



AGENDA ITEM NO.:
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**REPORT OF The Director of Corporate Services
REPORT TO EXECUTIVE BOARD
DATE : 17th February 2006**

SUBJECT : Revenue Budget 2006/07 and Council Tax 2006/07

Electoral Wards Affected :	Specific Implications For :
	Ethnic Minorities <input type="checkbox"/>
	Women <input type="checkbox"/>
	Disabled People <input type="checkbox"/>
Executive Board Decision <input type="checkbox"/>	Eligible for Call In <input type="checkbox"/>
	Not eligible for Call In (details contained in the report) <input checked="" type="checkbox"/>

1 INTRODUCTION

- 1.1. This report sets out the Council's budget for 2006/07 following detailed consideration of service requirements and taking account of the Local Government Finance settlement.
- 1.2. For 2005/06 the Council's net budget is £803.9m, with a Band D Council Tax of £929.74 for the Leeds element. With effect from the 1st April 2006, Local Authorities will receive a Dedicated Schools' Grant (DSG) which replaces the current Education Formula Spending share system. The Government has reduced the Council's Revenue Support Grant (RSG), by an equivalent amount, which results in a significant reduction in the Council's net budget requirement, but does not affect the level of Council Tax.
- 1.3. This report seeks approval from the Executive Board to recommend to Council that the City Council's Revenue Budget for 2006/07 be approved at £486.5m. This results in a Band D Council Tax of £971.99 which represents an increase of 4.5% for the Leeds element above the Council Tax for 2005/06.

- 1.4. Detailed budget proposals for each service are set out in the departmental budget documents attached to this report. This information will be consolidated into the Annual Financial Plan and the Budget Book;
- ◆ The Annual Financial Plan - This document brings together the revenue budget, capital programme and performance indicators for 2006/07 providing a clear link between spending plans and performance, at departmental level. The relevant summary information and individual departmental financial plans for the 2006/07 revenue budget are attached to this report.
 - ◆ The Budget Book – This is intended for budgetary control purposes and contains detailed budgets for each department at both functional heading (objective) and budget heading level (subjective). Copies of this document are available to members on request and via the intranet.
- 1.5. In accordance with the Council's Budget and Policy Framework, decisions as to the Council's budget and Council Tax are reserved to Council. As such the purpose of this report is to propose a budget to Council, and thus the decisions recommended by this report are not eligible for call in.

2. BUDGET PRINCIPLES

- 2.1. All departmental estimates have been prepared in accordance with proper accounting practice at outturn prices with allowances for known and estimated pay and price increases. Provision has been made for pay awards already agreed at 2.95%, an increase in the employer's contribution to the pensions fund of 0.7% and general running cost inflation of 2%. Provision has been made for the significant increase in the price of energy and 2% for grants to outside bodies.
- 2.2. Contingency provisions have been included in the General Fund (see paragraph 7.7) and within the DSG funded services. These provisions are for items not foreseen and for items where there is a risk of variation during the year. In the case of the schools contingency, this would include adjustments required in the application of formula funding, significant increases in pupil numbers, additional statements of Special Education Needs or exceptional in year cost increases.
- 2.3. Departmental pension costs have risen significantly due to a change in the FRS 17 pension rates applied. The rates have been reviewed based on the 31st March 2004 actuarial valuation and have risen from 15.7% in the 2005/06 OE to 19.5% in the 2006/07 OE. Rates have changed due to higher than originally anticipated earnings growth and a greater level of ill health retirements. In addition, the new rates now take account of the revocation of the changes to the Local Government Pension scheme benefits structure. It is anticipated that there will be further changes to these rates given that the LGPS is currently under review. This increase in departmental costs has no impact on Council Tax levels as the effect of the FRS 17 adjustment is reversed by a contribution from the pension reserve.

3. 2005/06 LATEST ESTIMATE

3.1 The 2005/06 budget was set as follows:

	£m
Departmental Spending	800.9
Contribution to Reserves	3.0
Net Revenue Expenditure	803.9
Reserves	
- Estimated 31/3/05	9.0
- Budgeted contribution in 2005/06	3.0
- Estimated 31/3/06	12.0

- 3.2 As reported in the half year financial health report to November's Executive Board, the budget pressures experienced by Social Services in 2004/05 have continued to some degree in the current financial year, but at a lower level than were experienced last year. Members will recall that the Social Services spend at the end of 2004/05 was £13.3m in excess of the budget set for the year. The 2005/06 Budget included challenging targets for service improvement and realignment with associated financial savings amounting to £24m. Although much has been achieved in the current year, there has been some slippage in delivering the required actions. The financial impact of this has been included within the variations set out below, largely offset by the effects of contingency actions and other savings.
- 3.3 The independent sector domiciliary care budget shows a projected year-end overspend of £2.1m reflecting some slippage in delivering budgeted efficiency savings, progress on service reviews being slower in the early months of the year than expected and demand pressures, particularly in respect of hospital discharges. The investment of £1.5m in increased direct payments is not being fully realised, saving £1.3m.
- 3.4 Within the learning disability pooled budget, action has been taken to reconfigure services and deliver more cost effective care but this will take time to achieve in full. For 2005/06 the additional projected costs for the pooled budget that will fall to Social Services amount to £1.1m. The projected year-end overspend for children's services is £0.6m on children's placements, net of income, and £0.5m relating to legal charges. Work is underway to reduce the number of Looked After Children for which a saving of £1m was included within the 2005/06 Budget. This is not being fully achieved, partly because of the need to ensure that unacceptable risks are not taken in the decision making process.
- 3.5 The staffing budget is projecting an underspend of £1.3m, reflecting service reconfigurations and improved attendance management. The use of agency staff and overtime are being tightly controlled by managers and spending in 2005/06 is projected to be £2.4m (25%) less than in 2004/05.

- 3.6 The transport budget is projected to overspend by £1.0m, reflecting demand pressures within frontline services. Net spending on the meals service is projected to be £1.1m higher than budgeted as plans to reconfigure the service and review meals charges have not yet been fully achieved. Roseville Enterprises is now projecting a deficit by the year-end of £0.6m due to lower levels of PVCu window and door orders than budgeted. Housing Benefit and Supporting People income is forecast to be £1.1m higher than budgeted, partly because of the transfer of Supporting People funding out of learning disability services.
- 3.7 Within City Services, a significant pressure continues to be the consequences of the fire at the Milton Keynes recycling facility at a projected cost of £0.7m. In addition, ongoing staffing pressures within the Refuse Collection Service are projected at an additional cost of £0.7m. A shortfall of Decriminalised Parking income of £1.3m reflects the delayed recruitment to the new Parking structure, saving £0.4m, and is further offset by additional fee income from car parks of £0.9m. Offsetting these pressures are a number of actions identified by the department totalling £1.4m which will lead to a balanced position.
- 3.8 Within Learning and Leisure the main area of variation is a £0.8m projected shortfall in European Social Fund income although it may be possible to offset this by maximising other external funding streams. In addition, a net additional staffing cost of £0.2m mainly reflects the cost of Voluntary Early Retirements which will generate significant savings in future years. Increased energy costs and the cost of travellers' site clearance have resulted in further pressures of £0.3m. Savings in all other areas have been identified at £0.2m.
- 3.9 The main variation within Neighbourhoods and Housing reflects ongoing pressures within the Housing Needs of £0.4m.
- 3.10 The main pressures within Chief Executives relate to a shortfall of Local Land Charges income of £0.3m and a shortfall in income for Public Entertainment Licences of £0.1m. In addition, a variation in the Members' Allowance budget of £0.2m reflects changes to the scheme.
- 3.11 Taking account of the above issues, it is proposed that an additional £3m is provided to the Social Services budget in the current year. In addition, the central contingency needs to be replenished. It is therefore proposed that this is funded by identifying £3m of items which can be more properly charged to capital, and by utilising the £0.8m underspend brought forward from 2004/05. Departmental year end variations from the approved budget will be dealt with in accordance with the approved Reserves Policy.
- 3.12 All other departments are targeted to achieve their approved budget through the implementation of actions plans as reported at the half year. Latest estimates for all departments reflect all variations approved in accordance with the Council's Budget and Policy framework. However commitments against the contingency fund are in excess of the budget
- 3.13 Taking account of the above, the General Fund Reserves position to the 31st March 2006 is forecast as follows:

GENERAL FUND RESERVES	£m
Estimated reserve at 31/03/05	9.0
Actual balance at 31/3/05	9.8
Contribution 2005/06	2.2
Estimated reserves 31/3/06	12.0

- 3.14 In addition to the General Fund Reserves, school balances of £10.0m were brought forward from 2004/05 relating to the local management of schools. These are specifically earmarked for schools and do not form part of the Council's General Fund Reserves. To this effect, any under or over spending by the schools does not impact on the General Fund. The latest indicative assessment by Education Leeds would suggest that schools' overall reserves at 31st March 2006 for carry forward into the 2006/07 financial year are likely to be in the region of £11m - £12m. It is difficult to estimate the financial year end figure accurately at this stage as the figure will include some Standards Fund allocations that can be spent up to 5 months after the financial year end.
- 3.15 The above level of school reserves does not take account of the budget assumptions in the Education non ISB estimates that an element of school reserves are to be used to fund the cost of Voluntary Early Retirement in accordance with the agreement of Executive Board on 7th March 2001. This is borrowing, not from individual schools but rather from overall net balances. The school reserves will be paid back over 5 years from Council resources other than those available for schools.

4. THE COUNCIL'S FINANCIAL PLAN

- 4.1 The Financial Plan is designed to provide a financial strategy to underpin the Council's Corporate Plan and covers the three financial years 2005-2008. It sets out a framework for the preparation of the Council's annual revenue budget over the planning period by determining how available resources will be allocated between services, whilst also supporting the delivery of Council priorities.
- 4.2 The plan was reviewed and updated in November 2005, to reflect recent national developments which will influence the Council's budget over the next few years. These include:-
- Comprehensive Performance Assessment 2005
 - Formula grant distribution consultation
 - Funding announcements
- 4.3 In reviewing the impact of the national agenda, the opportunity was taken to review a number of new and ongoing developments and pressures at a local level and to consider any impact they may have on the current strategy.
- 4.4 Executive Board approved the update of the Financial Plan, and requested departments to prepare budget plans for 2006/07 in line with the following principles:-

- that all spending plans are subjected to rigorous review to ensure that they are aligned to identified need and provide value for money.
- all efforts are made to maximise the availability of external sources of funding. Where departments are currently forecasting fall out of Government grant they have been requested to seek alternative forms of external funding or to identify other appropriate exit plans. In addition other income generating initiatives will be pursued.
- all financial plans will continue to be supported with a risk management approach.
- Gershon efficiencies equivalent to at least 2.5%, or £15m across all services, will be targeted, at least 50% of which need to be cashable.

4.5 It was recognised that this approach should be considered as an initial strategy and, as part of an ongoing process of reviewing services, a service prioritisation model would be developed and used to inform future reviews of the plan and underpin the 2008-2011 Plan.

5 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 5.1. A consultation paper on the Local Government Finance system, published in July 2005 by the ODPM, confirmed the Government's intention to move to three year grant settlements, although the provisional settlement received on 5th December 2005 covered only two years i.e. the remaining period of the current three year national spending plans. A report was submitted to Executive Board on the 14th December 2005, which provided full details.
- 5.2. 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.
- 5.3. As reported to Executive Board in December, the Government has changed the way it allocates Formula Grant to authorities. One feature of this is the abolition of 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.
- 5.4. As has occurred on a number of occasions, the Government has made changes to the funding of a number of specific services. The most significant adjustment is in relation to schools where funding for schools through Formula Grant has been replaced by the Dedicated Schools Grant, worth £343.1m to Leeds in 2006/07. Partly offsetting this are changes within Social Services, where the funding for Preserved Rights and Residential Allowances within community care has been transferred into Formula Grant. In addition, from April 2006, the Government is introducing a statutory concessionary fares scheme which will offer free travel to the elderly and disabled after 9.30am. It has increased Leeds' Formula Grant to pay for the scheme. The net effect of all of these adjustments is a reduction in the Council's Formula Grant of £334.2m.
- 5.5. The Government is continuing a scheme of 'floors' which guarantees a minimum increase in Central Government Support (Formula Grant). For authorities such as Leeds, the minimum increase for 2006/07 is 2.0%. As in previous years, Leeds is above the floor for 2006/07, however, authorities in this position have had their

Formula Grant reduced to help pay for those authorities below the floor. Leeds' grant has been reduced by £2.4m as a result.

- 5.6. For the current year, the Council's Band D Council Tax (including Police and Fire) is £1,080.46 of which the Leeds element is £929.74. The government have stated that for 2006/07 they expect increases in Council Tax on average to be below 5% and they have reserve powers to cap authorities whose Council Tax increase is considered excessive. The level of Council Tax remains, however, a local decision.
- 5.7. The government have issued amending reports for 2004/05 and 2005/06 and the amended amounts of Formula Grant for those years have to be found from within the City Council's budget.¹ The Amending Report for 2004/05 mainly relates to revised population figures arising from errors in 2001 census counts for some authorities, although there have also been changes to traffic flows and some capital financing data. The Amending Report for 2005/06 relates to corrected data for police pensions, road lengths and again some capital financing data. The net effect on Leeds of these changes is that Leeds will have to repay £670k in respect of 2004/05 and £50k in respect of 2005/06. The total £720k is included in the council's net revenue expenditure.

6. SCRUTINY OF THE BUDGET

- 6.1. In accordance with the Council's constitution, the process for developing the 2006/07 budget has involved the consideration of the Financial Plan review by Overview and Scrutiny Committee.
- 6.2. The Constitutional requirements include the Executive Board giving consideration to the recommendations and comments of the Overview and Scrutiny Committee when submitting its final proposals to Full Council
- 6.3. The committee has produced a report and this is attached as Appendix 1. The main recommendations are:-
- The Director of Corporate Services reviews the budget setting process and timetable including a review of ways in which the link between the budget, the corporate plan and the service planning process can be strengthened.
 - Review mechanisms are put in place to assess the success in achieving the desired outcomes from allocating specific resources for corporate plan priorities
 - Both Overview and Scrutiny Committee and the Executive review the development of Corporate Priority Boards, including an assessment of whether Executive portfolios need to mirror strategic outcomes.
 - The Service prioritisation model is used as a method of guiding the Council's budget and service planning process
 - A rolling programme of zero based budgeting be adopted.
- 6.4. It is proposed that the relevant officers report back on these proposals to a future meeting of the Executive Board.

¹ Amending reports are issued by the Government and recalculate the amount of Formula Grant due to authorities. Such reports will generally be made if there is a significant change in data needing correction to Formula Spending Share (FSS) (from 2006/07 replaced by Relative Needs Formulae (RNF)), which may relate to just one authority or to a number of authorities. FSS was the prime factor that determined the amount of Formula Grant, so a change to FSS generally led to a change in grant. Since the total amount of Formula Grant available for distribution at the national level does not change, if some authorities gain or lose Formula Grant due to the use of revised data, all other authorities will see an opposite loss or gain in their grant. Where the revised data relates to just one authority the effect on other authorities is generally small. However, within the 2004/05 and 2005/06 amending reports the revised data has impacted upon a number of authorities.

7. PROPOSED BUDGET 2006/07

- 7.1. In developing the 2006/07 budget, consideration has had to be given to the following issues:
- Impact of the 2006/07 Local Government Finance settlement
 - Departmental budget submissions
 - The Reserves strategy
 - The Council's spending priorities
- 7.2 The table below sets out a summary of the changes from the 2005/06 budget to 2006/07.

	£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%)

- 7.3. Table 1 appended to this report provides an analysis of the budget by department; Table 2 shows a subjective summary of the City Budget; and Table 3 shows the projected staffing levels at 31st March 2007.
- 7.4. The table above identifies funding for changes in function of £334.2m and relates to those adjustments described in paragraph 5.4. The most significant adjustment relates to the Schools' Budget. As part of the 2006/07 settlement, the Government has taken the Schools' Budget out of the general grants system and introduced a new Dedicated Schools Grant (DSG). All expenditure previously within the Schools' budget has transferred into a grant to be known as the Dedicated Schools Grant. 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. Further details of the increase is detailed in Education's Budget Report attached to this document.

7.5. Departments have drawn up detailed base budget submissions in accordance with guidelines laid down by the Director of Corporate Services. In drawing up these base budgets, account has been taken of the following:-

- Pay Awards and other inflation - the officers pay award is provided for at 2.95% from April 2006, which is the final year of a three year settlement agreed in 2004/05. The agreed teachers pay award is 2.5% from September 2006. In addition, an increase in the employer's contribution to the West Yorkshire Pension Fund of 0.7% 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.
- In other areas, a general provision of 2.0% has been provided, although departments were encouraged to critically review the need for providing inflationary allowances for many budgets. Provision of 2% has been included for grants made to outside bodies.
- The impact of the funding adjustments included in the finance settlement.
- The full year effects of developments built into the 2005/06 budget and other developments approved during the year.
- Income and grant effects - including loss of specific Government grants.
- The effect of demography and volume changes.
- Other pressures within the current level of service.
- Identification of efficiencies, income generation options and other savings in accordance with the Financial Plan.

7.6. The detailed preparation of departmental estimates resulted in the identification of significant cost pressures for 2006/07 by departments including the impact of those which have arisen during 2005/06. Significant work has been undertaken to review pressures and a number of efficiencies and proposals for policy review have been developed by departments to contain overall spending. These are further detailed in the reports on the departmental budgets, which are attached to this report.

7.7. In addition to specific savings and efficiencies built into departmental budget submissions, a number of further savings have been effected corporately. These are:

- (a) The continued success of the Local Authority Business Growth Incentive Scheme, has enabled an additional £3.5m to be brought into the 2006/07 budget.
- (b) Income derived from Section 278 schemes continues to support the budget and has been increased by £1m.
- (c) A contingency of £3.2m is included within the budget to cover spending pressures of approximately £5.3m in total identified by Departments. These include provision for income shortfall, volume changes and PFI portfolio costs. This risk based approach has been operated for many years.

- (d) In line with the proposal in the current year, an assumption has been made that £3m of items which can be more properly charged to capital will be identified.
- (e) The revenue impact of the Council's debt financing has been maintained at the 2005/06 original estimate level. This has been achieved through a significant reduction in the Council's average borrowing rate, generating a £5.1m saving, and by £4.1m of departmental contributions towards the funding of approved unsupported borrowing schemes.

7.8. The budget for 2005/06 included £5.0m for further support towards Corporate Plan Priorities. These have now been incorporated into the base budgets of the relevant departments and additional resources of £5.4m will be spent 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

7.9. The ODPM announced an increase in Leeds' Neighbourhood Renewal fund for 2006/07 of £4.4m which is subject to a separate approval process. A number of departments have therefore submitted bids to the Resources Partnership sub group and it is anticipated that some of this additional funding will be allocated to Council schemes once the bidding process has been finalised in late February. A report will be brought to Executive Board to request budget adjustments to reflect the final allocation early in the new financial year. Additional funding of £1.238m was also announced for the Safer and Stronger Communities fund, which again will be allocated during the year.

8. RESERVES POLICY

8.1. Under the 2003 Local Government Act, the Council's Statutory Financial Officer is required to make a statement to Council on the adequacy of reserves. In addition, the Comprehensive Performance Assessment framework requires the authority to have a policy on the level and nature of its reserves and ensure these are monitored and maintained within the range determined by its agreed policy. The purpose of a reserves policy is:

- to maintain reserves at a level appropriate to help ensure longer term financial stability and
- to identify any future events or developments which may cause financial difficulty, allowing time to mitigate for these.

8.2. 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.

8.3. The policy also requires departments to prepare budget action plans which set out how they intend to deal with spending variations during the year up to a limit of 2% of net expenditure. Departmental budget variations up to 2% are carried forward, and above this are dealt with corporately using, where necessary, the General Fund Reserve.

- 8.4. The assumptions in the policy are subject to development and are currently being reviewed and refined to ensure robustness is maintained.
- 8.5 The proposed budget provides for a contribution to reserves of £0.3m which will mean reserves stand at £12.3m at 31st March 2007. This remains in line with the policy as illustrated in the table below, but will require a contribution of £2.3m in 2007/08 in order to achieve the minimum identified in the approved reserves policy, which at this stage would appear reasonable given the settlement for 2007/08 is more favourable than for 2006/07.

	Original Budget 2005/06 £m	Latest Estimate 2005/06 £m	Proposed Budget 2006/07 £m
GENERAL FUND RESERVE			
Brought Forward 1 st April	9.0	9.8	12.0
Estimated contribution	3.0	2.2	0.3
Carried Forward 31st March	12.0	12.0	12.3

9.0 CONTRIBUTIONS TO JOINT COMMITTEES AND OTHER BODIES

- 9.1 Total contributions to joint committees are £2.606m in the Original Estimate 2006/07, and are analysed below. The lead authorities for the joint committees are also shown:-

	Lead Authority	Leeds' Contribution			
		05/06 £m	06/07 £m	Increase £m	%
Pension Fund	Bradford	0.431	0.445	0.014	3.3
Joint Services	Wakefield	2.092	2.161	0.069	3.3

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In approving these contributions, Members will note that they are not approving the individual budget of the joint committees, but the estimated effect on the City Council's budget.

- 9.2 Contributions in 2006/07 to other bodies' amounts to £29.070m

	Leeds' Contribution			
	05/06 £m	06/07 £m	Increase £m	%
Flood Defence Levy	0.051	0.075	0.024	47.1
Passenger Transport Authority (PTA)	21.920	28.097	6.177	28.2
Coroners	0.855	0.872	0.017	2.0
West Yorkshire Probation Service	0.025	0.026	0.001	4.0

The above inflationary increase in the Flood Defence Levy will provide additional funding for flood defence projects that the Yorkshire Region Flood Defence Committee (YRFDC) assesses to be important but which do not meet the criteria for the Government's Flood Defence Grant in Aid (FDGiA).

As from April 2006, the Government is introducing a statutory concessionary fares scheme which will offer free travel to the elderly and disabled after 9.30am. In West Yorkshire this will replace the current concessionary fare scheme which offers discounted bus travel. This additional grant is being paid to local authorities, rather than direct to PTA's through Revenue Support Grant system. The expectation is that local authorities then pass on this additional funding from the Government to PTA's in order for them to fund the cost of the new scheme and this is reflected in the significant increase in the contribution shown above.

Whilst the City Council no longer incurs expenditure in relation to the ongoing costs of the West Yorkshire Probation Committee, the Council is required to provide for the cost of loan charges in respect of the Probation Services post 1990 capital debt.

10. EFFICIENCIES

- 10.1 This is the second year of the Gershon efficiency target to deliver efficiencies of 2.5% per annum over the 3 years covered by the 2004 spending review delivering gains equivalent to £6.45bn for local authorities.
- 10.2 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. The 2005/06 mid year update of the Annual Efficiency Statement projected £14.39m of in year efficiency gains plus £11.95m of 2004/05 gains which can be carried forward to future years to count towards the annual targets.
- 10.3 As part of the process for preparing the 2006/07 budget, departments were asked to identify efficiency gains and these are detailed in the attached departmental budget reports, and in total the cashable savings are £11.2m. This sum will be added to the efficiencies already achieved to date. The Council's Forward Looking Annual Efficiency statement for 2006/07 will also include non-cashable efficiencies, but these are subject to further work prior to submission of the statement in April 2006.

11. ROBUSTNESS OF THE BUDGET AND THE ADEQUACY OF RESERVES

- 11.1 The Local Government Act (Part II) 2003 placed a requirement upon the Council's statutory finance officer (The Director of Corporate Services) to report to members on the robustness of the budget estimates and the adequacy of the proposed financial reserves.
- 11.2 In considering the robustness of any estimates, the following criteria need to be considered:-
- the reasonableness of the underlying budget assumptions such as:
 - the reasonableness of provisions for inflationary pressures;
 - the extent to which known trends and pressures have been provided for:

- the achievability of changes built into the budget;
 - the realism of income targets;
 - the alignment of resources with the Council service and organisational priorities.
- a review of the major risks associated with the budget.
 - the availability of any contingency or unearmarked reserves to meet unforeseen cost pressures.
 - the strength of the financial management and reporting arrangements.

11.3 In coming to a view as to the robustness of the 2006/07 budget, the Director of Corporate Services has taken account of the following issues:-

- The Council has a well developed three year financial plan which provides an overall financial framework designed to underpin the Council's service and organisational priorities.
- Estimates are prepared by departments in accordance with guidelines laid down by the Director of Corporate Services based upon the current agreed level of service. Service changes are separately identified and plans are in place for them to be managed.
- Estimate submissions have been subject to rigorous review throughout the budget process both in terms of reasonableness and adequacy. This process takes account of previous and current spending patterns in terms of base spending plans and the reasonableness and achievability of additional spending to meet increasing or new service pressures. This is a thorough process involving both financial and non-financial senior managers throughout the Council.
- As explained in Section 3, Social Services have faced significant financial pressures and, where appropriate, these have been recognised in preparing the 2006/07 budget.
- Estimates provide for pay awards, which in the case of both officers and teachers are agreed. In respect of other budget headings, departments have been encouraged to review the need for inflation, but central guidance has been provided on a number of budget heads, where it is not possible to avoid additional provision. There is no central provision for pay and price increase which vary from those built into the budget.
- As part of the budget process, departments were asked to undertake a risk assessment of their key budgets, document this assessment in the form of a formal Risk Register, and provide a summary of major risks within the departmental budget documents. All departmental budgets contain efficiencies, service reviews and savings which are not secured and will require action to deliver but in overall terms the identified risks are regarded as manageable at this time. Some of the key ones are as follows:-
 - Social Services- demand led expenditure especially within Community Care and Children's Services
 - Delivery of the Social Services efficiency plan
 - Supporting People retraction plan
 - External funding sources potential decline

11.4 The Council's financial controls are set out in the Council's Financial Procedure Rules. These provide a significant degree of assurance as to the strength of financial

management and control arrangements throughout the Council. These governance arrangements have been enhanced through the ongoing development of procedures to support the annual Statement of Internal Control which is required to be published as part of the Council's annual accounts. The Council has a well established framework for financial reporting at departmental and corporate levels. Each month the Director of Corporate Services receives a report from each department setting out spending to date and projecting to the year-end. Action plans are utilised to manage and minimise any significant variations to approved budgets. These arrangements are supported by the arrangements for reporting to Members. Financial Health reports are submitted to the Executive Board at appropriate stages throughout the year.

11.5 The proposed budget provides for a contribution of £0.3m to General Fund reserves, which will result in estimated reserves being at £12.3m at 31st March 2007. At this level the reserve would represent 2.5% of net expenditure. In addition, Section 8 sets out the Council's Reserves policy which requires departments to have in place action plans to deal with variations in departmental spending up to 2% with the potential for variations up to this level being carried forward. This policy continues to provide a sound basis for the Council to manage unexpected budget pressures in the future.

11.6 In summary, the Director of Corporate Services considers that the proposed budget for 2006/07 is robust and that the level of reserves are adequate because:-

- budget monitoring and scrutiny arrangements are in place which include arrangements for the identification of remedial action.
- cost pressures have been identified and resourced.
- risks are identified and will be subject to control and management. As part of the Council's reserves policy departments are required to have in place a budget action plan which sets out how they will deal with variations during the year up to 2%.
- the budget is not dependent on the usage of reserves and the general reserves provide an adequate level of support as part of a three year strategy for increasing the Council's reserves in line with its reserves policy.

12. **SUMMARY OF THE PROPOSED BUDGET**

12.1 Taking account of all the above, the proposed budget for 2006/07 can be summarised as follows:-

	Original Budget 2005/06 £m	Latest Estimate 2005/06 £m	Proposed Budget 2006/07 £m
REVENUE EXPENDITURE	800.9	801.7	486.2
Less: contribution to General Fund Reserve	3.0	2.2	0.3
Net Expenditure	803.9	803.9	486.5

12.2. Impact on Council Tax

The effect of a budget of £486.5m for 2006/07 will be a council tax increase of 4.5% which will give council tax figures for the Leeds City Council element only for each band as follows:

	2005/06	2006/07
	£	£
Band A	619.83	647.99
Band B	723.13	755.99
Band C	826.44	863.99
Band D	929.74	971.99
Band E	1,136.35	1,187.99
Band F	1,342.96	1,403.99
Band G	1,549.57	1,619.98
Band H	1,859.48	1,943.98

To these will be added amounts for Police, Fire and, where appropriate, parishes. These additional amounts will be reported to Council on 28th February 2006 when all the information will be known and when the formal decisions about council tax will be taken.

13. IMPLICATIONS FOR THE FINANCIAL PLAN

- 13.1 The two-year settlement enables the Council to make an early start in preparing the 2007 Financial Plan. It is intended that a Service Prioritisation model will be developed and used to underpin the plan. Whilst the development of such a model is still at relatively early stage, it is anticipated that the results can be used to distribute resources between departments, improve the realignment of resources towards the Council's key priorities and contribute towards the Council's efficiency agenda. Further reports will be brought back to Executive Board as appropriate.

14. BUDGET AND POLICY FRAMEWORK

- 14.1 In accordance with the Budget and Policy Framework rules, it is proposed to Council that the extent of virements and the degree of in year changes which may be undertaken by the Executive remain unchanged, with limits as set out in Financial Procedure Rules.

15. RECOMMENDATIONS

- 15.1 The Executive Board is asked to recommend to the Council the adoption of the resolution below:
- (i) That the Revenue Estimates for 2006/07 totalling £486.5m, as detailed and explained in this report and accompanying papers be approved.
- 15.2 The Executive Board is also asked to approve the following:
- (i) that the virements proposed in paragraph 3.10. for 2005/06 are actioned
 - (ii) that the Director of Corporate Services submits a report to Executive Board regarding the specific proposals outlined in paragraph 6.3.

OVERVIEW AND SCRUTINY COMMITTEE

COMMENTS TO THE DIRECTOR OF CORPORATE SERVICES ON THE FINANCIAL PLAN 2005 – 2008 REVIEW

1.0 BACKGROUND

- 1.1 In previous years, the process for Scrutinising the Budget has been for individual Scrutiny Boards to look in detail at departmental issues and financial plans. The Overview and Scrutiny Committee has then simply passed on to the Executive the comments of the individual Scrutiny Boards without any consideration of the cumulative impact of each of the Scrutiny Board's comments on the overall Council budget.
- 1.2 Whilst acknowledging the important input Scrutiny made, this process sometimes resulted in those individual Boards recommending budget increases for the department under Scrutiny. The cumulative effect of this was a series of budget bids which when combined were unsustainable.
- 1.3 In May 2005, full Council agreed that Overview and Scrutiny Committee would take responsibility for Scrutiny of the budget. The realignment of Scrutiny Boards to match the Council's Strategic Outcomes also gave Members the opportunity to reflect on the objectives behind Scrutinising the Financial Plan and to consider how best these can be achieved.
- 1.4 One of the potential roles for an Overview and Scrutiny Committee, charged with Scrutinising the Budget, is to ensure that, once Strategic Outcomes have been set, they are provided with adequate levels of funding. It also has a role to consider that where departmental budget realignments are required, adequate consideration has been given to any service delivery consequences.
- 1.5 The Council's current Financial Plan was approved by the Executive Board in November 2004 and covers the three year period 2005/06 to 2007/08. The purpose of the Plan is to set out the overall shape of the Council's budget by determining how overall resources will be allocated between services, reflecting Council priorities, and therefore provide a framework for the preparation of annual budgets. The current Financial Plan whilst providing an overview of the financial issues facing the Council over the planning period only includes resource allocations covering the 2005/06 financial year.
- 1.6 This year Overview and Scrutiny Committee has built on its co-ordinating role and has focused its attention on how departments are meeting the challenge of maintaining their service responsibilities whilst aligning their budgets to meet Strategic outcomes, within the Council's financial planning framework. Unlike previous years, individual Scrutiny Boards have not been asked to consider individual departmental budgets as their portfolios are not aligned to any single department.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 Overview and Scrutiny Committee has a role to play in considering how the Council, in the longer term, organises its budget setting process. This is particularly relevant given the organisational emphasis now put on the Corporate and Council Plan. In addition the Government has recently issued a consultation paper on Local Government finance, which includes proposals to move to three year grant settlements. This provides an even greater focus on medium term financial planning.
- 2.2 The Overview and Scrutiny Committee is of the view that there is a need for greater clarity in the budget as to how resources relate to the Council's strategic outcomes. The Committee accepts that this is a difficult issue to progress because budgets are organised departmentally. The Committee also acknowledges that there will be constant tensions between delivery of the strategic outcomes and the delivery of departmental services. This is further compounded by the limited discretion allowed authorities in spending.
- 2.3 The Committee would recommend that the Director of Corporate Services reviews the budget setting process including the current timetable.
- 2.4 The Committee notes that £2.4m which was set aside in the Financial Plan to ensure that all neighbourhoods are safe, clean, green and well maintained, was planned to be utilised as follows:
- £500k for improvements in urban parks
 - £27k for extending the Council's bulky household waste collection service as part of the roll out of the street scene initiative
 - £100k for allotments and public rights of way.
 - £605k for the development costs associated with the Council's PFI scheme for street lighting
 - £350k for the re-establishment of the winter maintenance budget
 - £395k for match funding with the Police for an additional 34 Police Community Support Officers for the city
 - £200k for improved safety and tackling anti social behaviour in parks.
 - £265k for the PFI development costs in Swarcliffe.
- 2.5 The Committee is unclear as to what mechanisms are in place to assess the success or otherwise of this financial injection and recommends that review mechanisms be put in place.
- 2.6 The Committee is of the view that there is greater scope for Scrutiny Boards to challenge Corporate Priority Boards on this funding priorities issue. The Committee therefore supports the Service Prioritisation Model as a method of guiding the Council's budget and service planning process.
- 2.7 The Committee is also of the view that the Council should adopt a rolling programme of 'zero based budgeting'. That is, to work up from scratch a true picture of a service budget. This should not be seen as a service cutting exercise, but a sensible review of a service area's financial requirements. This activity should take place outside of the normal budget setting timetable.
- 2.8 On the wider issue of the relationship between Scrutiny Boards and the Council's Strategic Outcomes, the Committee continues to believe that the current

arrangements for Overview and Scrutiny are effective. This has been demonstrated by the Committee's work in relation to the budget and performance management and also the work of individual Boards throughout the year. However, whilst Scrutiny Boards are adapting to the new arrangements there is concern that individual departments are finding it more difficult to recognise their role in delivering the Strategic Outcomes. We acknowledge that Corporate Priority Boards are still in their infancy and anticipate that in the future they will develop into cross departmental vehicles for delivering corporate objectives. However we would recommend that both this Committee and the Executive review this in the new municipal year. This should also include an assessment of whether Executive portfolios also need to mirror Strategic Outcomes.