Appendix One

Financial Strategy 2008/09 to 2010/11

1. Introduction

1.1 The Council's financial strategy supports the Council's key policy aims and objectives, and national priorities. It sets out the Council's financial policies for the next 3 years within which departmental medium-term planning, annual budgets and the capital programme will be set. It is revised on an annual basis.

1.2 The financial strategy supports the 25 year vision for Leicester which is currently subject to consultation, and has been prepared in parallel to the development of the Council's corporate plan for 2008/09 to 2010/11. It will be subject to update and review:

(a) to reflect the final, published 25 year vision and the eventual corporate plan;

(b) to reflect a longer-term projection of the city's spending needs and likely resources – it is intended to develop such a document in conjunction with Leicester Partnership in the Spring of 2008. Whilst such a document cannot be as precise about financial plans as a 3 year strategy, a longer-term financial vision is seen as essential to complement the overall vision for the city.

1.3 Development of longer-term financial projections will also support the simultaneous development of a joint commissioning strategy, which will be a crucial tool in delivering the vision. It will specify how partners intend to work collaboratively to achieve its objectives. This will build upon existing work with partners which is achieving alignment of priorities through the local area agreement.

1.4 We will also work towards joint capital planning with partners to ensure consistent approaches to neighbourhood based facilities, and to regeneration.

2. Aim

2.1 The aim of the Vision for Leicester is to become Britain's most sustainable city. This financial strategy helps deliver that aim.

3. Resources

3.1 The financial strategy is set within the context of finite resources, and the tightest national funding settlement for some time.

3.2 We do, however, have certainty over our formula grant for the next 3 years, which is available to support our net revenue expenditure:

	Grant £m	% Increase *
2008/09	171.6	5.1%
2009/10	177.4	3.4%
2010/11	182.4	2.8%

* on a like for like basis.

3.3 Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's budget requirement (⅔). The only source of local taxation available to the City is council tax, which makes up the other ⅓. Because of these ratios, the Council is subject to a "gearing effect" whereby relatively small percentage changes in grant or spending need can result in much greater increases in council tax (a 1% spending increase without any additional Government support would result in a 3% increase in council tax).

3.4 It is a concern to the Council that the finance settlement does not fully reflect the recent and anticipated growth in our population.

3.5 The Government has powers to cap the budget of any local authority which it believes is spending excessively. Since 2004/05, these powers have been used to put pressure on local authorities to set moderate tax increases. The Government expects average tax rises in 2008/09 to be "substantially less" than 5%, and it is anticipated that capping will continue to be an instrument of Government policy in 2009/10 and 2010/11.

3.6 Substantial amounts of capital resources are (to all intents and purposes) earmarked for education, schools and local transport.

3.7 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).

3.8 The overall financial position is such that the Council needs to carefully balance new commitments to achieve the vision and 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 redirected to stated priorities.

4. Financial Priorities

4.1 This section of the strategy identifies those aspects of the Vision for Leicester 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 detailed budget planning.

4.2 The vision is split into 4 priorities:

(a) **Great people** – a caring city where people feel safe and at home;

(b) **New prosperity** – a prosperous city where everyone meets their potential;

(c) **Beautiful place** – a beautiful, quiet, clean and green city;

(d) **Quality services** – which promote equality and accessibility. This priority supports the other three.

4.3 Great people

4.3.1 Key financial priorities are:

(a) the development of community meetings at ward level, and the devolution of resources to create a greater degree of empowerment;

(b) the development of choice based provision for the elderly, including extra care. Such development will be a commitment on capital resources, but is expected to achieve significant leverage. Meeting the needs of growing numbers of older and vulnerable people and promoting their independence will be a key aim of revenue budget planning;

(c) revenue budget commitment will be made to provision that facilitates cohesion, with particular emphasis on youth;

(d) improving community safety is anticipated to be a key aim of the local area agreement, and a priority for the use of area based grant. It is anticipated that budgets devolved to communities will be targeted (in part) on strengthening neighbourhoods;

(e) improving the standard of decency of homes in the city will be a key priority for the use of housing capital resources;

(f) increasing the supply of social and affordable housing will be an aim of capital planning, and will be sought through wider development policies.

4.4 New Prosperity

4.4.1 Key financial priorities are:

(a) improving our schools and colleges. The primary source of funding is the Dedicated Schools Grant, but the Council's general fund will support both the Building Schools for the Future programme and the school improvement plan (recognising the links between good schooling and the regeneration of the City);

(b) we will work with our partners to secure best use of city-wide resources to improve adult skills; enabling local people to secure jobs in the new city economy;

(c) physical regeneration of the city centre, and the prosperity that creates, will be a capital priority both in the shorter and longer-term. It is anticipated that we will lever in substantial sources of external capital to support this aim;

(d) improving transport connectivity and city gateways is a longer-term capital aim, although early commitment is expected to be made to development of Park and Ride. Funding is expected to be achieved through earmarked transport capital resources, leveraged funds, and capital receipts achieved through the development of Ashton Green;

(e) we will work with our partners to secure best use of city-wide resources to improve health.

4.5 Beautiful Place

(a) both revenue and capital resources will be committed to making the city “clean and green”. This will be complemented by the use of community meeting budgets, which it is anticipated will be targeted (in part) towards improving the living environment in neighbourhoods;

(b) improving transport and reducing car usage will be a key priority for use of local transport capital resources. To the extent that transport impacts prosperity, financial aims are stated in the paragraph above;

(c) capital planning will reflect the need for schemes to minimise their carbon footprint.

4.6 Quality Services

(a) the Council will commit general fund revenue resources to a substantial service transformation programme, designed to:

- improve the public’s experience of our services;
- make our services more accessible;
- make our services more efficient;
- modernise our stock of buildings;
- engage our users in service design;
- be innovative in the use of technology;

- achieve efficiency savings to deliver the aims of this financial strategy;

(b) general fund revenue resources will be committed to ensure elected members and locally based community meetings are equipped to do their jobs;

(c) any further investment resources required to deliver quality services will be a priority for capital receipts arising from disposals at Ashton Green.

5. Principles of detailed Budget Planning

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

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

5.3 Over the next 3 years, baseline service standards will be set for each service, and publicly communicated. Budget decisions will ensure those service standards can be met.

5.4 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.

5.5 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. Spending Requirements

6.1 The table below shows the forecast spending requirements of the City Council over the next 3 years:

	£m
2008/09	261.0
2009/10	268.0
2010/11	280.2

6.2 The table above provides for:

(a) the Council's budgeted level of expenditure in 2008/09, inflated as appropriate in future years for pay, price and pension cost increases;

(b) expected additional costs of capital financing in 2009/10 and later years;

(c) the expected impact of the Council's new job evaluation scheme;

(d) planned spending changes in 2009/10 and 2010/11 included within the draft budget.

6.3 The table does not make allowance for any further spending pressures in individual departments, which arise in 2009/10 or later years. These will be reviewed in later years, with a prima facie assumption that these pressures (which can be significant) must be contained within departmental budgets.

7. Risks to the Forecasts

7.1 Risks to the forecast of spending requirements are:

(a) significant unexpected funding needs, which cannot be envisaged at this time;

(b) changes in expected levels of inflation or pay, which is particularly difficult to estimate over 3 years;

(c) the effects of the new job evaluation scheme on the pay bill, to the extent that it differs from assumptions made.

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

8. Taxation

8.1 The council tax (Band D) for the City is £1,061 in 2007/08, which is below the national average, and below the average of comparable local authorities.

8.2 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.

8.3 Planned tax rises are 4.95% in each of 2008/09 to 201011. This will yield the following income:

	£m
2008/09	86.1
2009/10	90.3
2010/11	94.8

8.4 Whilst lower increases would have been desirable, the Council needs to plan for:

(a) essential service improvements;

(b) provision of services to a population larger than allowed for in the Government finance settlement.

9. Neighbourhood Service Provision

9.1 The Council is committed to giving community meetings 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.

9.2 It is anticipated that monies spent by community meetings will be targeted to works which improve the living environment in neighbourhoods, principally local environmental improvements and strengthening neighbourhoods.

10. Value for Money

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

10.2 Detailed budget planning will encompass VFM in 2 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 future budget processes;

(b) through linkages to the service transformation programme and reviews encompassed within it, outcomes of which will be reported as part of the budget decision making process.

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

11. Revenue Budget Planning

11.1 Each service department is required to prepare a 3 year departmental revenue strategy which meets the corporate requirements of this strategy, statutory obligations and national priorities for the service.

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

11.3 As part of budget planning for 2008/09, budget planning targets have been set for each department for the next 3 years.

11.4 Departments are expected to ensure all future growth pressures can be accommodated within these planning figures.

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

- details of expenditure and resources for the forthcoming 3 years;
- from 2009/10, 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.

11.6 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.

12. Specific Policies Applicable to Capital Spending

12.1 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.

12.2 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.

12.3 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 (eg relocation of services from one building to another). Decisions on ringfencing such receipts are taken on a case-by-case basis.

12.4 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) investment to meet the decent homes standard, provided such borrowing does not exceed the implied level of capital included in housing subsidy determinations;

(d) as a last resort, for cost avoidance measures (ie where it is cheaper to borrow now than face a bigger problem later);

(e) as an alternative to leasing vehicles and equipment, where this is cost effective.

13. Ashton Green

13.1 The Council owns development land at Ashton Green in the north west of the City which has significant value.

13.2 The Council's aim for Ashton Green is to facilitate development of an exemplar housing scheme, which demonstrates exceptional levels of sustainability. Achievement of this aim 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 aim.

13.3 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.

14. Capital Budget Planning

14.1 In March 2008, decisions will be taken on which capital schemes will be supported for the period 2008/09 to 2011/12 (a 4 year programme).

14.2 Decisions will be based on a formal assessment process. This will be in 2 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.

14.3 The financial assessment will consider the value and affordability of the project.

14.4 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.

15. Reserves and One-off Risks

15.1 The Council risk assesses its need to hold reserves, which may be needed for sudden, unexpected spending pressures.

15.2 Key risks facing the Council which require reserves are:

(a) sudden, unexpected events;

(b) uninsured claims against the Council;

(c) cost increases arising from major projects, to which the Council's exposure has increased;

(d) unanticipated departmental overspends.

15.3 These risks are mitigated, however, particularly by means of:

(a) routine budget and project management;

(b) keeping of effective records;

(c) a framework in which departmental provision for specific events is encouraged.

15.4 The Council has historically had a minimum working balance of £5m of reserves. This was increased, pending resolution of an equal pay settlement with groups of predominantly female members of staff. This is now largely resolved, and it is acceptable for reserves to reduce to £5m. This, however, is low for an authority of our size and level of ambition.

15.5 The Council will therefore aim to:

(a) maintain general fund reserves of at least £5m, increasing this to £7m by 2010/11;

(b) maintain housing reserves at £1.5m.

Annex A to
Appendix One

Spending Assumptions

	2008/09	2009/10	2010/11
Pay rises: - teachers - other staff	 2.75% 2.75%	 2.5% 2.5%	 2.5% 2.5%
*General Inflation	2.5%	2.5%	2.5%
Interest: - paid on new borrowing - earned on investment	 4.6% 5.25%	 4.6% 5.25%	 4.6% 5.0%
Superannuation contribution rates - teachers - other staff	 14.1% 16%	 14.1% 16.8%	 14.1% 16.8%

* In 2008/09, services have been asked to absorb the cost of inflation on general running expenses.

Departmental Planning Targets

	2008/09 £000	2010/11 £000	2010/11 £000
Dept'l Planning Totals (DRS)			
Adults & Housing	83,962.0	82,993.0	82,769.0
Children & Young People	56,286.3	56,007.3	56,007.3
Regeneration & Culture	58,481.6	58,464.6	58,580.6
Resources	26,434.2	25,624.3	25,576.5
Total DRS	**225,164.1**	**223,089.2**	**222,933.4**
Less Full Year Effect of 2007/08 Budget		(656.0)	(656.0)
Total	**225,164.1**	**222,433.2**	**222,277.4**

Note:
The Children and Young People's Budget reflects a credit balance for the schools block of £1,952.6k, which is the element of Dedicated Schools Grant required for non-controllable spend on the schools block

Forecast Budgets:
Balance Sheet Items and Cashflows

Financial Indicator:	Actual as at 01.04.07	Forecast at 31.03.08	Forecast at 31.03.09
	£000s	£000s	£000s
Balance sheet items:			
Reserves & Balances:			
Uncommitted General Fund Reserves	7,619	6,900	5,000
Earmarked Revenue Reserves	49,365	40,492	43,402
Earmarked Capital Reserves	6,326	1,100	1,250
Housing Revenue Account	2,911	4,127	3,784
Debtors (excl Bad Debt Provision)	70,586	72,260	73,990
Creditors	87,807	92,760	97,450
Long-term Borrowing	327,570	254,000	314,000
Cashflow movements during year			
Increase/(Decrease) in all Borrowing	6,217	(71,000)	59,000