

Leicester
City Council

**CABINET
COUNCIL**

**23 FEBRUARY 2004
25 FEBRUARY 2004**

REVENUE BUDGET STRATEGY 2004/05 TO 2006/07

Report of the Chief Finance Officer

1. Purpose

- 1.1 The purpose of this report is to request Cabinet to approve a 3 year corporate budget strategy, 3 year departmental revenue strategies for each department, and a general fund budget for 2004/05; and to recommend these to the Council.

2. Summary

- 2.1 In November 2003, the Cabinet noted a draft 3 year corporate budget strategy, which has subsequently been subject to public consultation. This strategy:
- (a) contains the Council's proposed strategic spending priorities of education and the environment, which reflect the strategic objectives in the corporate plan;
 - (b) contains the Council's proposed taxation policies, and the aim of achieving low tax rises in 2005/06 and later years.
- 2.2 The strategy was the basis on which directors have prepared departmental revenue strategies, and draft budget proposals were released for wider consultation on 7 January. It is fair to say that the budget has generated a high level of local attention, particularly in the local media; this is reflected in the number of responses received.
- 2.3 Key elements of the draft proposals are:
- (a) the whole of the increase in the schools "formula spending share" will be given to the schools service, giving growth (over and above inflation) of £4.5m in 2004/05, estimated to rise to £10.8m by 2006/07;
 - (b) a package of reinvestment in the environment is proposed, amounting to £2.1m in 2004/05, and £1.7m in subsequent years;
 - (c) a significant package of reinvestment in the Council's public facilities and other properties is proposed;

- (d) a modest investment in the Council's IT infrastructure is proposed;
 - (e) net growth is proposed for the Social Care & Health Department, amounting to £2m in 2004/05, rising to £6m by 2006/07;
 - (f) other departments have been asked to achieve net savings of £4m in 2004/05, rising to £7m by 2006/07.
- 2.4 Following changes made since 7 January, the present proposals would result in a budget of £357.7m and a tax increase of 11%, **assuming no cuts are revoked**. The attached supporting information explains this in detail, and also considers options members have if they wish to make changes.
- 2.5 A tax rise of 11% puts the Council at risk of capping by the Government - this is explored further in the supporting information.

3. Recommendations

3.1 Cabinet is asked to:

- (a) consider the draft corporate budget strategy for 2004/05 to 2006/07, the draft departmental revenue strategies, and the overall budget for 2004/05;
- (b) make recommendations to Council in respect of each of the above after considering the issues in this report;
- (c) approve the following policy in respect of council tax discounts (as further explained in the supporting information); and recommend this policy to Council for approval:
 - empty unfurnished properties should be liable for full council tax after the statutory 6 month exempt period, applying from when the property was first vacant;
 - second homes and furnished empty properties should be liable for 90% council tax after receiving a 50% discount for 6 months, starting from when the property was first vacant / registered as a second home. Consequently a local discount of 40% be granted for the first 6 months of registration for these properties;
 - a property that has been vacant for 6 months should be liable for 90% or full council tax (depending on the furnished status at that time) regardless of a change in the furnished status in the previous 6 months;

- (d) subject to agreeing to set-aside sums for the environment, property and IT (as included in the proposed budget, or as amended), request reports from the Corporate Directors of Regeneration and Culture; and Resources, Access and Diversity on how these sums will be spent; such sums to be retained corporately until approval of these reports;
- (e) instruct the Chief Finance Officer to prepare a formal budget and council tax resolution, and consequent prudential indicators, for Council approval (resulting from the decisions taken by Cabinet in respect of the above recommendations);
- (f) subject to the approval of the budget by Council on 25 February, authorise corporate directors to take any action necessary to deliver their departmental revenue strategies for 2005/06 and 2006/07;
- (g) agree the changes to the schedule of determinations to the Finance Procedure Rules itemised at Appendix 7;
- (h) recommend to Council that the approved budget shall form part of the policy and budget framework of the Council, and that future amendments shall require the approval of the full Council, subject to the following:
 - The Cabinet may authorise the addition, deletion or virement of sums within the budget up to a maximum amount of £1m for a single purpose;
 - Flexibilities and permissions provided in Finance Procedure Rules.

4. Financial Implications

- 4.1 This report is exclusively concerned with financial issues. Section 106 of the Local Government Finance Act 1992 applies to this report in respect of members with arrears of council tax.

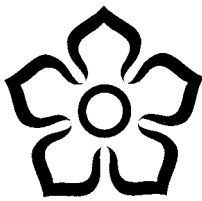
5. Legal Implications (Peter Nicholls)

I have been consulted on the paragraph about capping and agree with its contents.

The Race Relations (Amendment) Act 2000 places a duty on the Authority to work towards the elimination of unlawful discrimination and promote equality of opportunity and good relations between persons of different racial groups. The Council must set its budget by 11 March.

6. Report Author/Officer to Contact

Mark Noble
Chief Finance Officer
12 February 2004



Leicester
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REVENUE BUDGET STRATEGY 2004/05 TO 2006/07

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SUPPORTING INFORMATION

1. Process

- 1.1 This is the Council's eighth budget as a unitary authority, and the first of the present administration.
- 1.2 The proposals are based on a draft corporate budget strategy which is a radical departure from the Council's existing 3 year budget strategy (approved in March 2003) and is based on the Council's new corporate plan (approved by the Council in November).
- 1.3 Notwithstanding the change of direction, the process of preparing the budget has followed the Council's established medium-term planning system. This has the following features:
- (a) preparation of an overall corporate budget strategy, identifying key budget priorities and policies. The Cabinet's draft strategy was prepared in the autumn, and has now been subject to public consultation. The results of the consultation were reported to Cabinet on 19 January and Finance Scrutiny Committee on 22 January;
 - (b) the setting of departmental planning targets, within which directors are asked to prepare departmental revenue strategies. Departmental revenue strategies are substantial documents which identify all key financial issues affecting a department; and propose 3 year budget plans, which address the requirements of the corporate budget strategy and departments' own priorities within the planning targets set.
- 1.4 Both the corporate budget strategy and departmental revenue strategies adopt a 3 year timeframe.

2. Current Position

- 2.1 The Cabinet is now asked to recommend to the Council:
- (a) a corporate budget strategy - an update of the draft which has been subject to consultation is attached as Appendix 3;
 - (b) departmental revenue strategies for the next 3 years. Appendix 4 (circulated as a separate document due to its bulk) contains directors' present proposals;
 - (c) a budget for 2004/05. This will consist of the first year's proposals in departmental revenue strategies, supplemented by budgets held corporately.
- 2.2 The remainder of this report describes the overall budget, within the context of 3 year projections. It is important for members to note that you are not being asked to approve a formal budget for the next 3 years at this stage, and 2005/06 and 2006/07 figures are based on estimates: **these will change, potentially significantly**. However, approval of departmental revenue strategies will give directors authority to plan services on a 3 year horizon and they may commit to some future expenditure on the basis of the departmental revenue strategy. The position will, of course, be reviewed when the 2005/06 budget is set.
- 2.3 Cabinet is asked to note the following changes to draft proposals which were launched on 7 January:
- (a) this report includes the effects of the final settlement, which was received on 29 January;
 - (b) a revision has been made to assumed pay inflation - Cabinet originally approved estimates of inflation in September, and an estimate of 3.25% was made for pay (other than teachers). Given the fact that the teachers' award has now been settled at 2.5%, and the general pressure being brought to bear on public sector pay inflation by the Government, I believe it is reasonable to reduce the 3.25% assumption to 2.83%, which will save £0.5m;
 - (c) adjustments have been made to planning targets issued to departments, to reflect the present position.
- 2.4 Since proposals contained in departmental revenue strategies were outlined to scrutiny committees in January, some changes have been made in response to the consultation process. The key ones are identified below.
- 2.5 Funding has been reinstated for the following voluntary sector projects (in whole or in part):

Leicester International Music Festival (2004/05 only)
Soft Touch
Belgrave Playgroup
YMCA
Alzheimer's Society
Leicester Charity Link
Leicester Rape Crisis
Quetzal Project
St Matthews and Elders' Project
Saffron Support for Elderly People

- 2.6 Proposals to discontinue funding for the Leicester Counselling Centre and Relate Leicestershire have been withdrawn at this stage; their services are to be reviewed in 2004/05 as part of a counselling services review within Social Care & Health.
- 2.7 The proposal to close the Workplace Nursery has been amended so that the Nursery can stay open on a self-financing basis. The departmental revenue strategy for Education, furthermore, reflects additional savings which the Director of Education is able to recommend to Cabinet (these were presented to a meeting of Education Scrutiny Committee).

3. Budget in Summary

- 3.1 The table below shows the present budget proposals in summary. Section 15 of this report identifies options available to Cabinet if you wish to vary the proposed level of expenditure, the proposed contribution to reserves or the proposed council tax. As stated above, only the position for 2004/05 will be formally adopted as the Council's budget for next year. Future year's figures are estimates, and will change.

	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
	£m	£m	£m
<u>Expenditure</u>			
Total of draft departmental revenue strategies	335.4	337.6	341.9
Other departmental budgets	2.5	2.5	2.5
Capital financing	13.9	16.3	18.5
Levies and corporate budgets	(1.0)	(1.0)	(1.0)
	-----	-----	-----
	350.8	355.4	361.9
New corporate budgets:			
Environment Package	1.4	1.7	1.7
Job evaluation	1.0	*2.8	*2.8
Improvement of buildings	2.7	3.4	3.4
IT infrastructure	0.1	0.1	0.1
Other	0.3	0.2	0.2
	-----	-----	-----
	356.3	363.6	370.1
Future year changes:			
Inflation		10.6	23.0
Planning requirement		1.0	2.0
Other		1.1	2.3
	-----	-----	-----
Total spending	356.3	376.3	397.4
Plus contribution to reserves	1.4		
	-----	-----	-----
Total Budget	357.7	376.3	397.4
	=====	=====	=====
<u>Resources</u>			
Government Grant	284.2	298.9	313.0
Council Tax	73.0	77.4	84.4
Collection Fund Surpluses	0.5		
	-----	-----	-----
	357.7	376.3	397.4
	-----	-----	-----
Band D Tax	£1,003	£1,063	£1,159
Implied tax rise	11.0%	6.0%	9.0%

*working assumption only.

- 3.2 A fuller breakdown of the proposals is provided at appendix one to this report.
- 3.3 The proposed budget would go some way towards the Council's proposed aim of lower than average tax rises in future years, but work would (on these estimates) still be required to bring down tax levels in 2006/07. Estimates are difficult to make so far in advance, however, and there will inevitably be considerable fluctuation before that date,

particularly consequential to the Chancellor's public spending review. Members will, nonetheless, wish to pursue the efficiency reviews described later in this report as a means of saving money in later years.

4. Police and Fire Authority

4.1 The tax levied by the City Council constitutes part only of the tax Leicester citizens have to pay (albeit the major part). Separate taxes are raised by the Police Authority and the Fire Authority. These are added to the Council's tax, to constitute the total tax charged.

4.2 Comparisons with earlier years are complicated by the fact that the Fire Authority is raising its income this way for the first time in 2004/05. Previously, it simply asked the City Council for a specific sum of money (£6.3m in 2003/04). The 11% council tax increase arising from the present proposed budget is based on a notional tax for 2003/04 (ie the tax we would have charged if the Fire Authority had set its own tax in that year as well).

4.3 Present indications are that the Police Authority will set a tax of £x and the Fire Authority a tax of £y, making the total tax bill for the City:

[These figures are not yet available, and I will supply an amended paragraph 4.3 before your meeting].

	<u>2003/04</u> £	<u>2004/05</u> £	<u>Increase</u>
City Council			
Police			
Fire			
	-----	-----	-----
Total			
	-----	-----	-----

4.4 The actual amounts people will pay, however, depend upon the valuation band their property is in and their entitlement to any discounts, exemptions or benefit.

4.5 Should Cabinet choose to vary the proposed budget, the figures described above will change.

4.6 Cabinet may wish to note that the Policy Authority has set considerable tax increases in recent years (11%, 26% and 10% in 2001/02, 2002/03 and 2003/04 respectively).

5. Expenditure

5.1 The purpose of this section of the report is to briefly describe the expenditure proposals in the budget. Appendix two to this report shows

a precise analysis of how the Council's expenditure has changed since the 2003/04 budget.

5.2 The starting position is the budget for 2003/04, which has been updated for:

- (a) pay inflation of 2.5% for teachers, and 2.83% for other staff (the former figure is known, as the pay award for teachers has been settled; the latter is an estimate);
- (b) inflation on other costs and income of 2.1%;
- (c) increased cost of pensions, landfill tax, and rent on properties being disposed of to support the Council's capital programme.

5.3 The effect of the above was reported to Cabinet in September, although changes have been made since that date to reflect the actual teachers' pay award and the present estimate of other pay awards.

5.4 The budget has also been adjusted for the effect of decisions taken in respect of the 2003/04 budget which impact on 2004/05:

- (a) £0.3m of savings were identified in the 2003/04 budget, to take effect from 2004/05;
- (b) provision for the Braunstone Leisure Centre was made at £0.7m, although this has now been reduced to £0.5m (but will increase to £0.6m in 2005/06);
- (c) adjustments have been made to reflect previous decisions taken to sell the Haymarket car park to support the Cultural Quarter project, and to replace NRF funding for the New Parks Customer Services Centre with mainstream funding.

5.5 As a consequence of the local government finance settlement, the budget has been adjusted to reflect various functional changes. These include the changed basis of funding the Fire Authority, and changes in the way housing benefit and some social services expenditure is funded.

5.6 Finally, the budget has been adjusted for proposed growth and reductions. Some of these are reflected in the attached departmental revenue strategies, and some will be retained corporately.

5.7 Departmental revenue strategies reflect:

- (a) growth of £4.5m for schools, rising to an estimated £10.8m by 2006/07;
- (b) net growth of £2m for Social Care and Health, rising to £6m by 2006/07;

- (c) reductions of £4m in other departments, rising to over £7m by 2006/07.

- 5.8 The approach taken by individual departments is described in detail in Appendix 4, although key features are a reshaping of services to meet core priorities (in particular in Education, where savings in the Lifelong Learning Division have been redirected towards supporting schools). Where possible, savings have been achieved by increased income or efficiency, but some real reductions in service provision are also included.

- 5.9 The package of proposals will have a significant impact on the voluntary sector, which is described further in paragraph 12 below.

- 5.10 A number of items of growth are held corporately:
 - (a) a package of reinvestment in the environment is proposed, consisting of £1.4m in 2004/05, rising to £1.7m in 2005/06; supplemented in 2004/05 by £0.7m of one-off money which has arisen from the implementation of the waste PFI scheme. It is recommended that this provision is not made available to the Regeneration and Culture Department until a set of detailed proposals for its use has been submitted to Cabinet;

 - (b) a provision of £2.8m is proposed to increase property maintenance budgets, rising to £3.5m in 2005/06. It is presently projected that this will enable an increase of £2m per annum to ongoing property budgets of £4.6m; supplemented by an £18m one-off investment, to help address a backlog of maintenance work presently estimated at £96m. This backlog affects all operational buildings, including schools, libraries, leisure facilities and offices. The new funding will result in a higher level of spending to maintain buildings, although (at 1.6% of asset value) spending will still be below industry recommended norms. The £18m will be financed by borrowing, using the new powers available to us under the prudential framework. Like the environment package, the property package is not presently included in departmental revenue strategies - it is recommended that the resources are retained corporately, and only released on approval by Cabinet of a detailed set of proposals. It is further proposed that Cabinet authorises the Town Clerk to vary the proposed split between ongoing and one-off investment, and that the forthcoming Cabinet report recommends an appropriate split based on the resources available. It is noted that, given the time required to spend a substantial one-off investment, there are likely to be additional revenue monies to support ongoing property maintenance costs in the early years of any property improvement plan;

- (c) it is proposed that £2m will be borrowed using the prudential framework to provide additional investment to modernise the Council's IT infrastructure and to invest in IT projects which will secure future revenue savings. Again, this resource will be retained corporately, and no individual expenditure will be approved without a rigorous business case. Cabinet is asked to request a further report from the Director of Resources, Access and Diversity on a framework for releasing this expenditure;
- (d) a provision of £1m has been included for a new job evaluation scheme. It is presently assumed that the full ongoing costs of any new job evaluation scheme will be £2.8m per annum. However, once a new scheme is implemented there will be a substantial peak of early expenditure as staff entitled to pay rises receive them, whilst staff whose pay will fall are entitled to protection. In order to ensure that expenditure does not exceed the eventual full ongoing cost in any year, it is recommended that the Council makes provision for implementation costs and protection costs in 2004/05 and 2005/06.

6. Resources

- 6.1 By far the biggest source of funding is Government grant, which yields some 80% of money needed to fund the budget. Grant is calculated with reference to a Government formula (the Formula Spending Share, or FSS) which measures our assumed need to spend with reference to population, client group (such as school pupils), and other factors such as deprivation that cause some authorities to spend more than others.
- 6.2 The overall FSS for the Council was £353.9m, an increase of £16.7m (5.0%) on 2003/04 when calculated on a like for like basis. This has resulted in grant payment of £284.2m, an increase of £15.1m (5.6%) on 2003/04. Leicester's increase of 5.6% is slightly below the national average for unitary authorities of 5.8%.
- 6.3 The Council has had very low cumulative funding increases when compared to similar authorities since 1996/7 (the first year of data available for the City Council as a unitary authority). An average increase since 1996/97 would have led to the Council receiving over £20m more grant in 2004/05. This puts Leicester City within the lowest 10% of similar authorities in terms of funding increases in the past eight years.
- 6.4 Officers have made estimates of future grant entitlement, based on projections using the Government's own formula. For this purpose, it has been assumed that the Government will expect council tax to increase by 5% each year, and set grant accordingly.
- 6.5 The vast majority of our funding comes from Central Government as a fixed amount, with a relatively small amount from council tax. This means that if the Council wishes to increase spending then this has a

disproportionate effect on the level of council tax. For every 1% the Council increases its spending, council tax has to rise by approximately 5%. It also means that estimates of future tax increases are extremely volatile.

7. Reserves

7.1 It is essential that the Council has a minimum working balance of reserves in order to be able to deal with the unexpected. This might include:

- (a) an unforeseen overspending;
- (b) a contractual claim;
- (c) an uninsured loss.

7.2 My recommendation is that £5m is a prudent minimum level.

7.3 Latest estimates of reserves at the end of the year indicate that (if members decide to make a contribution of £1.4m), reserves will rise to £5.3m (slightly higher than forecast when proposals were first made public). Members are asked to note that it is not possible to precisely predict year end reserves, and further change is probable between now and the end of the year (up or down).

7.4 At £5m, reserves would equate to 1.4% of the Council's proposed budget, which is towards the lower end of the amounts held by metropolitan and unitary authorities.

7.5 In his Annual Audit Letter, the District Auditor has commented that my recommended minimum level of reserves has remained the same since unitary status, and has declined as a percentage of the overall budget. He has recommended that I review this figure. I have done so, and given our overall experience since 1997/98, and the effectiveness of our financial management arrangements in picking up issues as they arise during the course of the year, I am content to leave my recommended minimum balance at £5m.

7.6 The District Auditor has also recommended that members bring reserves back up to the minimum recommended level.

8. Earmarked Reserves

8.1 Appendix 5 shows the Council's earmarked reserves as they stood on 31 March 2003, and as they are presently estimated to stand at 31 March 2004 and 2005. Whilst these consist of revenue money, under the Council's Finance Procedure Rules they are set-aside for specific purposes: it is not regarded as good practice to use these reserves to fund the generality of Council expenditure (not only would this be only a one-off contribution, it would provide a perverse incentive to

departments to try to spend up any monies they have before the end of each financial year). Furthermore, of the Council's total earmarked reserves the following can (by law) only be spent on specific restricted purposes:

- (a) schools' balances;
- (b) schools' devolved capital funds;
- (c) on-street parking.

8.2 Of the remainder of the earmarked reserves, the most critical for monitoring purposes is the insurance fund, which is set up to meet claims against the Council for which we act as our own insurer. I have previously been concerned about the adequacy of this reserve, and a 3 year programme of building it up to an appropriate level was instituted 2 years ago. A review by actuaries which reported in November 2003 now confirms that the balance is about right, and the policy can therefore be deemed to have been successful. Nonetheless, the reserve needs to be carefully monitored, and success of the Council's risk management policy will be crucial in this regard - claims have been increasing, and if this trend continues we will have further deficiencies in the future.

9. Risk Assessment

9.1 Best practice requires me to identify any risks associated with the budget; and the Local Government Act 2003 requires me to report on the adequacy of reserves (which I do above) and the robustness of estimates (which is included in this risk assessment).

9.2 In my view, each of the departmental budgets in 2004/05 (whilst very tight in some cases) is achievable, and this is also the view of the respective directors. Inevitably, some individual reduction proposals will not achieve the full expected savings, and issues will surface during the course of the year, which will unexpectedly cost money. However, the flexibility given to directors to manage within their overall "bottom line" should prevent an overspend by any department. The key areas of risk are:

- (a) the Social Care and Health budget. The department continues to be under pressure, in common with Social Services authorities nationally. However, the position has been helped by the Council increasing funding by £2m in 2004/05, on top of £4m in 2003/04. The budget will nonetheless continue to require careful management;
- (b) pressures within the Education Department in relation to special needs, although specific provision has been made for anticipated growth in this area;

- (c) unexpected influx of persons from abroad, particularly in the context of EU expansion in 2004;
- (d) failure to make sufficient progress with specific reviews. The key ones are the review of alternative management arrangements, which is proposed in the Cultural Services budget strategy; the merger of the former ERD and Cultural Services' departments; the advice services review; and the budgetary impact of changes in the Lifelong Learning Division (including the premises review).

9.3 In my view, the estimates made for the cost of inflation are adequate. The level of general inflation is low, and departments traditionally absorb any variation between the estimate and actual cost. During the planning of the budget, departments were aware of a likely 15% increase in insurance costs, and some have made specific provision to deliver this. The biggest risks in respect of inflation are:

- (a) a pay award in excess of estimate. Should this happen, departments (as is usually the case) will have to find equivalent savings in 2004/05, but the difference will be made up in 2005/06;
- (b) potential large increases in the cost of energy, which will need to be managed by departments within their budget figures.

9.4 In respect of corporate budgets, I believe it is unlikely that the capital finance budget will overspend (this is the most volatile area of corporate budgets). The key risk is interest rates falling from the levels forecast.

9.5 The Council will receive £16m of funding from the Neighbourhood Renewal Fund over 2004/05 and 2005/06. The intention of this grant is to improve the life standards of the most deprived communities, but there is considerable discretion as to how it is spent. There is, however, a condition that the grant's use is agreed with the Local Strategic Partnership, and in practice the partnership is managing the process of deciding how the funding is spent (subject to Cabinet approval). The Council has made bids for NRF funding. These bids are for discrete purposes: however, failure to receive at least £1.5m by Social Care and Health will require the department to consider how it will achieve the desired outcomes by alternative means, which will leave them to make reductions in budgets elsewhere. Decisions on NRF will not be made until March. However, the risk of a budget shortfall in Social Care and Health is reduced by the Council's role in the process and the relationship with our partners, and is believed to be small; if the risk materialises, it is mitigated by the fact that we will know very quickly, and have time to consider the implications. There is also an assumption in the education budget that NRF will be available to fund £0.8m in 2004/05, which is gradually replaced by mainstream funding over the 3 year strategy.

9.6 NRF is due to finish after 2005/06, and all departments' plans for 2006/07 are predicated on the basis that there will be no further funding.

10. Council Tax Discounts

10.1 Local authorities have been given discretion to reduce the current 50% discount on council tax for second homes and furnished empty properties; and to reduce or remove the current 50% discount for long term empty (unfurnished) properties. In addition, powers have been given to create local discounts and exemptions in response to local circumstances. These new powers are effective from 2004/05.

10.2 The new powers are intended to assist areas where the levels of second homes are having adverse effects on local housing markets, whilst also improving the fairness of council tax for second homes, and providing incentives to bring long-term empty homes back into use.

10.3 On 24 November 2003, Cabinet agreed to use these new powers in principle to charge the maximum possible council tax on empty and second homes after a 6 month grace period. It is now proposed to formally implement this policy.

10.4 On this basis, the report includes recommendations to charge unfurnished properties that have been empty for in excess of 6 months full council tax, and to charge 90% council tax for second homes / furnished empty properties that have been registered as such for in excess of 6 months. Due to the way the regulations governing these changes have been formulated, some use of powers to create local discounts has been required to give effect to the proposals as previously approved in principle by Cabinet.

10.5 Given that the proposals aim to reduce the level of empty properties, it is very difficult to estimate the additional council tax income to be generated. **If there were no changes in the level of second homes / empty properties** then the proposals would generate additional council tax of £730,000. The Council will benefit from all additional income collected in 2004/05 (resulting in a surplus on the Collection Fund which will be available in 2005/06 as additional resources to the budget strategy). However, it will only retain the additional income for second homes / empty furnished properties from 2005/06 onwards, estimated at £130,000: the Government will benefit from the additional council tax on empty unfurnished properties.

10.6 No provision has been made for any such income in the table shown in paragraph 3 above.

11. Capping

11.1 As members will be aware, the Secretary of State has power to cap the budgets of local authorities where he believes these to be excessive.

- 11.2 The present capping rules were introduced in 1999, and are more flexible than the rules they were introduced to replace.
- 11.3 Whilst originally intended as a reserve power, Government has recently signalled its clear intention to consider using these powers to deliver low council tax increases. This has arisen from Government concern at high levels of increase in 2003/04.
- 11.4 There are 2 aspects of particular relevance:
- (a) how the Secretary of State can select an authority for capping;
 - (b) what happens if an authority is capped.
- 11.5 The Secretary of State has wide discretion under the present rules to determine which authorities are capped. In particular, he can distinguish local authorities by putting them into categories of his choosing; and he can determine his own criteria to be used in deciding which authorities to cap (only one criteria is specifically required by the legislation, which is consideration of the size of budget increase, and even this can be with reference to a year prior to the previous year, if he so chooses). The criteria chosen can be different for each category, but must be consistently applied to authorities within the category. In Leicester's case, it is most likely that we will be included in a category of unitary authorities, single purpose authorities (which would include unitaries and metropolitan authorities), or upper tier authorities (which would also include counties). This cannot be guaranteed, and the categories could be further sub-divided.
- 11.6 If an authority is capped, more than one option is available to the Secretary of State:
- (a) in-year capping, whereby an authority is required to set a lower budget for the year and rebill;
 - (b) nomination, which can result in capping for the following year.
- 11.7 Once it has been decided that an authority should be capped, the decision on how to proceed and (for in-year capping) what the maximum budget should be will be taken by individual consideration of the authorities chosen, not a set of rules. In particular, the maximum budget set under the in-year capping option could be higher or lower than any threshold used as the basis on which authorities were chosen for capping (eg if the Secretary of State caps authorities whose tax increase is over 9%, and authority x planned a 15% increase, the imposed budget could result in a tax rise of say, 5% or 12%).
- 11.8 Of the options available to the Secretary of State, a requirement to reduce our budget in 2004/05 would be the most disruptive. This would require the Council to rebill, at an estimated cost of £0.2m. It would also result in cashflow (and thereby interest) loss if people do not make

their usual council tax payments in the hope of getting a reduction (the extent of this is difficult to estimate).

11.9 The Government's rhetoric about capping has been progressively intensifying, and their desire to see increases in "low single figures" has been much aired. The Government is not, however, expected to announce the precise criteria on which they will decide authorities to be capped until after budgets have been set.

11.10 The Minister for Local Government has indicated to the Special Interest Group of Unitary Authorities that he will be using the following criteria to take capping decisions:

- (a) absolute tax levels;
- (b) tax increases;
- (c) budget increases (as he is required to do under the legislation).

11.11 Consideration of (b) and (c) will take into account not just the current year but also previous years. This statement is consistent with the statement he made in November when the draft finance settlement was released that: "we will take account not only of one year's increases, but also of the trend in increases over more than one year."

11.12 Our position regarding each of the above is:

- (a) in terms of absolute tax levels, we are some 2% below the unitary authorities' average, 6% below national average, and 7% below metropolitan averages in 2003/04. This will of course change in 2004/05;
- (b) our tax increase for 2004/05 will be high if the proposed budget is adopted. However, in recent years our tax increases have been well below national average (5% in 2003/04 compared with 13% nationally; and 5% in 2002/03 compared with 8% nationally);
- (c) it is difficult to compare our budget increase with that of other authorities, because of funding and functional changes that have occurred. However, after making appropriate adjustments for fire, it would appear that:
 - (i) our budget increase in 2002/03 was 3.5%, compared with 3.6% for unitary authorities and 2.1% for metropolitan authorities (and 3.0% for all upper tier authorities);
 - (ii) our budget increase for 2003/04 was 9.3%, compared with 10.2% for unitary authorities and 9.5% for metropolitan authorities (and 10.8% for all upper tier authorities);

- 11.13 Comparisons of budget increase with those of other authorities is complicated by the change in Government funding system in 2003/04, some high council tax increases in the same year, and the growing complexity of floors and ceilings within the funding system.
- 11.14 The above statistics clearly provide some mitigation which may reduce the risk of the authority being chosen for capping, or the measures applied if we are chosen.
- 11.15 Informal exchange of information with other authorities has taken place during the preparation of this budget, and it is believed that the Council's proposed tax increase will be very high compared with that of unitary and metropolitan authorities (and counties). It is difficult to give members precise advice on the risk of capping, although I believe that any increase in double figures runs a high risk of being capped.
- 11.16 The only figure I believe is definitely safe is 5%.
- 11.17 Leading members have met the Minister for Local Government, and have indicated their intention to respond to his concerns as far as possible.
- 11.18 Members are also asked to note that the Government is likely to use capping next year as well as this, and local authorities room for manoeuvre may well be less than it is in 2004/05.

12. Voluntary Sector

- 12.1 The proposed corporate revenue strategy seeks to establish a new relationship with the voluntary sector as part of an overall policy of delivering core services well, with a proper level of underlying resource.
- 12.2 The strategy envisages that 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 in general 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.
- 12.3 The Council will (the strategy envisages) evaluate its support to the voluntary sector on the same basis to its own directly provided services and will (where there is a choice) prefer to provide a service using the voluntary sector 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).

- 12.4 Over recent years, in partnership with the voluntary sector, the Council has been increasingly moving away from simply providing grants to projects and organisations to a process of commissioning them to provide specific services on our behalf in line with Council priorities and community needs. The proposed corporate budget strategy is a continuation of this process.
- 12.5 The Council wrote to all Council funded voluntary sector projects on 15 December 2003 outlining the above proposed policy on voluntary sector funding, and projects were written to on the 6 January 2004 on their proposed funding in 2004/05.
- 12.6 The proposals affecting the voluntary sector contained in Departmental Revenue Strategies are summarised below:

Cultural Services

Projects where it is considered that alternative funding could be obtained over the next 12 months are proposed for reduction in 2005, generating savings of £0.2m.

Welfare and Employment Advice Services

These advice services are currently provided by a combination of in-house and voluntary sector provision. It is proposed to save £0.5m from a review of these services, which will result in a continued mixture of provision. It is estimated that up to £0.8m per year will continue to be spent on advice services after the review is concluded.

Education and Lifelong Learning

In terms of Education and Lifelong Learning, the Council's key priorities are to improve school standards, meet national standards for youth work in the City, and provide Adult Education and Early Years services. As a result, general community projects which do not contribute to the core objectives of the Education Department are no longer being regarded as a priority. Given that officers believe there are no realistic sources of alternative funding, they have recommended withdrawing funding from 46 projects. In the case of 15 of these projects, contracts have been extended for 5 months as there is a possibility of recommissioning services that do meet the Council's core service priorities. Most of these are in the fields of youth and adult education, including 5 adventure playgrounds and 4 play associations.

Environment, Regeneration and Development

Proposals include a reduction of £0.2m to employment development projects whose contracts expire on 31 March 2004. Some resources will be available for commissioning new work.

Social Care and Health

Pressures on Social Care and Health to assist those people in greatest need, as assessed within the Fair Access to Care Services criteria, or following a Children in Need Assessment, means that funding will no longer be available for services that are not considered a core priority (if the departmental revenue strategy is approved).

A saving of £0.2m is proposed from a total budget of £5.6m which is spent on services provided by voluntary sector organisations. The saving will arise primarily from withdrawal of funding from 6 projects assessed as not providing core services.

In addition, it is proposed that a range of services provided by a further 13 voluntary organisations be reviewed, with a view to examining the possibility of greater co-operation or mergers: this is expected to result in efficiency savings and improved services to the public.

Other Proposals

A further 2 projects SHARP (Housing) and Environ (ERD) are affected by budget withdrawal or budget reductions where the service is no longer considered to be a high priority, saving £0.1m.

12.7 The voluntary sector bodies affected by the proposals were asked to provide responses to the proposals by 3 February 2004. This is discussed further in section 13 below. Some changes to the original proposals have been made as a consequence of the consultation.

12.8 In 2003/04, the Council spent £11.6m on the voluntary sector. If the budget proposals are approved, the Council's support to the voluntary sector will continue to be substantial.

13. Consultation

Public Consultation Exercise (Corporate Revenue Budget Strategy)

13.1 During the autumn, the Council undertook an exercise to consult with the public on the draft corporate budget strategy. A questionnaire was produced and distributed, comprising of a mixture of open and closed questions. Responses were received from the general public, and from the People's Panel. The results of the questionnaire were reported to Cabinet on 19 January.

13.2 The headline results of the questionnaire were:

- 559 valid responses were received;
- 61% and 58% respectively supported the draft priorities of Education and the Environment;

- 24% support council tax increases at or below the national average in 2005/06 and future years, whereas 45% and 31% respectively support lower or higher increases;
 - The older people surveyed are more likely to wish to see a lower council tax, even if it means making more cuts to services, than the other age groups.
- 13.3 In response to open questions, respondents most often wanted to see increases in spending to Elderly Social Services (16% of those answering the question) and Street Cleaning (15%). They thought money spent upon Voluntary Sector Grants (14%) and the use of consultants (12%) could be better used elsewhere.
- 13.4 Even though the responses received were broadly demographically representative of Leicester there is no certainty that the views expressed were representative of the majority of Leicester's citizens. Apart from the People's Panel, all respondees were self-selecting: usually under these circumstances the people who choose to respond are the ones with the most specific viewpoints.
- 13.5 In addition to the public consultation exercise undertaken on the corporate revenue strategy, specific proposals contained in departmental revenue strategies have been subject to consultation with:
- Scrutiny Committees
 - Trade Unions
 - Business Community
 - Voluntary Sector
 - Schools Forum (formal response not yet received)

The Cultural Services departmental revenue strategy was, furthermore, shaped by public consultation on "The Project."

Scrutiny Comments

- 13.6 A number of comments have been made by scrutiny committees in relation to directors' proposed departmental revenue strategies. Comment was also made on the corporate revenue strategy, by the Finance, Resources and Equal Opportunities Scrutiny Committee:
- 13.7 In respect of the corporate revenue strategy, the Finance, Resources and Equal Opportunities Scrutiny Committee resolved that the Committee call on Cabinet to reconsider the budget strategy in respect of the balance between cuts and growth before making its decision.
- 13.8 The Finance, Resources and Equal Opportunities Scrutiny Committee resolved that the Cabinet be asked to look at increasing the savings for both the Resources, Access and Diversity Department and Chief Executive's Office.

13.9 In respect of Cultural Services and Neighbourhood Renewal, the Arts, Leisure and Environment Scrutiny Committee resolved the following:

- (a) that the budget proposals be noted and that Cabinet be recommended to consider funding recreational transport for the elderly and disabled from the Social Care and Health budget; and
- (b) that the Scrutiny Committee is concerned that there is insufficient information regarding the budget proposals in respect of the museum service and that more information and the outcomes of feasibility studies should be obtained before any decisions are made regarding the service; and
- (c) that the Committee recommends that receipts from the sale of any of the department's assets be reinvested into the department and that the receipts from the sale of the Saffron Lane Velodrome be earmarked for the athletics track.

13.10 No resolutions on the draft revenue strategy were approved by the Education and Lifelong Learning Scrutiny Committee at its meeting of 13 January. Any resolutions resulting from the meeting of 10 February will be made available to Cabinet separately.

13.11 In respect of the Environment, Regeneration and Development Department:

- (a) the Highways and Transportation Scrutiny Committee resolved that the proposals to restrict the peak use of bus passes to after 9.30 am be supported, but that those making hospital or doctors' visits be excluded and Cabinet be asked to reconsider applying the restrictions to disabled users and the proposed restriction of the use of bus passes to the City area. The director's view is that permitting half price travel only for elderly people with hospital or doctors' visits could not be implemented for practical reasons. There are now no proposals for limiting use of bus passes for the disabled;
- (b) the Strategic Planning and Regeneration Scrutiny Committee resolved:
 - that the Committee opposes the budget strategy with regard to its proposals, in particular those relating to cuts to advice services and to regeneration employment projects. Cabinet is asked to reconsider these priorities;
 - that a joint Strategic Planning and Regeneration Scrutiny Committee and Overseas Links Working Party forum be held to reconsider the funding for twinning and Leicester Masaya Link be invited to the meeting (a different

approach is now proposed in relation to the reduction in the overseas link budget).

13.12 No resolutions on the Draft Revenue Strategy were approved by the Housing Scrutiny Committee on 15 January. Any resolutions passed by the Housing Scrutiny Committee at its meeting of 12 February will be made available to Cabinet separately.

13.13 The Social Services and Personal Health Scrutiny Committee discussed the proposed budget for Social Care and Health and resolved that it was:

- (a) concerned at the cuts to the voluntary sector and that cabinet take note of this concern;
- (b) concerned about the current government's failure to invest in social services nationwide.

13.14 Trade Unions Comments

A response to the proposed budget has been received from the corporate trade unions, and this is attached as Appendix 8 (a composite response has been received from the trade unions, supported by individual responses from the separate unions). The trade unions have a number of concerns about the budget, chief amongst them being:

- (a) concerns about the period of consultation - draft proposals were released later than in previous years due to the administration's wish to have more time to consider options and respond to the public consultation exercise;
- (b) the approach to the voluntary sector, where the trade unions do not support the approach taken. Rather than identify the extent to which voluntary sector provision supports core services, the trade unions would have preferred the voluntary sector to have been reviewed on a project by project basis;
- (c) the size of the budget gap, which the trade unions believe has been over-stated (Appendix 2 to this report shows how the budget has been built up from the starting position in 2003/04);
- (d) the job evaluation scheme, where trade unions support ongoing negotiation towards agreeing a scheme, but stress that job evaluation is not an indirect pay rise for Council staff.

13.15 Business Community Comments

Representatives from the business community have been advised of the proposals reflected in departmental revenue strategies. No comments have been received at the time of writing this report.

13.16 Voluntary Sector

A significant number of responses have been received from the voluntary sector. These are summarised in individual departmental revenue strategies, and a detailed analysis is available in the members' area. Five key issues were raised in the consultation:

(a) Projects which believe they are part of the Council's Core Services

Many projects believe they should be viewed as part of the Council's core services, particularly given they have been in the past. Where not delivering core services they believe they are complementary to them or play a preventative role that reduces demand on core services. Where the corporate director believes that a case has been made that core services are being provided, he/she has recommended re-instatement. The most significant area of disagreement is in respect of general community projects funded by Life Long Learning, where there are some 22 projects (receiving total funding of £1.3m) that the Corporate Director still believes are not core to the delivery of key educational strategies.

(b) Impact on the Community Cohesion of the City

This is a major issue raised in the consultation, and is dealt with in paragraph 14 below.

(c) Cross Service and Cross Agency Impact

A number of projects have identified the impact of losing funding from one department on their ability to continue to deliver services on behalf of another department or partner agency. Where significant problems have been recognised, Corporate Directors have recommended the re-instatement of projects (as in the case of Leicester YMCA), or are examining alternative ways of maintaining the service. In terms of other agencies, projects have been requested to seek additional core funding from those agencies to enable them to continue to provide the service on their behalf.

(d) Loss of Other Resources

A small number of projects have identified a financial impact of losing core Council funding in terms of losing other resources. Where Corporate Directors believe there is a good case that impacts on the delivery of services, they have recommended reinstatement, as in the case of Leicester Charity Link. In other cases it is believed that the financial impact on the Council is not outweighed by the benefits brought by the project.

(e) No Alternative Sources of Funding

In some cases, where projects have been given twelve months to find alternative funding, projects have responded by indicating they believe such funding is not available. This issue will need to be resolved over the next twelve months.

Members are asked to note that concerns about the proposals in respect of the voluntary sector have also been expressed from quarters other than the voluntary sector bodies themselves. These range from individual service users to groups such as the Council of Faiths; the Bishop and Leicester's MPs.

13.17 Other Comments

A summary of responses received from all other quarters (staff, departmental trade unions, agencies, the general public and other interested parties) in relation to directors' proposals is included as a separate appendix to the relevant departmental revenue strategy.

Comments from the schools' forum will be presented to your meeting.

14. Budget and Race Equality

14.1 The impact of the budget on race equality needs to be seen in the context of the City Council's track record of taking equal opportunities issues very seriously, over more than 20 years, and of its continuing actions and expenditure on equalities and community cohesion. The Council has a national track record for its efforts to promote community cohesion and these efforts are continuing. The Council is also striving to achieve level 3 of the "*Generic Equalities Standard*", which requires us to assess the impact of key policies on race, gender and disability.

14.2 The budget proposals reflect changes in political priorities and it is inevitable that this will entail different approaches and patterns of expenditure. Nevertheless, there is no proposed change in the Council's underlying commitment to equalities and community cohesion. The Council's new Corporate Plan has a key priority to "*build on Leicester's history of including people from all backgrounds in a Cohesive Community free to pursue peace and prosperity*". This is backed up by a series of targets and actions to achieve specific outcomes.

14.3 The Council's legal responsibilities are summed up in the Race Relations (Amendment) Act 2000. It is unlawful for the Council, in carrying out its functions, to do any act which constitutes discrimination. In carrying out its functions, the Council shall have regard to the need:

(a) to eliminate unlawful racial discrimination; and

- (b) to promote equality of opportunity and good relations between persons of different racial groups.

14.4 In general, the Council complies with this duty through its race equalities scheme. In addition, regard has been had to race equality in relation to the budget proposals in two ways:

- (a) in the way Directors have developed budget proposals; and
- (b) through consulting on proposals, so that any other perceived impact can be pointed out and considered.

14.5 The presumptions against which funding reductions were proposed are:

- (a) the bulk of the Council's race equalities and community cohesion activities and expenditure is now mainstreamed. Its commitments in these matters, and compliance with its statutory duties, is therefore substantially delivered through core activities. There is evidence¹ that additional spending in mainstream services is critical to improving the quality of life of the most vulnerable sections of the community, and also to maintaining community cohesion. Reductions in funding for bodies supporting minority communities may therefore be made, provided the race implications of service and spending plans, taken in the round, have been adequately assessed and addressed;
- (b) the activities of other public agencies and the voluntary sector (which is very much larger than the part which receives Council funding) make a significant further contribution, to which the Council can have regard;
- (c) the Council is able to deliver its policies and meet its responsibilities by focussing its expenditure on core activities (determined in the light of what can and should be provided by others), provided the impact on race equality is assessed in determining whether or not something is core. Where necessary to address a race issue, a reduction can either be mitigated or confirmed, with alternative action proposed to address the race

¹ The recent Cantle and IDEA reports recognised that the significant voluntary and community sectors in the City built up over many years have played a valuable role in meeting community needs and establishing the City's reputation in terms of community cohesion. However, in the context of the overall resources available there is evidence from recent research that:

- Additional investment in key services such as Education, Social Care and Environmental improvement is critical to improving the quality of life of the most vulnerable sectors of the community and maintaining community cohesion;
- The historical pattern of resource allocation that has resulted from the main programming of previous short term funding regimes is not necessarily the fairest and most beneficial structure for maintaining community cohesion in the future;
- It is open to question whether the current pattern of voluntary and community sector funding reinforces or diffuses diversions between different communities.

issue. Directors were asked to prepare their budget proposals in this way and to provide (in their Departmental Revenue Strategies) race impact risk analyses of their proposals;

- (d) historic patterns of resource allocation may not, necessarily, in today's Leicester, be the most effective way of cementing relationships between diverse communities. As communities mature, their requirements change. New minority needs become evident. Substantial expenditure on one minority, at the expense of others, can be a source of contention and friction. The balance needs to be kept under review and, where necessary, adjustments made;
- (e) exceptions to these presumptions need to be considered on their merits, when identified by assessments, or suggested by consultees. However, the mere fact that some elements of the proposed voluntary sector reductions relate to black and ethnic communities does not necessarily mean that they have an adverse impact on race equality and community cohesion. The Council's funding to the voluntary sector significantly benefits these communities and would continue to do so even if all of the reductions were made. Also, all of the above factors need to be taken into account, including alternative ways of achieving the objectives, the totality of funding and support for each section of the community and the continuing development of the Council's community cohesion strategy and Corporate Plan priorities.

14.6 This is a complex area in which numerous judgments must be made and there is a series of balances to be struck. Elements are interconnected, sometimes in unpredictable ways. In the light of consultation and officers' responses, members may wish to make some further adjustments to the draft proposals, either to minimise risk or to ensure that the Council's commitment to Community Cohesion is being adequately addressed. If suggestions are made by consultees, members may wish either to confirm a proposal, to restore a cut or to address the issue through new investment or action (whether through the Community Cohesion Strategy or otherwise).

15. Options

- 15.1 This section of the report identifies options which members may wish to consider in respect of amending the proposed budget. Members will wish to consider all the issues discussed above in this report, but to assist members 3 packages are considered below. Members can, of course, select other alternatives: the key factor to note is that £660,000 is equivalent to a 1% increase in council tax.
- 15.2 In considering options, members should bear in mind the following:

- (a) I believe the present level of reserves is inadequate, and should be raised to £5m. However, I would not be averse to a policy of bringing them up to £5m over a longer period than one year;
- (b) the 3 year impact of any changes needs to be considered - in particular, decisions which reduce spending in 2004/05 only will put further pressures on council tax in later years (paradoxically, phasing in the increase of reserves will have this effect). A key point to note is that the costs of job evaluation will increase substantially over the period of the 3 year strategy, which is an inbuilt future pressure we need to mitigate;
- (c) I believe the Government's stated intent to use capping in 2004/05 is very serious. However, members are also asked to note that Government capping pressures may be greater next year than this.

15.3 The first package I have exemplified makes the following changes to the proposed budget:

- (a) including a provision of £0.5m for members to revoke some of the proposed cuts (or take other action for new activities) in the light of consultees' views;
- (b) reducing the contribution to reserves to £0.8m, making up the difference from anticipated underspendings by the Housing Department in 2003/04 (presently estimated at £0.6m), to ensure that reserves are forecast to be at least £5m. Whilst normal practice is to allow departments to carry forward underspendings, which creates proper incentives to manage their finances, the Director is content that some of the underspend is used in this way.

15.4 The second package amends the first package, such that:

- (a) the reserves are built up over 3 years rather than one;
- (b) the proposed use of the prudential framework to borrow £2m for IT infrastructure is deleted - directors would still be able to use the prudential framework to borrow money for IT infrastructure, subject to adequate financial returns, by using the "spend to save" rules agreed by the Council when it considered the capital programme on 29 January;
- (c) reducing the amount of additional funding made available for improving Council owned properties. This will leave £2.7m per year instead of £3.4m, and will affect either the lump sum of £18m or the £2m of ongoing funding (or both).

15.5 The third package is similar to the second package, but:

- (a) changes the amount available for property improvement, reducing it further (leaving sufficient for a £1.5m ongoing increase, and a capital injection of £10m);
 - (b) reducing the growth for environmental improvements to £1m per annum;
 - (c) providing capacity for a one-off resource of £0.7m in 2004/05. In the light of consultation comments received, members may wish to consider using part of this for initiatives to promote and mainstream community cohesion (and may wish to look to partners to supplement this).
- 15.6 Further changes to the third package to reduce the tax increase to 7% would require further savings of £1.2m to be identified.
- 15.7 The effect of these proposals on the proposed budget would be as follows:

	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
	£m	£m	£m
<u>First Package</u>			
Present proposed budget	357.7	376.3	397.4
<u>Add</u> provision to revoke cuts	0.5	0.5	0.5
<u>Less</u> reduced contribution to reserves	(0.6)		
	-----	-----	-----
Leaves	357.6	376.8	397.9
Tax (£)	1,001	1,070	1,166
Increase	10.8%	6.9%	9.0%
<u>Second Package</u>			
Present proposed budget	357.7	376.3	397.4
<u>Add</u> provision to revoke cuts	0.5	0.5	0.5
Revised contribution to reserves	(1.1)	0.3	0.3
Deletion of IT expenditure	(0.1)	(0.2)	(0.2)
Reduce investment in property	(0.1)	(0.7)	(0.7)
	-----	-----	-----
Leaves	356.9	376.2	397.3
Tax (£)	992	1,062	1,158
Increase	9.7%	7.1%	9.1%
<u>Third Package</u>			
Present proposed budget	357.7	376.3	397.4
<u>Add</u> provision to revoke cuts	0.5	0.5	0.5
Revised contribution to reserves	(1.1)	0.3	0.3
Deletion of IT expenditure	(0.1)	(0.2)	(0.2)
Reduce investment in property	(1.0)	(1.4)	(1.0)
Reduce environment package	(0.4)	(0.7)	(0.7)
One-off resource	0.7		
	-----	-----	-----
Leaves	356.3	374.8	396.3
Tax (£)	984	1,043	1,144
Increase	8.8%	6.0%	9.7%

16. Efficiency Reviews

- 16.1 Cabinet has already commenced 3 efficiency reviews in the areas of procurement, transport and property. It is anticipated that these reviews will generate savings in future years, although no expectation of savings has been built into the budget (and it would be unrealistic to anticipate savings in 2004/05). Savings generated from these reviews would be available to mitigate the increases in council tax in 2005/06 and 2006/07 which would otherwise have been required.

17. Prudential Indicators

- 17.1 The Local Government Act 2003 replaced the previous system by which the Government controlled local authority capital expenditure. The

introduction of the “Prudential Framework” from 1 April has replaced detailed regulation with a self-governance system, based upon a code of practice, with a reduced amount of regulation.

- 17.2 The key requirement of CIPFA’s Code of Practice is that authorities must agree a set of indicators that demonstrate that borrowing is affordable, sustainable and prudent. Each authority’s full Council must approve the set of indicators at the same time at which it agrees the Council’s budget for the forthcoming year.
- 17.3 Separate indicators are required for general fund borrowing and HRA borrowing. The Code recommends a number of national indicators, which all authorities must set. Authorities can also set local indicators, based upon local circumstances. Indicators relating to the HRA were agreed by Council on 29th January as part of the HRA budget report.
- 17.4 Attached at appendix 6 are the prudential indicators which would result from the present proposed budget, and show that the proposed additional borrowing to support property and ICT is prudent, affordable and sustainable.
- 17.5 Should Cabinet wish to change the present budget proposals, the prudential indicators will change accordingly.
- 17.6 The recommendations in this report would enable me to amend the prudential indicators prior to their submission to Council, dependent on decisions you take at your meeting.

18. Council Resolution

- 18.1 When the Council approves the budget for 2004/05, it needs to make various statutory calculations. These include:
 - (a) the total budget;
 - (b) the tax arising from the budget for each of the 9 valuation bands;
 - (c) the total tax for each valuation band, including tax charged by the Police and Fire Authorities.
- 18.2 Following the decisions of Cabinet at your meeting, I will prepare the appropriate resolution for Council.

19. Financial and Legal Implications

- 19.1 These are included in the cover report.

20. Other Implications

Other Implications	Yes/No	<u>Paragraph References within Supporting Papers</u>
Equal Opportunities	Yes	Some proposals in departmental revenue strategies have equal opportunities implications. A summarised consideration of the race relations impact is provided at para 14.
Policy	Yes	The budget is part of the Council's overall budget and policy framework, and makes a substantial contribution to the delivery of Council policy.
Sustainable and Environmental	Yes	The budget contains provision for growth in spending on environmental works, and any specific environmental implications are drawn out in the departmental revenue strategies.
Crime & Disorder	Yes	£0.1m of growth in 2004/05 is proposed for measures to combat crime and disorder.
Human Rights Act	No	
Elderly People/People on Low Income	Yes	Consultation responses indicate that the elderly are the group most particularly concerned about high council tax increases.

21. Report Author/Officer to Contact

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 12 February 2004