

Budget Strategy 2002/03 to 2004/05

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 keep its tax increase to a level which is consistent with government expectations for tax increases nationally, as it did in 2001/02 (this will result in a tax rise of 5.3%).
- 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	247.4	65.0	312.4
2003/04	258.4	67.0	325.4
2004/05	269.3	70.3	339.6

- 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 have been growing significantly, although there are indications that this may change.

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 level of resources equal to that which we would assume under 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. Total forecast resources are as follows if the Council receives no more than a 4% assumed guaranteed increase in Government grant:

	£m
2002/03	312.4
2003/04	324.3
2004/05	337.9

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, furthermore, 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 will fulfil its commitment in the previous budget strategy to inject £1.5m into Social Services in 02/03 and will further inject a one-off sum of £1.1m in 2002/03; 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.

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	312.4
2003/04	324.9
2004/05	339.3

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 budget rounds for 2003/04 and 2004/05:

	£m
2003/04	2.25
2004/05	2.25

- 10.3 Planning assumptions for 2003/04 and 2004/05 will be revisited as necessary when the corporate strategy is revised in 2002/03.
- 10.4 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 will be reinvested in the service but cannot assume any further reinvestment until the Council has more certainty over government resource, other than an additional £0.5m pa from 2003/04. Any additional investment in Social Services will specifically be to address the corporate priority of promoting health and social care.
- 10.5 Planning figures for each department are attached as Appendix B.
- 10.6 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.
- 10.7 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 aim to 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 cease its previous policy of top-slicing voluntary sector budgets to meet corporate savings requirements, and will adopt a more strategic approach to assessing the contribution of voluntary projects it supports.

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Chief Financial Officer
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Resource and Spending Assumptions**1. Resource Assumptions**

	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>
Increase in total SSA			
- England	5.5%	6.0%	
- Leicester	5.0%	5.0%	4.5%
Increase in education SSA			
- England	6.2%	5.9%	
- Leicester	5.4%	4.8%	4.0%
Council tax increases	5.3%	5.3%	5.3%

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	4.4%	4.9%	5.2%
Superannuation Contribution Rates			
- Teachers	139%	139%	139%
- Other staff	210%	220%	230%

Departmental Planning Figures

	<u>2002/03</u> £000s	<u>2003/04</u> £000s	<u>2004/05</u> £000s
Arts & Leisure	18,267.4	17,866.4	17,563.9
Chief Executive's	2,594.6	2,400.0	2,358.8
Commercial Services	(211.8)	(225.1)	(235.1)
Education	150,970.2	152,866.9	154,446.4
Environment & Development	35,560.5	34,723.0	34,159.1
Housing	5,593.7	5,470.9	5,378.3
Social Services	64,238.8	63,628.8	63,628.8
Town Clerk's & Corporate Resources	13,649.9	13,360.9	13,142.9
Total	290,663.3	290,091.8	290,443.1

Notes to the above:

1. The planning figures are stated at 2002/03 prices.
2. 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)
3. The Education planning target includes the final instalments of the 'Leicester Pledge' of £0.4m in 2002/03, and £0.9m in 2003/04 and 2004/05. It also includes assumed sums provided through the "passporting" of Education SSA increases of £0.9m, £2.4m and £3.9m for 2002/03, 2003/04 and 2004/05 respectively.
4. The Social Services planning target includes growth of £1.1m in 2002/03 and £0.5m in 2003/04 and 2004/05. It also includes the reinvestment of savings generated in 2003/04 and 2004/05 of £1m and £2m respectively.