Leeds CITY COUNCIL

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Report of the Director of Corporate Services

Executive Board

Date: 15th November 2006

Subject: Financial Plan Annual Review

Electoral wards affected:	**Specific implications for:**	
	Equality and Diversity	
	Community Cohesion	
	Narrowing the gap	

Eligible for call In	X	Not eligible for call in (details contained in the report)	

Executive Summary

1 The propose of this report is to provide members with an update of the current approved Financial Plan covering the years 2005-2008.

2 The report reaffirms the principles embedded in the current plan and provides an update on national issues affecting local government finance, particularly in respect of the Local Government Finance settlement for 2007/08 which was announced in December 2005 and the forthcoming Comprehensive Spending Review 2007.

3 It also outlines the current approved budget for 2006/07, provides an assessment of the financial health of the Council and a progress check on the delivery of the current plan.

4 The development of a strategy for the delivery of the 2007/08 budget is a key element of the latest update, and the report includes proposals for the allocation of resources to priorities in accordance with the principles of the Plan, taking account of known pressures, the likely level of available funding and the development of service prioritisation in resource realignment.

5 Members are asked to approve the update of the Plan, forward this report to Overview and Scrutiny Committee in accordance with the Council's Constitution, and note the intention to produce a new financial plan following the announcement of CSR 2007.

1. INTRODUCTION

1.1. The Council's approved Financial Plan was approved by the Executive Board on the 17th November 2004. The purpose of the Financial Plan is to support the Council's corporate planning process, to outline the principles which will shape the Councils financial strategy over the planning period and to provide a framework for the preparation of annual budgets. The current approved Financial Plan covers the period 2005 – 2008.

1.2 In previous years we have attempted to mirror the Government's own spending review planning timetable, which incorporates the overall allocation for resources within the public sector. The intention would have been to produce a new Financial Plan this year, which would have covered the three years 2007 – 2010. However, earlier this year the Government took the decision to postpone the 2006 Spending Review in favour of a more fundamental Comprehensive Spending Review; the results of which will be announced mid 2007. As such it has only proved possible to undertake a review of the current plan which is the main subject of this report, with the intention to produce a new Financial Plan in mid 2007 following the announcement of the Government's Comprehensive Spending Review (CSR 2007).

1.3. This annual review of the plan will reflect on the current approved budget for 2006/07, provide an assessment of the financial health of the Council and a progress check on the delivery of the plan and the efficiencies that are a key element of it. It will also review developments at the national level likely to impact upon the Council's future budgets, as well as identifying some of the pressures that will impact upon next year's budget

1.4. Rescheduling the production of a new Financial Plan does also provide the opportunity to review the Council's approach to medium term financial planning, and a number of proposals are included in the paper to improve the alignment of resource planning to the Council's corporate and service planning processes, as part of the ongoing Council Change Programme.

2.0 CURRENT PLAN

2.1 The current Financial Plan was prepared in the context of the Government's July 2004 Spending Review. This covered the period 2005/06 to 2007/08. The spending review identified significant increases in public spending of £61bn over the three years to £341bn by 2007/08. A significant aspect of the Spending Review 2004 was the announcement of efficiency savings across government departments, as detailed in the Gershon Review. The efficiency review assumed that savings of 2.5% per annum would be made, totalling 7.5% over the Spending Review period. This equated to £6.45bn savings for Local Government, and Leeds' Financial Plan was underpinned by achieving this target level of efficiencies. A further requirement was that at least 50% of the efficiency gains were cashable i.e. reduced cost for the same level of service. The remaining efficiency gains up to 50% may be non cashable i.e. increased outcome or output for the same level of input.

2.2 The assumed increase in resources for Leeds were below the national increase which has tended to be the case for a number of years. Based on these forecasts, the Financial Plan outlined the following financial strategy:

- Overall spending to increase in line with the projected FSS increase
- Passport the increase in FSS to Education and Social Services in line with both national and local priorities
- For all other services, resources were directed towards maintaining existing levels of service and reflecting unavoidable and approved increases, as follows:
- the effect of pay awards
- the increase in employer's superannuation rates
- other inflation
- full year effects of approved developments
- support to the Council's Corporate Plan priorities
- 2.5% savings to reflect the efficiency agenda

2.3 The plan identified that in order to deliver the strategy and to address both corporate and service priorities, a number of departmental efficiency reviews would need to be undertaken throughout the period of the plan. These reviews continue to be identified and progressed.

3. NATIONAL CONTEXT

3.1 The Government is currently conducting a second Comprehensive Spending Review, which will report next year. In addition the results of the Lyons Inquiry into Local Government and the white paper on Local Government will set the scene for the financial framework for local government over the next planning period.

3.2 The results of the extended remit of the Lyons Inquiry into Local Government is now expected by the end of the calendar year and will make recommendations on the role and functions of local government together with options for it's future funding although it is now felt that these will be incremental as opposed to radical changes to council finances.

3.3 A consultation paper on the Local Government Finance system confirmed the Government's intention to move to three year grant settlements, although the current settlement only covers the two years 2006/07 and 2007/08. It is still their intention to move to three year grant settlements to be aligned with national three year spending plans. Projections will be used for the dominant data drivers of population and Council Tax bases. For other data items, the Government will use frozen figures based on multi year averages. New funding will be distributed initially as specific grant. This will be announced as part of the CSR 2007.

3.4 The Government announced the Local Government Finance Settlement details for 2006/07 and 2007/08 in December 2005, which was broadly in line with the assumptions contained in the CSR 2004. There were however changes to the system of calculating Revenue Support Grant, redistributing Non-domestic rates and abolishing Formula Spending Shares. A new specific grant was introduced – the Dedicated Schools Grant (DSG), which took the Schools' Budget out of the general grants system. All expenditure previously within the Schools' budget transferred into this grant.

3.5 The only actual figures that are now available relate to Formula Grant. There is no longer any way in which amounts at service level can be meaningfully derived from government figures. Formula Grant is the sum of Revenue Support Grant and Non-domestic rates.

3.6 The following table shows the figures at the national level for Aggregate External Finance, Central Government support that includes Formula Grant, with a 3.7% increase in Formula Grant (from the adjusted 2006/07 position) for 2007/08 and a total increase in Aggregate External Finance of 5.0%

	2005/06 Adjusted £M	2006/07 Final £M	*Variance* %	2007/08 Updated £M	*Variance* %
AGGREGATE EXTERNAL FINANCE					
Revenue Support Grant (RSG)	2,193	3,378	54.1	4,105	
Business Rates	18,000	17,500	-2.8	17,500	
Sub-total	20,193	20,878	3.4	21,605	4.0*
Police Grant	3,895	3,936	1.1	4,028	2.3
Total Formula Grant	**24,088**	**24,814**	**3.0**	**25,633**	**3.7***
Dedicated Schools Grant (DSG)	25,072	26,576	6.0	28,171	6.0
Other Special & Specific Grants	10,300	10,736	4.2	11,292	5.3
TOTAL AEF	**59,460**	**62,127**	**4.5**	**65,096**	**5.0***

* These percentages are those quoted for increases from the adjusted 2006/07 amounts

3.7 The following table shows the Formula Grant figures for Leeds City Council for 2006/07 and 2007/08, broken down over the constituent elements that it now consists of:

	2005/06 ADJ £m	**2006/07 FINAL £m**	**VAR 2005/06 - 2006/07 %**	**2007/08 UPDATED £m**	**VAR 2006/07 - 2007/08 %**
Relative Needs Amount		185.0		189.1	2.2
Relative Resource Amount		-38.6		-40.2	4.1
Central Allocation		120.5		123.7	2.7
Floor Damping		-2.4		-1.2	
TOTAL	258.2	264.5	2.5	271.4	2.9 *

* The comparison for 2007/08 is made with an adjusted 2006/07 figure of £263.8m.

3.8 In July 2005 the second Comprehensive Spending review was announced. This will report in mid 2007 and set national spending plans for the years 2008-09, 2009-10 and 2010-11. This will provide the opportunity for a fundamental review of the balance and pattern of public expenditure, taking stock of what the investments and reforms have delivered to date and what are the challenges ahead. These are likely to include:

- At least a further 2.5% generated through efficiencies per year over the period of CSR07
- Nominal reductions in administration budgets across government, following a freeze under CSR 2004
- Opportunities for transforming service delivery across government, releasing resources for reallocation to front line services.
- Pay settlements across the public sector will be based on the achievement of the Government's inflation target of 2%.

3.9 The Government is looking at how it can make spending go further through zero based reviews and exploring where efficiency gains can be made. Councils will need to demonstrate that they are prioritising resources and looking at ways of doing things differently to make their money go further. From this it is not likely that future settlements will be generous.

3.10 Leeds entered into a Local Area Agreement (LAA) in March 2006 and the Council is the accountable body for funds within the LAA. The LAA is a three year agreement between central government and the local area represented by the Council and other key partners through the Local Strategic Partnership. The primary objective is to work to shared outcomes to make a difference to people's lives and localities. The agreement requires funding streams to be pooled and there will be more pooling of budgets to deliver the agreed aims. The achievement of stretched targets will release a pool of money for the city in 4/5 years.

4. REVIEW OF PROGRESS TOWARDS THE PLAN

4.1 Budget 2006/07 – General Fund

4.1.1 In developing the 2006/07 budget, consideration was given to the following issues:

- Impact of the 2006/07 Local Government Finance settlement
- The Council's spending priorities
- The Reserves strategy for the Council

4.1.2 The final settlement was received on 31st January 2006 and provided for an increase in Formula Grant for 2006/07 of £6.3m (2.5%) over 2005/06, and £7.7m (2.9%) for 2007/08, after adjusting for changes in the funding arrangements of specific functions.

4.1.3 As detailed in paragraph 3.5 above, the Government has abolished Formula Spending Shares, so it is no longer possible to compare our own spending, either overall or on particular services, with a central government benchmark or with our original financial plan.

4.1.4 The table below sets out the main features of the 2006/07 budget and identifies funding for changes in function of £334.2m. The indicative increase in DSG for 2006/07 equates to a 4.1% increase and is lower than the 6% national average increase due to a combination of demographic and technical issues.

	£M
Budget 2005/06	803.9
Adjustments for changes in funding specific functions including the transfer to DSG	-334.2
Revised base budget	469.7
Increase in the budget for social services (including capital financing)	17.0
All other services	
Effect of pay awards and inflation	11.8
Full Year effects of pressures	3.6
Income effects	1.3
Demography/volume changes	0.2
All other variations in cost	5.7
Efficiency and other savings	-13.9
Change in contribution to general reserves	-2.7
Additional funding sources	-11.7
Additional support to Corporate Plan priorities	5.5
Base Budget 2006/07	**486.5**
Increase from Revised Base	**16.8**
	(3.6%)

4.1.5 In arriving at the approved budget, the broad principles outlined in the Financial Plan have continued, although as explained earlier, FSS has been abolished and Education funded through direct grant. The overall strategy has been maintained to ensure that resources are directed towards maintaining existing levels of service and reflecting unavoidable and approved increases as follows:-

- The effect of pay awards
- Increases in employers' superannuation rates
- Other inflation
- Full year effect of approved developments
- Support to the Council's Corporate Plan priorities
- Savings to reflect the efficiency agenda

4.1.6 The budget for 2005/06 included £5.0m for further support towards Corporate Plan Priorities. These have now been incorporated into the base budgets and additional resources of £5.4m allocated in the following areas:-

(a) £1.0m for transforming services, and a range of initiatives for the more efficient delivery of support services
(b) £4.0m to ensure all neighbourhoods are safe, clean, green and well maintained

(c) £250k to ensure our children and young people are healthy, safe and successful. This brings the total budget for core costs of the new directorate of Children's Services to £500k

(d) £150k to support Leeds as a highly competitive, international city

This brings the total amount realigned to support corporate plan priorities between 2003/04 and 2006/07 to £61m cumulatively.

4.1.7 For 2006/07 the Council has a target to deliver efficiencies of approximately £30m representing the cumulative effect of the 2005/06 efficiency target of £15m plus a further £15m of new efficiencies to be delivered in 2006/07. Of these, at least 50% (£7.5m) must be cashable. In accordance with the financial plan, departments were asked to identify efficiency gains, and in total the cashable savings included in the 2006/07 budget were £11.2m.

4.1.8 A formal reserves policy was established as part of the 2005/06 budget process which set a target of between 3% and 4% of net expenditure excluding schools, which in cash terms amounted to between £14m and £18m. However for 2006/07 the policy was developed to encompass an assessment of financial risks included in the budget. This is based on departmental budget risk registers which identify areas of the budget which may be uncertain, categorised as high, medium or low risk based on probability and potential impact on the budget.

4.1.9 These have been examined and the "at risk" element of each budget area quantified. This represents the scale of any likely overspend/shortfall in income and does not necessarily represent the whole of a particular budget heading. Each risk area is then scored in terms of the probability and impact on the budget. The results of this exercise for 2006/07 indicated a level of reserves of around £12m was required and a contribution of £0.3m was provided in the 2006/07 budget to achieve a balance of £12.3m as at 31st March 2007.

4.1.10 It was further agreed that, from 2005/06, departments would be required to prepare budget action plans to deal with spending variations on departmentally controlled budgets during the year up to a limit of 2% of net expenditure. Any budget variations above this amount would be dealt with corporately, using, where necessary, the General Fund reserve.

4.2 Budget 2006/07 - Dedicated Schools Budget (DSG)

4.2.1 The funding system for education changed from April 2006. All expenditure previously within the 'Schools Budget' transferred into a grant known as the Dedicated Schools Grant (DSG). Adjustments were made to transfer the previous grant funding for teacher pay reform into the DSG, and previous LEA contributions to the Standards Fund Grants were removed from the DSG in order that many Standards Fund Grants are now paid at a rate of 100%. This produced a 2005/06 adjusted DSG baseline budget for Leeds of £347.3m.

4.2.2 The indicative 2006/07 DSG for Leeds was £361.7m but the finalised allocation was £363.9m. The DfES indicative allocation was based on the DfES's estimated projection of pupil numbers but the finalised allocation reflects actual January 2006 pupil counts, which were higher than anticipated by the DfES. Each additional pupil attracted additional funding of £3,532. The finalised allocation represented a 4.8% increase in overall resources but was lower than the 6% national average increase due to a combination of demography (where pupil numbers are decreasing faster than the national average), the removal of funding for the David Young Academy from 1st Sept 2006, and the inclusion of an allocation for Early Years provision based on the number of pupils attending Private, Voluntary and Independent providers.

4.3 Budget 2006/07 - Housing Revenue Account

4.3.1 The HRA covers the management of the council's rented housing stock, and in accordance with government legislation operates as a ring-fenced account. The funding of the HRA is separate to the way in which the rest of the council is funded, with costs being met from rental income and government subsidy. However, in Leeds, for a number of years, the way in which the government calculates subsidy has resulted in a negative contribution rather than a grant.

4.3.2 The current year's budget for the HRA provides for negative subsidy of £33m. This provides for an average rent increase of £2.47 over 48 weeks (equivalent to 5.0%) in line with implementation of the Government’s rent restructuring programme.

4.3.3 On 1st February 2003, six separate Arms Length Management Organisations (ALMOs) became responsible for delivering management and repairs to the council's housing stock. In September 2006 tenants voted for a reduction in ALMOs from six to three. The new organisations are expected to commence operations in April 2007. The ALMOs are allocated an annual management fee for delivering this service. The value of this for 2006/07 was £101m including additional SCA. The Strategic Landlord is committed to maximising the funding directly available to the ALMOs whilst retaining a robust strategic function. Thus in future years it will continue to disaggregate appropriate expenditure for the ALMOs to directly manage and to actively review the appropriateness of costs contained within the HRA.

4.3.4 Over the period 2003/04 to 2004/05 all ALMOs were successful in achieving a 2-star inspection rating from the Audit Commission which gives them access to £403m of additional capital funding to invest in bringing the housing stock up to decent homes standards. This directly brings with it an element of additional subsidy over the life of the programme which is currently used to support ALMO expenditure programmes.

4.4 Budget Management 2006/07

4.4.1 Achievement of the objectives of the Financial Plan is dependent upon effective in year budget monitoring. This is a continuous process and financial health reports are provided to Members on a regular basis.

4.4.2 The half year financial health report highlights a number of cost pressures and details of these and proposals to minimise the impact on the financial strategy are detailed in a separate report elsewhere on this agenda.

4.5 Comprehensive Performance Assessment – Use of Resources

4.5.1 The Use of Resources judgement attempts to assess how well the Council manages and uses its financial resources and is now classified as a level 1 assessment and is on par with assessments for Children and Young People and for Social Care (Adults). The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and to improve services. The judgement is based on 5 themes:-

- financial reporting
- financial management
- financial standing
- internal control
- value for money

4.5.2 The Use of Resources assessment will be conducted annually and in all Councils by the Council's auditors. In respect of the value for money criteria, the Council is required to complete a self assessment. The overall Use of Resources judgement is based on combining auditor's scores for each of the areas covered. The scores are as follows:-

4 = well above minimum requirement - performing strongly,
3 = consistently above minimum requirements - performing well,
2 = at only minimum requirements - adequate performance,

4.5.3 The results of the CPA assessment 2005 gave the Council an overall score of 3 for the Use of Resources as follows:-

Assessment	Score
Financial Reporting	2
Financial Management	3
Financial Standing	2
Internal Control	3
Value for Money	3
Overall Score	**3**

4.5.4 The results were discussed with the external auditors and an action plan agreed. This formed the basis for key areas of improvements during 2006/07 and significant progress has been made. The evidence for CPA 2006 has been completed and the results are due to be announced in December 2006.

5 DEVELOPMENT OF THE BUDGET STRATEGY 2007/08

5.1 <u>General Fund</u>

5.1.1 As the final year of the current financial plan, the principles outlined in paragraph 4.1.5 above have been adopted in developing a strategy for the 2007/08 budget.

5.1.2 As part of the 2006/07 settlement the Government announced the formula grant for 2007/08 at £271.4m, a cash increase of £6.9m (2.6%) for the Council. Council Tax is in fact the only locally determined tax, and whilst nationally it only generates around 4.5% of all taxation it continues to be subject to a great deal of a political debate, both in terms of its application as a tax and also annual increases in it. Each 1% variation in Council Tax equates to spending of £2.2m; and whilst crude and universal capping has been abolished, Government have made it clear that they are prepared to cap authorities that set “excessive” increases in their Council Tax. Government announcements at the time the RSG for 2006/07 and 2007/08 RSG was published and since, have clearly articulated their expectation that increases in Council tax will be kept to less than 5%. It is clear from this that the increase in the overall resources available to the Council in 2007/08 will be limited. From the available resources the Council will need to fund a number of base budget pressures including: –

- Pay Awards and other inflation - The Chancellor of the Exchequer indicated in his 2006 budget speech that public pay would on average rise 2.25% in the next year, and the plan provides for this. In addition an increase in the employer's contribution to the West Yorkshire Pension Fund of 0.8% has also had to be provided for in accordance with the latest actuarial report. In respect of non pay budgets, provision has had to be made for a number of areas where specific information is known, and in some instances significant increases have been provided for. These include a Landfill tax price increase of £3 per tonne and increases in the price of energy. These pressures are forecast to be £17.3m.
- In other areas, a general provision of 2.0% has been provided, although departments will be required to critically review the need for providing inflationary allowances for many budgets. This equates to £4.2m. Provision of 2% has been included for grants made to outside bodies.
- It has been assumed that any changes in funding arrangements for specific functions will be cost neutral and adjusted in the final settlement.
- The full year effects of developments built into the 2006/07 budget and other developments approved during the year. These include:-

	£m
• Strategic Review of Planning	0.4
• Garden Pilot	0.4
• City Services – PFI costs	0.5
• City Museum	0.3
• Technorth extension	0.2
• PCSOs	0.1

- Capital financing charges and other corporate issues

5.1.3 The 2006/07 revenue budget was supported by Section 278 funds and by assumptions as to expenditure initially charged to revenue which could be properly charged to capital. This effectively reduced the funding available to support the capital programme and this is not considered to be sustainable as long term funding sources for revenue:-

- Section 278 is dependent on the use of developer's contributions in year and it is anticipated that this will reduce from the £5m in the budget to less than £4m based on the experience in 2005/06
- The budget provided to capitalise certain costs, amounting to £4.5m. However this level is no longer considered sustainable and it is likely that a more realistic figure is around £1m to £3m.

The net impact of these on the 2007/08 budget can be partly offset by the third year of LABGI.

5.1.4 2007/08 will be the third year of the Gershon efficiency target to deliver efficiencies of 2.5% per annum over the 3 years covered by the 2004 spending review. It is not yet known what targets will be introduced as part of the 2007 review, but they are likely to be at least 2.5%.

5.1.5 The Council has a target to deliver efficiencies of £18m per annum of which 50% must be cashable. On the basis of previous years' performance it would not seem unreasonable to assume that £9m could be achieved in 2007/08.

5.1.6 A two year NRF allocation was announced in November 2005, and Leeds will receive an additional £2.1m in 2007/08. However as part of the Local Area Agreement this money will form part of the pooled funding stream, and it has therefore been assumed that this additional funding will not be available to fund base budget pressures.

5.1.7 It is clear from the above that it is likely that there will be a shortfall of available resources to meet the base budget issues, and there are also significant departmental pressures which need to be addressed as part of the finalisation of the 2007/08 budget. These include continuing demographic and demand led pressures particularly within Social Services, and the Council's response to the Children's services agenda, including the costs associated with establishing a new structure for the Children's Services department. In addition there are a number of significant pressures of a corporate nature which will need to be addressed as part of the budget process. These include the fall out of non recurring one off income sources such as HMO licencing income, income derived from section 278 schemes and assumed capitalisation.

5.1.8 A detailed review of base budget assumptions and a critical review of departmental pressures is currently being undertaken.

5.1.9 The plan did recognise that there was a need to improve resource prioritisation to the Council's key priorities. The Council's Corporate Priority Boards will give a focus for establishing the Council's priorities at an early stage in the 2007/08 budget process to form the basis of decisions about the allocation of resources and realignment. In addition, consideration is being given to how service prioritisation can better inform the process of realigning resources to key priorities.

5.2 Service Prioritisation

5.2.1 Over the summer of 2005, PriceWaterhouseCoopers llP(Pwc) were commissioned by the Council to undertake a high level diagnostic of Council Services, identifying the relative value and quality of the main service areas and to seek out areas for efficiency and performance improvement. This was to be done through a series of interviews, documentation reviews and comparison. In particular they have reviewed the following sources of information:-

- performance data, benchmarks against a comparative group of excellent and good authorities
- value for money indicators
- corporate, council, service and financial plans
- budget books
- satisfaction report and performance data
- inspectorate reports

5.2.2 The model consisted of two elements, a service catalogue and a project catalogue. The service catalogue allows the consideration of the priority of particular services against the quality of the delivery of these services. It provides scope for challenging the Council's key services and can also flag up the challenges and opportunities within each department by considering which services:

- really add value
- are delivered efficiently or effectively
- are delivered in the optimum way
- should be targeted for change
- could be improved through greater investment, collaboration, new ways of working etc.

5.2.3 Service prioritisation models have thus been produced for each of the Council's six departments plus a separate one for Education Leeds. The model is seen as a high level methodology rather than a pinpoint diagnostic and so should not act as the definitive performance or importance status of each service. Its benefit, however, is that it can provide for high level understanding of the relative strengths, weaknesses and importance of each of the Council's main services and teams. As such it can be used to inform or guide the Council's budget and service planning processes as well as supporting a wider efficiency and improvement programme.

5.2.4 There has been some progress on a number of departmental projects identified in the Project Catalogue, with 41 projects being completed and 63 under development out of a total of 156 suggested projects.

5.2.5 Further work is ongoing to use this process in order to realign resources to priorities.

5.3 Dedicated Schools Budget (DSG)

5.3.1 The Dedicated Schools Grant, the new funding arrangement fro Education, is a ring fenced grant which can only be used to fund Schools Block expenditure i.e. the Individual Schools Budget (ISB) and the Central Schools Block. Education LEA functions are funded by mainstream government funding like other council services and are included in the assumptions above.

5.3.2 As part of the two year settlement, the Government announced that the 2007/08 indicative DSG allocation for Leeds will be £16.8m greater than the base budget for the current year. The increase over the adjusted base for the ISB is £14.5m, which will fund the 3.7% minimum funding guarantee of £12.5m with the balance to meet all other pressures. The remainder of the allocation will address pressures in the Central Schools block. These include:-

- Inflationary pressures on Central Schools Budget
- Provision of more practical learning pathways for children in key stage 4
- Provision of enhanced support for schools in meeting the outcomes of "No Child Left Behind,"
- Private, voluntary & independent nursery provision for 3 & 4 year olds accessing education in non-maintained settings – increased costs due to inflation, demography & operation of additional children's centres.
- Fallout of 2006/07 schools contingency provision to assist schools in meeting the costs of equal pay compensation.
- Outside Placements – an increase in the number of pupils requiring replacement.

5.3.3 The 2005/06 outturn report identified that the Council's strategy for funding the development costs of schools' PFI/BSF schemes by borrowing short term from the PFI reserve and schools reserves was no longer sustainable as schools reserves had fallen significantly in 2005/06. Officers are currently working to formulate a viable alternative strategy to fund these development costs.

5.4 Housing Revenue Account (HRA)

5.4.1 The financial strategy for the HRA is developed in the HRA Business Plan. The key factors in determining the strategy are the amount of Housing Subsidy allocated by Central Government and the implementation of the government's rent restructuring programme. Housing Subsidy is driven by three key elements: Management and Maintenance Allowances, stock numbers and funding of debt.

5.4.2 For 2007/08 the DCLG guidance is not yet available for national changes in Management and Maintenance Allowances.

5.4.3 It is estimated that over the three year period 2006/07 to 2008/09 there will be a reduction in council housing stock of 3500 to 4000 properties (equivalent to 6% of stock). This will occur through Right To Buy sales and demolitions or disposals of properties which are not sustainable either because of their physical condition or lack of demand. These changes are principally demand led, difficult to accurately predict and impact on subsidy levels. From 1 April 2004, 75% of receipts generated through RTB sales (net of expenses) are required to be paid over to central government.

5.4.4 Average rent rises for 2007/08 are expected to be 5%. Central government is continuing with its rent restructuring review which aims to harmonise Local Authority rents with Registered Social Landlords by April 2012 for comparable properties. The government has indicated that rent restructuring will be resource neutral when viewed nationally and proposes to compensate local authorities by increasing Management and Maintenance Allowances. Additionally, rent restructuring brings with it an increasing requirement to de-pool service charges.

5.4.5 Additionally the HRA receives subsidy based on the actual cost of borrowing, which broadly offsets the real cost of borrowing. Interest rates of 5.15% are assumed.

5.4.6 The HRA currently receives additional subsidy directly related to the ALMO's supplementary capital programme. Whilst not guaranteed, the Financial Plan assumes that this funding continues unaltered until completion of the Decent Homes programme. Significant reductions in the cost base of the HRA will be required to reflect this fall out of subsidy towards the end of this Financial Plan.

5.4.7 The Swarcliffe PFI scheme commenced on 1 April 2005. The HRA Business model currently assumes average inflation rises of 2.5% in relation to management costs.

6 CONCLUSIONS

6.1 It is clear that the financial pressures facing the Council over the next financial year will exceed the likely level of resources available. Moreover if the Council is to redirect its resources to its key corporate priorities, it will be necessary to challenge the way in which the Council delivers its services through service prioritisation.

6.2 However, it should be noted that 2007/08 will be the final year of the current financial plan and much has been achieved. It has provided a robust framework for medium term planning and has underpinned the annual budget setting processes whilst supporting the delivery of services and targeting the Council's priority areas.

6.3 Following the publication of the CSR 2007, a new Financial Plan will be developed during 2007/08 to cover the years 2008 to 2011. It is apparent that the level of resources available to the Council in the years beyond 2007/08 will be limited. It is recognised that there is a need to strengthen the links between service planning and financial planning to ensure the realignment of resources to priorities, and it is proposed to develop the Financial Plan as a key element of the new Corporate Plan which will also be published during 2007.

6.4 It is also clear that service prioritisation needs to be further embedded at a cross-departmental level in order to better inform the decisions regarding the allocation of resources.

6.5 In order to facilitate improved monitoring of the plan, it is proposed that a series of milestones are incorporated into the new Financial Plan and to develop an approach to medium term planning which will encompass a rolling three year projection of resources and pressures. This will also provide a better framework for decision making requiring clarity as to the impact upon resources in future years as well as the current. It will also

7 RECOMMENDATIONS

Executive Board are asked to

7.1 Approve this update to the Council's Financial Plan 2005-08 and to request departments to prepare detailed budgets for 2007/08 in accordance with the principles included within this update.

7.2 Forward this report to the Council's Overview and Scrutiny Committee as part of their review of the Executive's initial budget proposals in accordance with the Council's Constitution.

7.3 Note the intention to produce a new financial plan once the details of the CSR 2007 have been announced and a move towards three year budgeting.