

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 corporate direction, and has been significantly revised since the 2003/04 to 2006/07 budget strategy. Public consultation on the key aims and priorities took place during late 2003, and the results lent support to the proposed strategic priorities.
- 1.3 The strategy has been prepared in a climate of considerable financial pressure, and the outlook for 2004/05 has required the Council to make a combination of a high tax rise and service cuts. 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	284.2	*5.6%
2005/06	298.9	5.2%
2006/07	313.0	4.7%

*adjusted basis

- 3.2 Leicester's grant entitlement is expected to be adversely affected by forecast demographic changes. The trend in Leicester's population

Draft Budget Strategy 2004/05 to 2006/07

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 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 warned that it is prepared to use them in 2004/05, (and it is expected that a similar situation will pertain in 2005/06). This change of approach 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;
 - (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);

Draft Budget Strategy 2004/05 to 2006/07

- (f) changes in the amount of council tax the Government expects Councils to raise (at present, it is assumed this will increase by 5% each year).

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 tax will increase by 11% in 2004/05, and (if tax rises in 2005/06 and 2006/07 increase by the assumed Government expectation of 5%), tax yields over the next 3 years will be:

	£m
2004/05	73.5
2005/06	76.7
2006/07	80.5

6. Strategic Spending Priorities

6.1 The Council's strategic spending priorities flow from the 2 strategic objectives 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.

Draft Budget Strategy 2004/05 to 2006/07**7. Other Spending Issues**

- 7.1 Supporting vulnerable children and adults is a key priority 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 over the next 3 years:

	£m
2004/05	357.7
2005/06	376.3
2006/07	397.4

- 8.2 The table above provides for:
- (a) the Council's existing budgeted level of expenditure in 2004/05, inflated as appropriate in future years;

Draft Budget Strategy 2004/05 to 2006/07

- (b) the estimated cost of funding to raise educational standards, arising from “passport” growth in schools money;
 - (c) expected additional costs of capital financing.
- 8.3 The table also reflects increases in funding for the following when compared with 2003/04:
- (a) growth funding for environmental spending, of £1.4m in 2004/05 rising to £1.7m;
 - (b) growth funding of £2m per year, each year, for Social Care and Health;
 - (c) a significant package of reinvestment in property maintenance;
 - (d) the expected impact of the Council’s new job evaluation scheme.
- 8.4 The table also anticipates required reductions in other departmental budgets in order to achieve the aims of this strategy. When compared with 2003/04 these amount to £4m, rising to over £7m by 2006/07.
- 8.5 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 the new job evaluation scheme on the pay bill, to the extent that it differs from assumptions made. Experience elsewhere suggests costs are difficult to predict;
 - (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.

Draft Budget Strategy 2004/05 to 2006/07**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). 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 has been given to using the prudential framework for such purposes in 2004/05, without compromising the overall capital spending review: this has resulted in a limited package of investment in Property and ICT.
- 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, except where included in the 2004/05 budget.
- 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 Planning figures for each department are attached as Appendix B.
- 11.4 Departments are expected to ensure all growth pressures can be accommodated within these planning figures.

Draft Budget Strategy 2004/05 to 2006/07

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.
- 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.

Draft Budget Strategy 2004/05 to 2006/07**Appendix A****Spending Assumptions**

	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>
Pay Rises			
- Teachers	2.5%	2.95%	3.25%
- Other staff	2.83%	3.25%	3.0%
General Inflation	2.1%	2.5%	2.5%
Interest Rates			
- On new debt	5.2%	5.5%	5.5%
- On invested cash	4.4%	4.7%	4.9%
Superannuation Contribution Rates			
- Teachers	13.5%	13.5%	13.5%
- Other staff	13.8%	14.4%	15.0%

Appendix B

Departmental Planning Targets

	<u>2004/05</u> £000s	<u>2005/06</u> £000s	<u>2006/07</u> £000s
Chief Executive's Office	2,437.3	2,437.3	2,437.3
Cultural Services & Neighbourhood Renewal	17,303.8	15,571.4	15,549.4
Education & Lifelong Learning	181,125.8	183,660.4	186,351.5
Environment, Regeneration & Development	33,102.5	32,665.5	32,582.5
Housing	6,435.0	6,305.4	6,366.4
Resources, Access and Diversity	13,350.3	13,300.3	12,900.3
Social Care and Health	81,640.6	83,687.6	85,687.6
TOTAL	335,395.3	337,627.9	341,875.0