
Revenue Budget Strategy 2002/03 to 2004/05

Report of the Chief Financial Officer

1. **Purpose of Report**

This report proposes the adoption of a draft revenue budget strategy, subject to public consultation, for the next three years and is attached as the supporting information to this report.

2. **Summary**

2.1 In April 2000 the Council adopted a revenue budget strategy for the period 2000/01 to 2002/03 which formed the framework for preparing the 2001/02 budget. Clearly the strategy needs to be rolled forward to ensure it remains a working document and the cabinet lead has asked for the scrutiny committee's views on the attached proposal for the period 2002/03 to 2004/05. The new strategy takes into account advice I gave on specific financial matters, namely:

- a) Likely future government resources and spending assumptions;
- b) An appropriate minimum level of uncommitted reserves.

2.2. The strategy is set in the context of 2 Government funding reviews, both of which could have a significant adverse affect on our financial position:

- a) The government's review of revenue grant distribution is expected to lead to a finance white paper in the autumn. Radical change to the system of SSA is being contemplated;
- c) A review of education funding, which is proceeding ahead of the main review, and could result in a new system of education finance as early as 2002/2003. (If this happens, other Government departments may also implement change in 2002/03).

I will present the Council's funding outlook more fully by means of slides at your meeting.

2.3 The following policies remain unchanged from the previous strategy:

- a) The three key spending priorities of educational standards, social care and health, and combating crime and disorder;
- b) Rolling forward existing commitments for 2002/03;
- c) An aim to achieve a stable tax setting framework in 2003/04 and 2004/05.

2.4 The process of setting the budget will, once again, provide for consultation on specific proposals from December.

2.5 The following policies are new:

- a) an additional priority of neighbourhood renewal, and the adoption of a complementary approach to mainstream and neighbourhood renewal funding sources;
 - b) a proposed new approach to the voluntary sector, dependant upon consultation with our voluntary sector partners;
 - d) a policy of setting aside any savings achieved on future capital financing budgets to provide a buffer for future fall-out of the technical “commutation adjustment”, should this happen;
 - e) the production of an annual plan at the same time as the budget.
- 2.6 The new strategy is more specific about how the spending priorities are achieved, and makes looser commitments on tax (for 2003/04 and 2004/05) than previously as a consequence of uncertainty about future funding.
- 2.7 The attached document details departmental planning figures for the period of the strategy. Should the neighbourhood renewal agenda result in different internal structures of the Council, then these targets will need to be amended as appropriate to reflect the new arrangements.
- 2.8 A key issue for forthcoming budgets will be the Neighbourhood Renewal Fund. The strategy recognises the need for the NRF and mainstream budgets to complement each other, and officers will seek to dovetail processes as far as is possible.
- 2.9 Some gaps remain in the strategy, which are identified on page 6. Further work is being done:
- a) To examine whether or not it is feasible to pool city centre budgets, thus creating more flexibility to manage the Councils financial input to the city centre holistically;
 - b) To examine ways of controlling sickness levels and making consequential savings.
- 2.10 The new strategy will be subject to consultation with the public and our key partners, which is due to be completed by the end of September 2001. The resulting strategy will act as a framework for taking budget decisions (although it should be noted that a number of key decisions have already been taken in respect to 2002/03 when the 2001/02 budget resolution was made).

3. Recommendations

- 3.1 Finance, Resources and Equal Opportunities Scrutiny Committee is asked to consider whether it supports the proposed strategy, and to indicate to Cabinet any suggested changes.
- 3.2 Cabinet is asked to:
- i) adopt the strategy detailed in the supporting information for consultation, subject to any changes it wishes to make following scrutiny committee,
 - ii) approve the departmental planning targets for the completion of Departmental Revenue Strategies.

4. Financial and Legal Implications

- 4.1 The attached draft corporate revenue strategy will set the financial framework within which budget decisions for the next three years are taken.

5. Report Author/Officer to contact:

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Revenue Budget Strategy 2002/03 to 2004/05

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Supporting Information - Proposed Strategy

1. Introduction

- 1.1 The Council's revenue budget strategy is one of 4 resource strategies which support the Council's key policy aims and objectives. It sets out the Council's overriding financial policies for the next 3 years within which departmental medium-term planning and the Council's annual budget setting will operate. It is revised on an annual basis.
- 1.2 The current strategy is set in the context of significant uncertainty regarding future government funding.
- 1.3 Appendix A shows the key assumptions which underpin the financial projections used in this strategy.

2. Taxation

- 2.1 In 2002/03, the Council will aim to keep its tax increase to a level which is consistent with government expectations for tax increases nationally, as it did in 2001/02 (we believe this will result in a tax rise of around 4.9%). Whilst this is a firm intent, an unusually bad settlement or a very significant unexpected spending need may prevent it from being realised.
- 2.2 In 2003/04 and 2004/05, the Council:
- (a) will aim to achieve stability in year on year increases in taxation, avoiding severe fluctuations;
 - (b) will aim to set out its intentions more fully after the Government funding review is complete.

3. Resource Forecasts

- 3.1 The table below shows our best current estimates of general resources available to the Council:

	<u>Government Grant</u> £m	<u>Council Tax</u> £m	<u>Total</u> £m
2002/03	250.5	62.4	312.9
2003/04	261.7	65.5	327.2
2004/05	273.7	68.7	342.4

3.2 The forecasts imply scope for limited growth in funds for priority services, whilst requiring limited reductions in other services.

3.3 General resources are supplemented by monies made available for specific purposes. Such monies are expected to grow significantly.

4. Risks to the Forecast

4.1 As can be seen, the Council's resources are heavily dependent on government funding levels.

4.2 The forecast is based on an assumed continuation of the existing system of standard spending assessments for funding local government. This system is currently under review, and there is risk of substantial (probably adverse) change to the forecast.

4.3 The forecast will also be affected by:

- (a) any changes in national government spending plans;
- (b) material changes to assumptions made about Leicester's population and future school rolls;
- (c) changes in the Council's functions arising from national legislation, if such changes are not resource neutral. The key changes anticipated result from national policy towards sixth form funding, and the introduction of the new "supporting people" initiative.

4.4 Accurate forecasting is, of course, more difficult the further ahead it looks.

5. Spending Priorities

5.1 The Council has 4 priorities for additional spending. The first 3 of these are a subset of the 6 priorities in the Community Plan for Leicester, and will help the Council play its part in achievement of that plan. The last is a pervading theme of both national and local policy.

5.2 The 4 priorities are:

- (a) raising educational standards (a continuing theme from the previous strategy). The Council will aim to increase funding for education by an amount which matches the increase in our standard spending assessment for Education (SSA is the government's current yardstick of spending need, which is expected to increase by more than inflation). Furthermore, the Council plans to increase spending on education services to £1m above SSA by 2003/04 in order to fulfil its commitment to the "Leicester Pledge for Educational standards". The Council will, from 2002/03, seek to reshape its educational priorities such that additional monies are made available for schools from within the totality of the education budget;
- (b) promoting health and social care (a continuing theme from the previous budget strategy). The Council plans to fulfil its commitment in the current budget strategy to inject £1.5m into Social Services in 02/03; and its overall spending plans for 03/04 and 04/05, as

described below, provide sufficient capacity to inject significant new monies into services which promote health and social care (assuming stability of government funding);

- (c) community safety - after honouring commitments to education, the Council will aim to redirect savings achieved through Best Value reviews to corporate priorities such as community safety;
- (d) neighbourhood renewal - the Council will employ a complementary approach using neighbourhood renewal grants together with mainstream funding to raise the standard of frontline services in communities. A significant proportion of NRF monies will be used to improve mainstream Council services thereby enabling the Council to achieve Government "floor" targets in respect of educational standards, crime reduction, health and housing.

5.3 The policy regarding funding to raise educational standards may need to be revisited consequent to decisions the government reaches on future education funding systems.

5.4 At the time it sets its annual budget, the Council will publish an annual plan identifying how services will improve because of additional funding. These plans will include pledges to make measurable differences in specified areas.

6. **Capital Expenditure**

6.1 Costs of financing borrowing costs arising from capital spending are almost entirely met from government grant. The Council's spending plans, as described below, allow for the estimated costs.

6.2 In respect of running costs arising from capital expenditure:

- (a) before approving a capital scheme, the Council will identify savings to be made to meet the additional costs;
- (b) this rule will not apply to costs of running the replacement sports facility, the estimated costs of which are reflected in the Council's spending plans described below (it being noted that budgets formerly existed for St Margarets Baths and Granby Halls).

7. **Spending Requirements**

7.1 The table below shows the forecast spending requirements of the City Council based on continuation of its **existing** budgeted level of spending, the costs of its commitment to provide money to raise educational standards, and expected additional costs arising from capital spending:

	£m
2002/03	316.3
2003/04	330.3
2004/05	345.0

8. **Risks to the Forecast**

8.1 Risks to the forecast of spending requirements are:

- (a) significant unexpected funding need, which cannot be envisaged at this time;
- (b) changes in assumed pension contributions, inflation and interest rates;

(c) loss of the Council's ability to make the "commutation adjustment" which is a technical saving in our budget amounting to some £4m per annum. (Government review of capital financing legislation puts this under threat, although change is unlikely to materialise before 2004/05);

(d) loss of the Council's VAT partial exemption in any year (which will cost £1m in that year).

8.2 Accurate forecasting is, of course, more difficult the further ahead it looks.

9. **Best Value**

9.1 The Council will aim to achieve savings from its programme of Best Value reviews. No individual review will be expected to achieve savings until the service has been subjected to fundamental challenge. It is anticipated that some service reviews will achieve savings that are redirected into the service reviewed, and will not, therefore, be made available to fund corporate priorities.

9.2 The Council aims to achieve savings of £1.5m per annum from the totality of its Best Value reviews by 2003/04, in order to fund its commitment to the Leicester Pledge for educational standards. Subsequent savings will be redirected to support corporate spending priorities.

10. **Planning**

10.1 Each service department is required to prepare a 3 year departmental revenue strategy which meets the corporate requirements of this strategy, and which plans services within a predetermined spending assumption.

10.2 Based on the spending requirements, resource projections, spending priorities and risks described in this strategy, departments should be planning (in total) to achieve the following ongoing savings in the next 3 budget rounds:

	£m
2002/03	3.75
2003/04	2.25
2004/05	2.25

10.3 The savings requirement for 2002/03 was largely predicted in the previous budget strategy, and is partially achieved by existing budget plans.

10.4 Planning assumptions for 2003/04 and 2004/05 will be revisited as necessary when the corporate strategy is revised in 2002.

10.5 These planned reductions will be shared between all services except Education. The Education Department will be given efficiency savings to achieve (such savings will be redirected within the service). The Social Services Department can assume that savings made from 2003/04 will be reinvested in the service but cannot assume any further reinvestment until the Council has more certainty over government resources. Any additional investment in Social Services will specifically be to address the corporate priority of promoting health and social care.

10.6 Planning figures for each department are attached as Appendix B.

10.7 Each department is required to identify (within its strategy) how its services meet the corporate objective of neighbourhood renewal, how its services support achievement of "floor" targets for local neighbourhoods, and how renewal would be facilitated by complementary neighbourhood renewal funding.

10.8 Each departmental strategy will identify how it proposes to generate and use specific funding available for the services it describes.

11. Income

11.1 The Council will work to the following set of principles in respect of fees and charges (to the extent that any statutory guidelines permit):

- (a) decisions taken about fees and charges will be transparent, and the rationale for all charging decisions will be made explicit;
- (b) there will be a presumption that all services are charged at a price sufficient to cover the full cost of service provision (whilst there will be many exceptions to this presumption, the onus will be on us to justify the exemption rather than vice versa);
- (c) differential charging for those who can least afford to pay will be considered wherever possible;
- (d) charges will be consistent, wherever possible, with other charges to the same client group, and variation from this principle will need to be justified;
- (e) comparisons with charges made by other local authorities will be made when charging decisions are taken;
- (f) charging decisions will only be taken after considering their impact on other key priorities and strategies.

11.2 The above principles will not be applied to every service with immediate effect, but will be introduced as and when services are the subject of Best Value reviews.

12. Specific Policies

12.1 The Council will continue to pursue partnership working and sponsorship as a contribution to effective service provision.

12.2 The Council will aim to maintain a minimum working balance of £5m of general fund and £1.5m of housing reserves at all times.

12.3 The Council will aim to set housing rents at a level which avoids penalties in the form of lost government subsidy.

12.4 The Council will save any underspendings on the cost of financing previous years' capital expenditure, in order to provide a buffer against any future loss of the commutation adjustment.

12.5 The Council will aim to cease its previous policy of top-slicing voluntary sector budgets to meet corporate savings requirements. Such cessation is dependent upon consultation within the Council's scrutiny system and with our partners in the voluntary sector on a more strategic approach to reviewing voluntary sector provision in the context of the Council's overall financial position. The findings of Best Value reviews may provide valuable information with which to inform such a strategic approach.

12.6 The Council will ensure that the introduction of any new job evaluation system, in line with national pay agreements, does not lead to a permanent increase in the pay bill.

[Policy on the city centre].

[Policy on Local Public Service Agreements].

[Policy on sickness levels].

16 July 2001

Resource and Spending Assumptions

1. Resource Assumptions

	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>
Increase in total SSA			
- England	5.7%	6.1%	
- Leicester	4.7%	4.7%	4.8%
Increase in education SSA			
- England	6.0%	5.9%	
- Leicester	5.0%	4.2%	4.2%
Council tax increases	4.9%	4.9%	4.9%

2. Spending Requirements

	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>
Pay Rises			
- Teachers	3.5%	3.5%	3.5%
- Other staff	3.25%	3.0%	3.0%
General Inflation	1.8%	2.0%	2.0%
Interest rates			
- On new debt	5.2%	5.2%	5.2%
- On invested cash	5.0%	5.0%	5.0%
Superannuation Contribution Rates			
- Teachers	139%	139%	139%
- Other staff	210%	210%	210%

Departmental Planning Figures

	<u>2002/03</u> £000s	<u>2003/04</u> £000s	<u>2004/05</u> £000s
Arts & Leisure	18,727.0	18,424.5	18,122.0
Chief Executive's	2,587.8	2,546.6	2,505.4
Commercial Services	(641.0)	(651.0)	(661.0)
Education	153,886.3	155,883.0	157,462.5
Environment & Development	34,970.4	34,406.5	33,842.6
Housing	5,688.7	5,596.1	5,503.5
Social Services	63,502.1	63,502.1	63,502.1
Town Clerk's & Corporate Resources	13,593.9	13,375.9	13,157.9
Total	292,315.2	293,083.7	293,435.0

Notes to the above:

1. The planning figures are stated at 2002/03 estimated prices.
2. The planning figures for Arts & Leisure and Education reflect an estimate for the transfer resulting from the Youth & Community Review.
3. The following areas have been excluded from the planning figures:
Central Maintenance Fund (Town Clerk's & Corporate Resources)
Housing Benefit client payments (Housing)
Investment property (Environment & Development)
Youth Offending Team (Social Services)
4. The Education planning target includes the final instalment of the 'Leicester Pledge' of £0.4m in 2002/03, and £0.9m in 2003/04 and 2004/05. It also includes sums provided through the "passporting" of Education SSA increases of £0.4m, £1.9m and £3.5m for 2002/03, 2003/04 and 2004/05 respectively.
5. The Social Services planning target includes the reinvestment of savings generated in 2003/04 and 2004/05 of £1m and £2m respectively.