Leeds CITY COUNCIL

APPENDIX A

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Report of the Director of Resources

Executive Board

Date: 19th December 2007

Subject: Developing the Financial Plan 2008-2013

Electoral Wards Affected:	**Specific Implications For:**
	Equality and Diversity ☐
	Community Cohesion ☐
☐ Ward Members consulted (referred to in report)	Narrowing the Gap ☐

Eligible for Call In ✓

Not Eligible for Call In (Details contained in the report) ☐

1 Introduction

1.1 The Medium Term Financial Plan is produced every three years and provides a financial strategy to underpin the delivery of the Council's priorities. It also sets out a framework for the preparation of the Council's annual revenue budgets over the planning period.

1.2 The current plan covered the three years 2005-2008 and the new plan is being developed as part of the process of developing the Council Business Plan 2008-2011. It is intended that a new financial plan is submitted to Council in February 2008 together with the annual revenue budget for 2008/09.

1.3 This report sets out the financial position in the current year, the likely impact of the Comprehensive Spending Review 2007, and outlines how these have impacted on developing the methodology for the new Financial Plan.

1.4 This report will form the basis of the initial budget proposals for 2008/09. The report focuses on general fund services although a commentary on the Dedicated Schools Budget and the Housing Revenue Account are included. Under the requirements of the Budget and Policy framework of the Constitution, the initial proposals contained within this report will be considered by Overview and Scrutiny Committee following Executive Board approval. The Committee will have an opportunity to make comments and recommendations which will be considered by the Council in February 2008.

2 Current Year

2.1 The Council's net revenue budget for 2007/08 was set at £505.2m which provided for £6.7m to be directed towards Corporate Plan Priorities. The budget was supported by a contribution from general reserves of £4.3m, giving an estimated level of general fund reserves at 31st March 2008 of £13m, which was in line with the Council's approved risk based reserves strategy.

2.2 As reported to Executive Board on 9th February 2007, in setting the 2007/08 budget it was recognised that there were substantial sources of income that may not have been sustainable in the longer term, as follows:

	07/08
	£000s
LABGI	10,500
Use of General Reserves	4,335
Section 278	4,500
Capitalisation	3,500
	22,835

2.3 The half year Financial Health Monitoring report to Executive Board identified that a number of Council services are continuing to face financial pressures in 2007/08, many reflecting pressures which impacted on the Council's 2006/07 outturn position.

2.4 Service pressures were projected to be around £9m and funding of £5m was made available from savings in capital financing costs and by releasing general fund reserves to those areas of immediate concern. After funding these pressures, general fund reserves are projected to remain above the minimum level required under the approved risk based reserves strategy.

2.5 All remaining service budget pressures, are being addressed by directorates through the continued development and implementation of action plans to manage identified pressures within available resources.

2.6 As reported in the 2006/07 outturn report to Executive Board in June 2007, the actual balance carried forward at 31st March 2007 was £23.6m. Taking account of the budgeted use of reserves of £4.3m, and other in-year approvals and liabilities, it is estimated that the level carried forward at 31st March 2008 will be £15m.

3. Comprehensive Spending Review 2007

3.1 The Comprehensive Spending Review 2007 (CSR 07), published in October 2007, announced that current expenditure across the public sector is set to increase by an average 1.9% per year in real terms. However, the rate varies significantly across government departments. In contrast, resources for local government are to rise by 1% per year in real terms over the next three years. In cash terms, the increases nationally are 4.2% in 2008/09, 3.5% in 2009/10 and 3.4% in 2010/11. These figures include amounts for PFI support and, when these are excluded, the cash increases are 3.8%, 2.8% and 2.6%.

3.2 Other headlines for local government are:

- The government expects local authorities to keep Council Tax increases to below 5% per year throughout the CSR07 period.
- The 3% per year cashable efficiency programme for local government has been confirmed and is assumed in the 1% real terms increase. Councils will be supported to achieve efficiencies via a £150m fund nationally.
- A total of £5bn of former specific ring-fenced grants are being transferred into either Revenue Support Grant or Area Based Grant over the years to 2010/11, totalling £900m and £4.1bn respectively.
- The government is consulting on the detail of a power to implement a maximum 2p in the pound supplementary business rate with effect from April 2010.
- Funding for LABGI will be £50m nationally in 2009/10 and £100m in 2010/11. This compares with the previous three year total of up to £1bn ending in December 2007.
- A reduction in the number of performance indicators from over 1000 to 198.

3.3 The government has announced as part of the Comprehensive Spending Review that the Local Authority Business Growth Incentive Scheme (LABGI) would not continue in 2008/09 but would be replaced in 2009/10 on a much reduced scale. As the 2007/08 budget was supported by £10.5m income, this will have a significant impact on the level of resources available for 2008/09 and beyond.

3.4 The Local Government Finance Settlement 2008/09 to 2010/11 was announced on Thursday 6th December. Further details can be found in a separate report on the Settlement elsewhere on this agenda, but the increase in Revenue Support grant at the national and local level are summarised below:-

	National	Leeds	
	%	%	£m
2008/09	3.7	2.8	7.9
2009/10	2.8	2.1	6.3
2010/11	2.6	1.8	5.4

3.5 Details of the Area Based Grant and other Specific Grants are still to be fully confirmed. However it has been announced that the Working Neighbourhoods Fund (WNF) which replaces the Neighbourhood Renewal Fund (NRF) will target worklessness in the most deprived areas and 66 authorities will receive this funding. Leeds does not qualify for WNF but will receive transitional funding of 60% in 2008/09 and 30% in 2009/10. In the current year, the Council has received £14.9m from the NRF.

4. Forecast Budget Pressures 2008/09 and Beyond

4.1 Taking account of the above, it is clear that the level of resources available to the Council in the medium term will be severely limited. To assess the extent of the potential funding gap a high level review of pressure facing the Council over the planning period has been undertaken. The review identified the following pressures:

4.1.1 Pay awards are assumed at 2% per annum in line with government targets for public sector pay increases, which equates to £7.1m for 2008/09. The employer's contribution to the West Yorkshire Pension Fund is assumed to increase by 0.8% (£2.3m) per annum.

4.1.2 During 2007/08 a detailed review of pay and grading up to and including scale 6 has been undertaken. Although the details are still being finalised, the estimated cost in 2008/09 is around £8m which will result in a significant additional pressure on the salary budget of the Council.

4.1.3 Running Cost Inflation - general running cost inflation has been increased by 2% per annum across the board except where specific contracts are in place. Specific provision has been made for the recently announced £8 per tonne increase in Landfill Tax from 08/09 onwards, which represents an increase of £2.1m per annum. General income inflation has been increased at 3% per annum.

4.1.4 The Council's approved Integrated Waste Strategy is a significant pressure in the medium term. This proposes a number of options to reduce the impact of waste management on the environment and to significantly reduce the amount of waste which is landfilled. The government has accelerated the rate of growth in landfill tax to £8 per tonne from 08/09 onwards. In addition the Landfill Allowance Trading Scheme has been introduced which imposes penalties of £150 per tonne for waste landfilled without a permit. These permits can be bought and sold by other authorities at a price determined by market forces. Although the Council anticipates a surplus of allowances in 2008/09, there will be a requirement to purchase in future years, leading to significant cost pressures. A number of recycling and composting solutions have been proposed to divert waste from landfill, but all solutions will, in the medium term, have a significant financial impact.

4.1.5 In addition, as referred to at paragraph 3.3, the loss of income from LABGI also creates a significant pressure for 2008/09.

4.1.6 As outlined above, Leeds does not qualify for funding from the Working Neighbourhoods Fund. The transitional arrangements mean that Leeds will receive £8.96m which represents a reduction of £5.97m from the 2007/08 budget.

5. Developing the Plan

5.1 Taking account of the RSG settlement the estimated level of additional resources that will be available is likely to be less than £20m per annum over the life of the plan. This will provide for an increase in annual spend of 3.7% in 2008/09, 2.7% in 2009/10 and 3% in 2010/11. However, in view of the budget pressures outlined above, it is clear that the construction of the 2008/09 budget will present a significant challenge.

5.1 It is imperative therefore that links between service planning and financial planning are strengthened and service prioritisation continues to better inform the decisions regarding the alignment of future resources to priorities.

5.2 In order to help ensure this is achieved, a new approach to the allocation of revenue resources to General Fund services has been developed that has needs, efficiencies and priorities as its building blocks and makes a substantial shift towards placing budget making in a policy-led rather than finance led corporate planning framework.

5.3 The way in which the Council's financial resources are currently distributed across services is largely a product of history. Over many years budgets have changed to reflect priorities for growth, and opportunities to make efficiencies and reductions have been implemented to ensure budgets are affordable. This has not however led to a logical framework for the allocation of resources. It is timely therefore to consider how the Council's resources might be set using a more robust methodology.

5.4 In policy terms, there has been a noticeable shift over the past two years in the Government commitment to devolution of decision-making at local and sub-regional levels. This shift has been consolidated in the 2007 Local Government and Public Involvement in Health Act which particularly emphasises the strategic leadership and place shaping role of the local authority, within a partnership context, through enhancing the leadership role of elected members. It is also timely therefore to consider how the Council's resources might be set in a stronger, policy led framework that integrates corporate planning, accountability, financial and performance management arrangements and applies to all that the Council delivers, either on its own or in partnership with others. This policy led approach was an explicit recommendation of the Overview and Scrutiny Committee review of last year's budget.

5.6 In developing a new approach to resource allocation, greater emphasis has therefore been placed on directing resources to Council priorities and divesting from areas that are considered to be lower priorities. The level of resources to be allocated to services has been determined by considering three components; needs, efficiencies and local priorities. Analysis of these three areas has shaped the overall resource planning framework which not only takes into account the relative importance of services but ensures that they are deliverable within the overall level of resources available to the Council. This framework will be incorporated into a new Financial Plan covering the 5 year period to 2012/13, and, in accordance with the Council Budget and Policy framework, it is proposed that this report will be used as a basis for consultation with Members of Overview and Scrutiny Committee.

6 Relative Needs Formulae

6.1 The first aspect of a more robust methodology has been to consider how the allocation of resources could best reflect the needs of services. To achieve this, the Relative Needs formulae used by government in distributing Formula Grant has been used as a basis. These formulae are used across 8 sub-blocks of the grant distribution system and use various proxy indicators of need. The Relative Needs formulae are the main factors which drive grant levels. Approximately 50% of the Council's net expenditure is funded by Formula Grant and around 70% of this is driven by relative needs. Whilst there can be no definitive determination of need, this is a comprehensive and robust analysis which determines the relative needs between services and between authorities.

6.2 The indicators of need are complex and varied but typically are made up of a basic amount driven by population data which is then adjusted for a number of factors which reflect deprivation or other measures of specific pressures on services.

6.3 The outcome of this analysis shows that Leeds' relative needs are lowest on a per capita basis in all categories when compared to Core Cities. A significant factor in this comparative assessment is the demographics of Leeds which are very different to most other core cities with Leeds having a largely densely populated urban area around the city centre (like all other core cities) but, unlike many of the core cities, also having a rural hinterland of surrounding district centres, towns and villages.

6.4 An exercise has been undertaken both to express the sub-block analysis in terms of the 2007/08 budget. This has given an initial picture of how the Council's allocation of resources compares to the relative needs of services.

6.5 This analysis shows that for some services the Council spends more than its needs would imply, whereas for other services it would appear to be spending too little. It is difficult to be too precise with the value of these variations given the nature of the analysis, however, in summary it would suggest that the Council funds Children's Services, including the LEA and Youth and Community Services relatively well, whilst Adult Services and Highways are funded at levels lower than our needs would imply. Capital Financing spend also appears low reflecting a relatively low level of debt and the associated revenue costs. This national comparative needs analysis does, however, need to be balanced against local priorities as it would be inappropriate to be solely driven by the national needs agenda. The local prioritisation element is, therefore, a further significant contribution to setting a 5 year financial plan and in this context the developing Leeds Strategic Plan and Council Business Plan are critically important.

7 Efficiency Agenda

7.1 The second component of the new approach is to establish appropriate bases for assessing the relative efficiencies of services. The Government has placed significant emphasis on efficiency in its financial settlements for Local Government in the last few years. For the period 2004/05 to 2007/08 Local Government was required to deliver efficiencies equivalent to 2½% per annum; the recently published Comprehensive Review 2007 assumes that Local Authorities should be able to support service growth and deliver priorities by achieving a further 3% per annum for the next three years.

7.2 In the past, Leeds City Council savings targets have usually been set for departments at budget time, with percentage targets sought from every service. This approach has largely been effective, however it takes no account of the relative efficiency of each service. A different approach is proposed which draws from work done analysing the unit cost of services and how they compare to other authorities (mainly Core Cities). In this way it is possible to target efficiencies at specific services where comparisons imply lower value for money.

7.3 Accordingly, part of the re-alignment of resources within this model will require services to deliver efficiencies to ensure that they demonstrate value for money.

8 Local Priorities

8.1 The Council is currently developing a new plan, the Leeds Strategic Plan, which will identify the outcomes and improvement priorities to be delivered in the period 2008 to 2011. The Leeds Strategic Plan will identify the priorities that the Council has a responsibility for, either on its own or in partnership with others. The draft version of the strategic outcomes and improvement priorities have been developed on a local needs analysis that has included:

- Performance reported from existing city-wide plans including the Leeds Regeneration Plan, the Council's current Corporate Plan and the Local Area Agreement
- Citizens views from the Annual Survey and surveys carried out in particular services and areas of the city
- Demographic and economic trends in the city
- Service knowledge and experience
- Area knowledge and experience

8.2. Key stakeholders in the city have been consulted including:

- Elected Members
- Statutory Partners (designated by the Local Government and Public Involvement in Health Act)

- Leeds Initiative, incl. District Partnerships
- Voluntary, Community and Faith Sector
- Business Community
- Council Trade Unions and Staff
- Equality Groups
- Citizen Focus Groups

8.3. The new Council Business Plan is complementary to the Leeds Strategic Plan, setting out what the Council needs to do organisationally to enable the organisation to deliver the outcomes of the Leeds Strategic Plan.

8.4 This policy and prioritisation framework for the next three years underpins our 5 year financial plan and provides assurance that our priorities are supported by a robust resource allocation strategy. Whilst individual Directors, Chief Officers and, where appropriate, partners, will need to prioritise their existing resources in support of delivering our agreed improvement priorities, it is important that strategic decisions on resource allocation also take account of our stated priorities.

8.5 The Council is currently in a period of transition in developing a robust commissioning based approach to support the delivery of our strategic outcomes and improvement priorities. The new Financial Plan provides stability over this transitional phase by setting out a framework for resource allocation over the next five years which is sufficiently flexible to support a policy led approach to outcomes. It will be supported by the new Area Based Grant and will allow the development of more comprehensive and consistent methodologies across the Council and, where appropriate, its partners, with regard to commissioning and strategic investment planning.

9 Allocation of Resources

9.1 In order to bring about the change necessary to achieve a realignment of resources, and taking account of needs, efficiencies and local priorities, a five year resource allocation has been determined.

9.2 Appendix 1 sets out the specific allocations of resources to each Directorate based on the work set out in this report. In overall terms the forecast increase in departmental resources over the period amounts to 15.95% over and above the 2007/08 budget, or an average of 3.2% per annum. The increase in 2008/09 is 3.7%. However efficiency gains of £31.8m over the five year period means that additional resources which may be achieved will amount to an average of 4.3% per annum.

9.3 The proposed resource allocations reflect the following:

- 2% per annum targeted savings in Support Services, rising to a cumulative10% by 2012/13. This will apply to all central and local provision of administrative and support activities. Efficiencies will be generated through investment in Information Technology and through the rationalisation of office accommodation.

- Additional capital investment of £100m, above the approved programme, over the period of the plan enabling investment in priority projects and providing funding for invest to save projects, income generating projects, investment in technology and physical infrastructure to deliver efficiencies and improvements in services over the period of the plan.

- Funding for significant areas of need which include addressing base budget pressures, and directing resources to key service priorities such as the Integrated Waste Strategy and increasing the number of Direct Payments in Adult Services.

- Efficiency savings have been targeted at areas of the Council's services which appear relatively high compared to other authorities, including reviewing pricing policies and service provision where appropriate.

- £2.7m of general reserves will be utilised in 2008/09 which will leave forecast reserves at the minimum level in accordance with the approved risk based reserves strategy.

- The ongoing cost of the Council's pay and grading review represents a significant commitment and work is ongoing to identify a sustainable funding solution over the life of the plan.

10 Service Review

10.1 In view of the scarce financial resources which are likely to be available over the next few years, the delivery of this 5 year plan will require a significant review of some of the Council's services and activities. These reviews are key to achieving value for money in service delivery thereby helping the achievement of better outcomes for all services.

10.2 In carrying out this work it is proposed that a number of principles are agreed which will run through all of the projects/programmes of work. These are:

1. The Council will aim to achieve best in class in respect of cost, quality and performance;
2. The Council will commission services according to need and taking account of fairness and equity;
3. The Council will aim to maximize its potential to gain from its purchasing power;
4. The Council will make best use of technology to deliver efficiency and customer focus in the delivery of services;

5. Income opportunities will be maximized and where income levels are set below the optimal rate, this should be identified as a transparent subsidy;
6. Opportunities will be explored to rationalise physical assets in order to achieve value for money and better outcomes for service users;
7. The Council's role as a provider will be challenged and alternative means of provision should be considered where this will generate better value for money and/or better outcomes;

11. <u>Dedicated Schools Budget</u>

11.1 The Government has issued indicative figures for the 3 year school funding settlement. For Leeds, the annual increases in the Dedicated Schools Grant per pupil are:

2008/09 4.3%
2009/10 3.6%
2010/11 4.1%

These compare with national increases of 4.65%, 3.7% & 4.3% respectively.

11.2 The minimum funding guarantee (MFG) per pupil for all schools will be 2.1% in each of the three years.

11.3 The Leeds finalised settlement for 2007/08 was £381m. The DCSF indicative settlement figures project gross Leeds DSG income of £393m in 2008/09 – a year on year increase of 3.1% on the finalised 2007/08 allocation. The projected 2009/10 figure for Leeds DSG, £404m represents a 2.8% year on year increase. The advised DSG for Leeds for 2010/10 of £420m would be a 4.0% annual increase.

11.4 The LSC is undertaking reforms to facilitate collaboration by providers, learners and employers. This will result in a common system for all 16-18 funding and incentivise partnerships to ensure that as many young people as possible participate and achieve in their communities. The LSC plans to announce increases in the funding for sixth forms and other 16-18 provision and associated transitional measures shortly.

12. Housing Revenue Account

12.1 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.

12.2 The current year's budget for the HRA provides for negative subsidy of £37m. The 2007/08 budget provided for an average rent increase of £2.59 over 48 weeks (equivalent to 5.0%) in line with implementation of the Government's rent restructuring programme. A Government announcement on the average rent rises for 2008/2009 is expected shortly but may be around 7% to 8% for Leeds.

12.3 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 have now been in operation since April 2007. The ALMOs are allocated an annual management fee for delivering this service. The value of this for 2007/08 was £108m 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.

12.4 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.

12.5 Key factors in determining the financial strategy for the HRA 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.

12.6 For 2008/09, the DCLG guidance is not yet available for national changes in Management and Maintenance Allowances.

12.7 It is estimated that over the three year period 2007/08 to 2009/10 there will be a reduction in council housing stock of 2500 to 3000 properties (equivalent to 5% 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. Since 1 April 2004, 75% of receipts generated through RTB sales (net of expenses) are required to be paid over to central government.

12.8 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; this target date may be extended, depending upon the outcome of recent government consultation. 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.

12.9 The HRA also receives subsidy based on the actual cost of borrowing, which broadly offsets the real cost of borrowing. Interest rates of 4.7% are assumed.

12.10 The HRA currently receives additional subsidy directly related to the ALMO's supplementary capital programme; this is all paid over to the ALMOs. 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.

12.11 The Decent Homes programme is currently being reviewed by the ALMOs and Strategic Landlord, and may have an impact upon the future allocation of HRA resources.

12.12 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.

12.13 Little London and Beeston & Holbeck PFI schemes are currently in the procurement phase, with contract starts currently anticipated in 2009/10 and 2010/11.

13. Conclusion

13.1 It is recognised that the funding available to the Council over the planning period will be severely restricted, and clearly not sufficient to meet all the spending pressure that the Council will face. Given this, the paper sets out a strategy which places resource allocation in a stronger policy framework based on an analysis of needs, both nationally and locally determined, a focus on delivering efficiencies and an understanding of local priorities.

13.2 It is however clear that delivering a realignment of resources to focus on Council priorities, within the current financial context, will be challenging and require difficult decisions.

13.3 This financial strategy will be subject to further review as part of the current ongoing preparation of detailed budget plans and this will be presented as part of the Council's financial plan which will be submitted to Council in February 2008.

13.5 The analysis which underpins this plan and approach is based on the latest information available, but there will be a need to continuously review needs, efficiency and local priorities throughout the 5 year period to reflect more up to date information.

14 Recommendation

14.1 Executive board is requested to :

(i) approve the allocation of resources to services as the basis for the new Financial Plan.

(ii) approve this report for consideration by Overview and Scrutiny Committee.