

Budget Strategy 2003/04 to 2005/06

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 over-riding 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 rolls forward the aims and objectives of the previous 3 year strategy. These aims and objectives have been the subject of public consultation in both 2000 and 2001. Over the period between April and December 2003, a full review of the strategy will take place, including public consultation, leading to the production of a draft strategy to 2006/07 in December 2003.
- 1.3 Unusually, the current strategy does not contain projections of resources through to 2005/06. At the time of writing, it has not been possible to estimate the effect of future funding settlements, as a consequence of the substantial change (and lack of data) arising from the Government's review of Local Government funding. Such work will not be complete until April 2003, and will form part of the revision of this strategy over the period to December 2003.

2. Taxation

- 2.1 In 2003/04, the Council will keep its tax increase to a level which is consistent with tax rises in 2001/02 and 2002/03 (this will result in a tax rise of 5.3%).
- 2.2 In 2004/05 and 2005/06, the Council:
- (a) will aim to achieve a policy of modest average tax increases over the period of the strategy;
 - (b) will aim to set out its intentions more fully when this strategy is revised during the Spring and Summer of 2003.

3. Resources

- 3.1 The budget for 2003/04 is based on resources of:

	£m
Government Grant	272.2
Council Tax	69.0
	341.2

- 3.2 As can be seen, the Council's resources are heavily dependent on Government funding levels, with some 80% of our general income being provided by grant.

3.3 As stated above, it is not currently possible to project resources beyond 2003/04.

3.4 The expected national increase in Government grant funding is:

2004/05	4.9%
2005/06	6.9%

3.5 There is reason to believe the City will receive a grant increase below the national average as a consequence of population changes - the trend in Leicester's population has been to decrease, or to increase below that of other authorities, resulting in lower relative shares of national resources for the City.

3.6 Other factors which will impact the Council's grant entitlement are:

- (a) detailed data flowing from the 2001 census, particularly that in relation to the ethnic make-up of the City. Ethnicity data is a key driver of the Government's funding formula; it is not yet known whether the Council will gain or benefit from the census changes, nor whether the Government will incorporate such changes in 2004/05 (it may be delayed until 2006/07);
- (b) the process by which the Combined Fire Authority becomes a "precepting" authority in 2004/05, and the consequential changes to grant funding;
- (c) any changes resulting from new formulae and data sources arising from the Government's review of local government funding.

3.7 In 2002/03 and 2003/04, the Council's budget has been supplemented by surpluses arising from the collection of council tax, which have arisen because the number of properties subject to tax has been increasing. There is a possibility that this trend will continue, giving rise to further surpluses in 2004/05 and 2005/06.

4. Spending Priorities

4.1 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. In essence, the priorities reflect those aspects of the Council's corporate priorities to which some form of financial commitment is being made.

4.2 The 4 priorities are:

- (a) raising educational standards, including promotion of youth services (raising educational standards is a continuing theme from the previous strategy). In 2003/04, the Council has increased funding for Education by an amount which matches the increase in its formula grant entitlement for Education, and

has honoured its commitment to increase spending on Education services by £1.5m over and above such funding increases over the 3 years to 2003/04 (thus fulfilling its commitment to the “Leicester Pledge for Educational Standards”). When this strategy is revised, the Council will change the way it “passports” increases in Education funding to the Education service, and make a commitment only to “passport” increases in funding designated for schools. Funding for LEA functions will be based on an assessment of the needs of this service and its contribution to strategic Council priorities relative to other services (in other words, the mechanistic link between Government formula funding for Education and the amount spent on the Education service will be broken; a mechanistic link will, instead, only apply to schools’ funding - decisions in respect of LEA funding will be based on local prioritisation). LEA spending is, however, strongly linked to the standards agenda and remains a focus for future budget growth. When this strategy is revised, the Council will consider its response to the Government’s proposals to provide schools with indicative medium-term school budgets (after consultation with schools);

- (c) promoting health and social care (a continuing theme from the previous budget strategy). The Council has fulfilled its commitment in previous budget strategies to inject £3m into Social Services by 2002/03, and has increased the Social Services budget by £4m per year with effect from 2003/04. This is in recognition of the strategic importance of services which promote health and social care, and in response to the growing financial pressures experienced by that service;
- (d) community safety - the Council will aim to provide funds of £0.1m per year, every year, to provide new monies for schemes which promote community safety. The Council now spends approximately £3m pa on community safety, and successive budgets have provided growth of £0.1m pa, every year, since 2001/02;
- (e) neighbourhood renewal - the Council employs 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. The Council will use NRF monies to “pump prime” its initiative of Revitalising Neighbourhoods, and will seek (over the period of the 3 year strategy) to devolve greater accountability for the provision of services to neighbourhood level.

4.3 Appendix A shows the key assumptions which underpin the financial projections used in this strategy.

5. Capital Expenditure

- 5.1 Changes will be made to the way local authority capital expenditure is controlled, possibly as early as 2004/05. This will require authorities to determine capital expenditure plans with reference to revenue “affordability.” Costs of financing capital expenditure are likely to continue to be supported by Government grant (in some form).
- 5.2 For the purpose of including provision for capital spending in this strategy, it has been assumed that costs of financing most capital spending will continue to be met from government grant. The Council’s spending plans, as described below, allow for the estimated costs of capital financing met from grant.
- 5.3 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).
- 5.4 In those circumstances where the cost of financing borrowing is not met by grant, services using such borrowing are required to make provision of 7% of the amount borrowed for its repayment.
- 5.5 This policy will be reviewed when Government intentions are clearer.

6. Spending Requirements

- 6.1 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
2003/04	343.0
2004/05	355.1
2005/06	371.2

7. Risks to the Forecast

- 7.1 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. A critical issue is the next pensions revaluation which will

take effect in 2005/06, and which will lead to significant increased costs unless stock markets recover;

- (c) the effects of any new job evaluation scheme on the paybill. This is an outstanding issue from the 1998 “single status” pay award, and will result in a revised grading structure. Experience elsewhere suggests costs could be significant (several million pounds in fact); even if a nil cost option is implemented, transitional funding is expected to be required. Such costs will be over and above the figures quoted above;
- (d) 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, and change may materialise in 2004/05; the Government is aware of this issue, which is not unique to Leicester);
- (e) loss of the Council’s ability to reclaim VAT on “exempt” services in any year through breach of the de minimis threshold for such VAT (which will cost £1m in that year). In practice, this risk is less than it was in earlier years.

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

8. Planning

- 8.1 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.
- 8.2 Based on the spending requirements, resource projections (prepared under the previous revenue strategy), spending priorities and assessed risks, departments have been asked to plan on the basis of achieving savings of £2.25m in 2004/05; and (until better information is available) ensure all expected growth pressures in 2005/06 can be met from compensating savings.
- 8.3 These planned reductions have been shared between all services except Education. The Social Services Department can assume that savings made will be reinvested in the service, but cannot assume any further investment until this strategy is reviewed during 2003. Any additional investment in Social Services will specifically be to address the corporate priority of promoting health and social care.
- 8.4 Planning assumptions for 2004/05 will be revisited as necessary when the corporate strategy is revised in 2003, and the need for savings in 2005/06 considered at that time. In particular, such revisitation will reflect the outcome of revised resource projections, and address the need to replace one-off funding of £1.2m in the 2003/04 budget with recurrent monies.

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

9. Specific Policies

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

9.2 The Council will aim to maintain a minimum working balance of £5m of general fund and £1.5m of housing reserves at all times. To the extent that balances fall below £5m as a consequence of the 2003/04 budget, they will be replenished during the currency of the 3 year strategy.

9.3 The Council will set housing rents at a level which avoids penalties in the form of lost Government subsidy.

9.4 The Council will aim to save any surplus arising from council tax collection in future years to contribute funds for interim costs arising from job evaluation.

9.5 The Council has ceased its previous policy of top-slicing of voluntary sector budgets to meet corporate savings requirements, and has adopted a more strategic approach to assessing the contribution of voluntary projects to corporate objectives.

9.6 When this strategy is reviewed, it will incorporate a policy in respect of use of any "performance reward grant" earned as a consequence of our local public service agreement. No money will be received before 2005/06.

Mark Noble
Chief Finance Officer
13 February 2003

Appendix A

Spending Assumptions

	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>
Pay Rises			
- Teachers	3.5%	3.5%	3.5%
- Other staff	4.17%	3.25%	3.25%
General Inflation	2.0%	2.0%	2.0%
Interest rates			
- On new debt	4.9%	5.2%	5.2%
- On invested cash	4.0%	5.0%	5.0%
Superannuation Contribution Rates			
- Teachers	13.5%	13.5%	13.5%
- Other staff	13.2%	13.8%	14.4%

Departmental Planning Targets

	2003/04	2004/05
	£000	£000
<u>Dept'l Planning Totals</u>		
Chief Executives	2,469.0	2,427.8
Cultural Services and Neighbourhood Renewal	15,628.6	14,678.1
Education and Lifelong Learning	172,570.1	173,537.1
Environment, Regeneration & Development	35,359.4	34,616.5
Housing	4,987.0	4,923.0
Resources, Access & Diversity	14,800.4	14,800.4
Social Care & Health	73,206.4	72,106.4
Total DRS	319,020.9	317,089.3