



Leicester
City Council

CABINET

24th NOVEMBER 2003

2004/05 to 2006/07 CORPORATE REVENUE BUDGET STRATEGY

Report of the Chief Finance Officer

1. Purpose of the report

- 1.1 To inform Cabinet of the progress made in developing a new corporate revenue budget strategy for the period 2004/05 to 2006/07.

2. Summary

- 2.1 As part of the Council's preparations for the 2004/05 general fund revenue budget, a new draft corporate revenue budget strategy has been developed in consultation with relevant Cabinet members. This will underpin the production of the Council's general fund revenue budget up to 2006/07.

- 2.2 The strategy sets out corporate funding priorities, identifies where the Council may seek savings and sets out intentions on council tax. The priorities flow from the Council's draft Corporate plan. The draft revenue strategy is attached at Appendix 1.

- 2.3 During November, a public consultation exercise is being carried out on the draft strategy. The results of the public consultation exercise will be reported to Cabinet in January.

- 2.4 Each department will prepare a draft Departmental Revenue Strategy, in the context of the draft corporate revenue strategy, for consultation with scrutiny committees in January.

- 2.5 Cabinet will be formally asked to consider whether it wishes to recommend the corporate revenue strategy to the Council in February, alongside the recommended 2004/05 general fund revenue budget.

3. Recommendations

- 3.1 Cabinet is asked to note the draft corporate revenue strategy.

4. Financial and Legal Implications

- 4.1 The report is exclusively concerned with financial issues, which are set out in the draft corporate revenue strategy (Appendix 1).

4.2 There are no legal issues arising from this report.

5. Other Implications

| OTHER IMPLICATIONS | YES/NO | Paragraph References Within Supporting information |
|-------------------------------|--------|--|
| Equal Opportunities | No | |
| Policy | No | |
| Sustainable and Environmental | No | |
| Crime and Disorder | No | |
| Human Rights Act | No | |
| Elderly/People on Low Income | No | |

6. Background Papers – Local Government Act 1972

None

7. Author

Graham Feek
Head of Strategy and Development

DECISION STATUS

| | |
|--------------------------------------|----------------------------|
| Key Decision | No |
| Reason | |
| Appeared in Forward Plan | No |
| Executive or Council Decision | Executive (Cabinet) |

DRAFT BUDGET STRATEGY 2004/05 TO 2006/07

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 has been shaped by the Council's [draft] corporate direction, and has been significantly revised since the 2003/04 to 2006/07 budget strategy. Public consultation on the key aims and priorities will take place during late 2003, and the strategy may be revised as a consequence.
- 1.3 The strategy has been prepared in a climate of considerable financial pressure, and the outlook for 2004/05 requires the Council to make significant savings, significant increases in council tax, or a combination of the two. Budgets are expected to remain under pressure for the duration of the 3 year strategy, although the most significant adjustment is required in 2004/05.
- 1.4 A separate capital strategy will be developed during 2004, which will set out the Council's priorities for capital investment. It is expected that, from 2005/06 onwards, the Council's annual budget and capital programme will be merged to create a single annual financial plan.

2. Key Aim

- 2.1 The Council's key aim is to make Leicester a more attractive place in which people can live, work and invest. The Council believes this is best achieved by concentrating its financial resources on core local authority services to the citizens of Leicester, with no pre-conceived view as to the best means of providing such services.

3. Resources

- 3.1 The table below shows an estimate of Government grant payable to Leicester over the next 3 years in support of our general expenditure. These estimates are necessarily based on assumptions, and are therefore volatile:

| | Grant £m | % increase |
|---------|---------------------|-------------------|
| 2003/04 | 272.2 | |
| 2004/05 | 283.9 | 4.3% |
| 2005/06 | 298.6 | 5.2% |
| 2006/07 | 312.2 | 4.6% |

- 3.2 Leicester's grant entitlement is expected to be adversely affected by forecast demographic changes. The trend in Leicester's population has been to decrease, or to increase more slowly, than that of other authorities, resulting in lower relative shares of national resources for the City. This applies both to the school population and the general population.
- 3.3 Government grant, which is met from national taxation, makes up the majority of resources available to fund the Council's overall budget requirement (80%). The only source of local taxation available to the City is council tax, which makes up the other 20%. 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 5% increase in council tax).
- 3.4 The Government has powers to cap the budget of any local authority which it believes is spending excessively. Such powers have not been used since they were introduced in 2000/01, but the Government has recently warned that it is prepared to use them in 2004/05. This stems from growing concern at national level over recent increases in council tax. Leicester's council tax, however, has increased by significantly less than the national average in each of the years 2001/02 to 2003/04.

4. Risks to the Forecast of Resources

- 4.1 The above resource forecasts are estimates and will be affected by:
- (a) changes in nationally available funding for local authorities - the Government has published spending plans as far ahead as 2005/06, although these can change. Estimates have had to be made in respect of national provision for 2006/07;
 - (b) changes in the formula by which grant is allocated to local authorities - the Government has committed itself to maintaining a stable formula until 2005/06, and it is therefore not envisaged that there will be any changes until 2006/07;
 - (c) variations between actual data used to allocate grant in future years, and present estimates (particularly population);
 - (d) the effect of any functional changes, particularly the process by which the Combined Fire Authority becomes a "precepting authority" in 2004/05;
 - (e) changes in the way specific grant is paid to local authorities - the Government is committed to reducing the level of grants paid to local authorities for specific purposes, and to increase the amount of general grant correspondingly. This will have distributional impacts, in that the City will not necessarily receive

an addition to its general grant equal to the amount of any specific grant it loses (and the impacts can be significant).

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

5. Taxation

- 5.1 The Council believes that the burden of local taxation on its citizens should be modest, and aims in principle to set council tax increases at or below the national average.

- 5.2 The Council regrets that it will not be possible to adhere to this principle in 2004/05 given the very significant spending pressures it faces, and the inadequacy of the current resource base to meet all existing spending commitments.

- 5.3 Whilst the Council would aim to increase tax by no more than, or below, the national average in years subsequent to 2004/05, achievement of this aim will be dependent upon adequate levels of funding from Central Government. This is a consequence of the “gearing effect” referred to above.

- 5.4 The Council has not yet determined its likely tax in 2004/05 and later years. [The final strategy will show a table of likely tax revenue].

6. Strategic Spending Priorities

- 6.1 The Council’s strategic spending priorities flow from the 2 strategic priorities in the corporate direction, and reflect the extent to which some form of financial commitment is being made to them.

- 6.2 The 2 priorities are:

- (a) raising educational standards - the Council will commit to increase funding to schools by an amount which matches the increase in its formula grant entitlement for schools; and will ensure the LEA is adequately resourced to support schools;
- (b) improving the environment - the Council will make additional resources available, subject to affordability, to improve the cleanliness of the City and its neighbourhoods; and to improve its parks and open spaces.

7. Other Spending Issues

- 7.1 Supporting vulnerable children and adults is a key objective of the corporate direction, and is a statutory duty which is under considerable financial pressure, both nationally and locally. Subject to affordability, it is a priority to ensure that this service area is adequately and fairly resourced.

- 7.2 The Council will address the need to maintain our heritage, buildings, and infrastructure (including roads), and not permit these to become a drain on future generations of taxpayers. A strategy to deal with these issues over the medium-term will be developed.
- 7.3 The Council will aim to consolidate services where these are extensive but of insufficient quality, and provide enhanced services from fewer locations where appropriate. In particular, the Council will work to co-locate nearby facilities to save money.
- 7.4 The Council will review the efficiency of what it does, with a view to reducing management and administration (but only where this is consistent with maintaining the standard of frontline services); and will aim to maximise alternative services of income which reduce its dependence on Government grant and council taxes.
- 7.5 The Council will review services which are “non-core”, and services will not continue to be funded simply because they have been historically. In particular, the Council will review levels of support for:
- (a) services which are more properly the province of other public agencies, or which the generality of local authorities do not provide (or provide to a significantly lesser extent than we do);
 - (b) services for which other sources of funding are available.
- 7.6 The Council will reduce expenditure on promotional activities.

8. Spending Requirements

- 8.1 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 | 342.8 |
| 2004/05 | 358.2 |
| 2005/06 | 376.0 |
| 2006/07 | 394.8 |

- 8.2 The table above does not make provision for increases in spending on improving the environment or supporting vulnerable children and adults. The extent to which increases can be afforded will depend on final decisions taken about taxation and spending reductions elsewhere.
- 8.3 The table does not make allowance for any specific spending pressures in individual departments. Council policy is that these pressures (which can be significant) must be contained within departmental budgets.

9. Risks to the Forecast

9.1 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 given recent stock market performance. A further significant issue is the rising cost of insurance;
- (c) the effects of any new job evaluation scheme on the pay bill. 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), and this will be additional to the existing budgeted level of spending;
- (d) 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 £1.35m in that year).

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

10. Capital Expenditure

10.1 2004/05 is the last year of the Council's 3 year capital programme. It is also the first year of the new "prudential framework", under which local authorities are entitled to borrow money to incur capital expenditure without being subject to Government limits (provided such borrowing is prudent, affordable and sustainable). It is anticipated that borrowing for capital purposes will continue to be supported by Government revenue grant, but such support will not increase if the Council uses the prudential framework to increase investment.

10.2 During 2004, the Council will review its capital priorities and prepare a new capital strategy. This review will take full account of the new prudential framework, and will lead to a new 3 year programme for 2005/06 to 2007/08. The prudential framework will, in particular, be considered as a means of investing to achieve efficiency gains; modernise infrastructure; and bring buildings up to standard and make them fit for purpose. Early consideration will be given to using the prudential framework for such purposes in 2004/05, without compromising the overall capital spending review.

10.3 For the purpose of forecasting the costs of borrowing in this strategy, estimates have been made of the level of capital spending which will be supported by Government grant. No allowance has been made for any additional spending funded by unsupported borrowing.

10.4 In respect of running costs arising from capital expenditure, the Council will identify savings to be made to meet the additional costs before approving any capital scheme.

10.5 Services, as part of their departmental revenue strategies, are permitted to make use of the prudential framework to invest in their services; provided their strategies make provision for the future cost of servicing debt, at 7.5% of the amount borrowed.

11. Planning

11.1 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 pre-determined spending assumption.

11.2 The Council is committed to the principle of planning the budget over a 3 year period, and will seek to give as much emphasis to ensuring the budget is robust over the medium-term as it is in the first year.

11.3 The Council has not yet determined the appropriate balance between tax increases and spending reductions. The final version of this strategy will identify the level of savings which departments will be asked to achieve.

11.4 Planning figures for each department are attached as Appendix B (to follow).

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

12. Specific Policies

12.1 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 are presently below £5m, they will be replenished in 2004/05.

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

12.3 The Council will evaluate its support to the voluntary sector on an equal basis to its own directly provided services; and will (where there is a choice) provide a service using the voluntary sector in preference to direct provision where there is enhanced value to the community in doing so. The Council will, however, only provide financial support to voluntary sector bodies where they are delivering core services which the Council would otherwise wish to provide by direct provision, unless there are exceptional reasons to do otherwise. It is recognised that this may result in some voluntary sector organisations that have been funded in the past ceasing to be funded by the Council in the future. The Council will consider supporting voluntary sector bodies not eligible for direct funding by means of advice and time limited pump priming.

The Council will not “top slice” its grants to the voluntary sector in general to meet corporate savings requirements.

- 12.4 The Council has entered into a local public service agreement with the Government, which aims to improve the Council’s performance in 12 key areas of service. Subject to it doing so, the Council will receive £7.5m, as a “performance reward grant”, split equally between capital and revenue, and split equally between 2005/06 and 2006/07. In respect of the revenue “rewards” for achieving performance, the Council will allow the service or partner body achieving the requisite performance to retain the money. The only exception to this policy will be any reward achieved for improving the Council’s cost and efficiency, which will be retained in the Council’s corporate reserves. The policy of allowing services to retain rewards does not extend to the capital element of the grant.

Spending Assumptions

| | <u>2004/05</u> | <u>2005/06</u> | <u>2006/07</u> |
|-----------------------------------|----------------|----------------|----------------|
| Pay Rises | | | |
| - Teachers | 3.5% | 3.5% | 3.25% |
| - Other staff | 3.25% | 3.25% | 3.0% |
| General Inflation | 2.1% | 2.5% | 2.5% |
| Interest Rates | | | |
| - On new debt | 5.2% | 5.2% | 5.2% |
| - On invested cash | 4.7% | 5.0% | 5.0% |
| Superannuation Contribution Rates | | | |
| - Teachers | 13.5% | 13.5% | 13.5% |
| - Other staff | 13.8% | 14.4% | 15.0% |

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