



Report of the Director of Resources

Executive Board

Date: 13th October 2010

Subject: Financial Strategy and Budget Setting Process

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In

(Details contained in the report)

Executive Summary

1. The purpose of this report is to inform members of the background to the forthcoming Comprehensive Spending Review and proposals for the 2011/12 budget setting process.
2. The report identifies actions already taken to address the likely reduction in resources, the budget principles which will underpin the new Medium Term Financial Plan and provides an outline timetable for the forthcoming budget process.
3. Members are also requested to agree to the establishment of a member working group comprising the five political leaders to consider budget proposals.

1. PURPOSE OF REPORT

- 1.1 This report sets out the background to the forthcoming Comprehensive Spending Review (CSR) and outlines the proposed process for setting the 2011/12 budget.

2. BACKGROUND INFORMATION

- 2.1 The current financial plan is now in its final year (2010/11). This financial plan has run concurrently with the Comprehensive Spending Review 2007, and the subsequent 3 year grant settlement announced by the government at that time.
- 2.2 A new Comprehensive Spending Review will be announced on 20th October for a four year period commencing April 2011, and it is expected that the government will announce a 2 year local government grant settlement in late November.
- 2.3 In view of the current economic circumstances in the country, the Comprehensive Spending Review and grant announcements are expected to be very challenging for the local government sector. In June the government announced that all government departments, other than where specifically protected, would receive an average real terms reduction of 25% over four years.

3. BUDGET FORECAST

- 3.1 In advance of the autumn announcements work is ongoing to forecast the Council's position over the next four years, taking account of assumed changes in funding and spending pressures.
- 3.2 Ignoring the effects of inflation, in simple terms a 25% reduction in government grant would mean a £159m reduction in funding by 2014/15 compared to the current year. This will mean that the current extent of Council activities cannot be maintained, and therefore a fundamental review of the Council's activities is required. It is also clear that a different approach will be needed to the budgeting process.
- 3.3 It is proposed that a four year financial plan is produced, in line with the Comprehensive Spending Review, which needs to reflect the financial implications of the significant changes required of the organisation. It is further proposed that a detailed 2 year budget is produced covering 2011/12 and 2012/13.

4. ACTIONS TAKEN TO DATE

- 4.1 In response to this position, an exercise has begun to consider options for changes to the Council and its services by the year 2014/15. This includes the change and improvement agenda that is designed to fundamentally reshape the organisation by 2014/15. This work includes:
- a) Implementing modern ICT systems to support the delivery of more efficient ways of working.
 - b) Rationalising our office accommodation and introducing more efficient and flexible ways of working – Changing the Workplace.
 - c) Implementation of a number of business change projects arising from the DECATS process which will deliver significant efficiencies and service improvements e.g. Customer Access, Procurement and Commissioning, Management and Supervision

- 4.2 In reviewing the scale and nature of the Council's activities over the next four years, account needs to be taken of:
- a) Levels of demand for key services;
 - b) The extent of provision the Council can afford;
 - c) Whether services may be provided more efficiently or in different ways, either structurally or by different providers;
 - d) The extent to which services need to be provided at all.
- 4.3 A number of specific actions to date have been taken in order to address the likely funding gap. These can be summarised as follows:
- a) Staff consultation exercise including intranet discussion forums. on potential cost saving measures – officers are currently analysing the many suggestions made.
 - b) Review of capital projects – as reported to Executive Board on 25th August, in view of the impact of capital spending on the Council's revenue budget, a review of uncommitted capital schemes has been undertaken which has considered the prioritising of schemes on the following criteria:
 - invest to save
 - avoidance of future costs
 - protecting our assets
 - improvements in adults and children's social care
 - environmental impact
 - c) A review of central and corporate functions has resulted in projected savings in the current year of £1.4m. This review has included reductions in the cost of Performance Management, Communications and Risk Management
 - d) All directorates are developing proposals to review services with a view to identifying potential savings over the next four years in line with the projected funding reductions set out above
 - e) As set out in paragraph 4.1 (c) above, a detailed diagnostic exercise (DECATS) has been undertaken to identify the current cost of providing a range of business support activities. This exercise has identified significant opportunities to generate efficiencies and detailed business cases are now being drawn up.
 - f) Recruitment of staff has been frozen except where necessary to protect front line services.
 - g) Work is being undertaken with other West Yorkshire Districts, and other public sector partners within Leeds to identify opportunities for collaboration where this would lead to efficiency savings. A number of specific options are currently being developed for joining up services within West Yorkshire, for example the shared business rate collection service for Leeds and Calderdale which was reported to Executive Board on 25th August.

5. BUDGET PRINCIPLES

- 5.1 In setting the Medium Term Financial Strategy the priority will be to ensure that resources are focused as much as possible on essential services.
- 5.2 The Council has a responsibility to spend public money wisely in order to achieve better outcomes for the city. In order to achieve these outcomes, it is proposed that the Council establishes the following principles.
- a) The Council should aim to achieve maximum financial benefit from procurement and commissioning activity. Procurement activities should be organized and procured on a Council wide basis wherever possible.
 - b) The Council will develop efficient locality based management arrangements where appropriate.
 - c) Common business activities across the Council should be centralised and/or should be managed from a central point in the organisation where this can demonstrate better value for money, e.g. procurement, communication, research and intelligence.
 - d) The Council's buildings portfolio is very large and is costly to maintain. The Council will seek to rationalize the number of buildings it holds across all services, focusing on the outcomes we want to achieve rather than the provision of buildings based services.
 - e) We should maximize our income; fees and charges should be set at a level to recover full cost. Where charges are not at full cost, the financial subsidy should be transparent and be justified in the achievement of outcomes for service users.
 - f) Provision of services should be by the most appropriate provider taking into account value for money, quality of service, maturity of the market, in-house resilience, etc.
 - g) Where specific grants are reduced, there should be no presumption that the service to which it relates will be reduced, however it will be necessary to demonstrate that it still represents a priority.
 - h) Funding of external organisations should all be on the basis of service agreements and should take account of other public sector funders.
 - i) Opportunities will be identified and pursued where appropriate, to provide services in collaboration with other local authorities, or other public organisations within the City and if appropriate beyond.
 - j) Capital investment will be targeted at priorities. As a general principle, borrowing will be used to fund projects which generate savings or income in excess of the cost of borrowing. Other capital investment should therefore be funded by external funding sources or receipts from the sale of assets.

- k) All proposed reductions will be subject to equality impact assessments, and we will ensure that there is an understanding of the impact of reductions upon the voluntary and community sector, the business sector, and geographically across the city.

6. BUDGET SETTING PROCESS

6.1 The main events in the budget setting process for 2011/12 are as follows:

- Comprehensive Spending Review - 20th October 2010
- Formula Grant Announcement – 30th November 2010
- Scrutiny – 10th January 2011
- Executive Board – 11th February 2011
- Council – 23rd February 2011

6.2 Following discussions at the Council meeting of 15th September, it is proposed that an advisory group is established of the five political parties represented on the Council. The precise composition for the group and protocols for the meetings will need to be agreed, but it is anticipated that the advisory group would meet on a fortnightly basis during November and December to consider draft proposals put forward for discussion by each Director. The outcome of these discussions will be reported to Executive Board prior to the finalisation of the Council's 2011/12 budget.

7. RECOMMENDATIONS

7.1 Members are requested to:

- a) to note the background to the current budget setting process and the actions taken to date;
- b) to agree the establishment of a members working group comprising members of the five political parties to consider budget proposals;
- c) to agree to a subsequent report being brought to the January Executive Board reporting on the outcome of the member working group discussions;
- d) to agree the budget principles set out in paragraph 5 of this report.

Background documents

Leeds City Council Business Plan 2008 to 2011

Leeds City Council Budget Report 2011/12

Exec. Board Dec 2008: Business Transformation in Leeds City Council

Government's 2010 Emergency Budget 22 June 2010