will be invested to meet the city's long-term vision. Specifically, it is intended that they will be used to address:

- a) Transport connectivity, and improvements to transport infrastructure. Such use will be complementary to other transport resources received from the government, and other grant funding;
- b) Improvements to the quality of service provided to Leicester citizens and the accessibility of such services; aiming to ensure that services are available either from premises which are fit for purpose or extended hours telephone and electronic access.

13. Capital Budget Planning

13.1 In February 2008, decisions will be taken on which capital schemes will be supported for the period 2008/09 to 2011/12 (a four year programme).

13.2 Decisions will be based on a formal assessment process. This will be in two stages:-

- a) An initial sift of schemes to determine which meet the agreed financial priorities in this strategy;

- b) A financial and qualitative assessment of each scheme which passes the first stage assessment.
- 13.3 The financial assessment will consider the value and affordability of the project.
- 13.4 The qualitative assessment will consider:
- a) The extent to which proposed schemes meet stated financial priorities in this strategy; or
 - b) The extent to which expenditure is required to meet a statutory need or national expectation.
- 13.5 Decisions on capital spending will be taken in conjunction with decisions on the revenue budget.

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