



Report of the Director of Resources

Scrutiny (Central and Corporate)

Date: 5th January 2009

SUBJECT: Budget Strategy 2009/10

Electoral wards affected:

Specific implications for:

Ethnic minorities

Women

Disabled people

Narrowing the gap

Eligible for call In

Not eligible for call in

(details contained in the report)

1 Introduction

- 1.1 Budget setting and monitoring is a continuous cycle within the financial management framework of the Council. Members receive quarterly reports on the in-year financial health of the authority and the Council's Constitution provides for the Central and Corporate Scrutiny Board to scrutinise the Council's budget
- 1.2 Members at their meeting on 8th January 2008 considered a report of the Executive regarding Developing the Financial Plan 2008 – 2013 as the basis of initial budget proposals for 2008/09. This report provides an update to the Council's Financial Plan and medium term financial strategy and discusses the pressures and assumptions being considered as part of developing the Council's 2009/10 annual financial plan.

2. Background

- 2.1 The Financial Plan is an integral part of the Council's Business Plan 2008 to 2011 and covers the same three year period, but with indicative assessments for the following two years up to 2012/13. It provides a financial strategy to underpin the delivery of the Council's priorities and sets out a framework for the preparation of the Council's annual revenue budgets over the planning period. In this way the Council can ensure that its priorities are supported by a robust resource allocation strategy.
- 2.2 The Financial Plan was prepared in the context of the Comprehensive Spending Review 2007 (CSR 07). Published in October 2007, the CSR 07 announced that current expenditure across the public sector was set to increase by an average 1.9% per year in real terms, although the rate varied significantly across government

departments. Resources for local government were to rise by 1% per year in real terms over the next three years.

- 2.3 The Local Government Finance Settlement 2008/09 to 2010/11 was announced on Thursday 24th January 2008. This was the first three year settlement (following a two-year settlement for 2006/07 and 2007/08) and marked the Government's move to align Local Government' funding announcements with the Comprehensive Spending Review cycle. The increases in Revenue Support grant at the national and local level for the planning period are summarised below:-

	RSG		
	National	Leeds	
	%	%	£m
2008/09	3.5	2.7	7.6
2009/10	2.8	2.1	6.2
2010/11	2.6	1.8	5.4

- 2.4 Although there are significant variations between authorities, Leeds' percentage increases are substantially below the average of the Core Cities, the West Yorkshire Districts, the metropolitan Districts and England as a whole:

	Increase 2008/09	Increase 2009/10	Increase 2010/11
Leeds	2.7%	2.1%	1.8%
Average Core City	3.5%	2.5%	2.2%
Average West Yorkshire District	4.3%	3.1%	2.7%
Average Metropolitan District	3.9%	2.9%	2.5%
Average England	3.5%	2.8%	2.6%

- 2.5 For 2007/08, the Council's approved budget and Council Tax (Band D) can be summarised as follows:

Budget for 2008/09	£540.5m
Funded by:	
Business rates	£256.5m
General government grant	£35.7m
Council tax (4.7% increase)	£248.3m
Band D Council Tax (Leeds Element)	£1,064.37
Police precept	£123.62
Fire precept	£49.91
Total	£1,237.90

- 2.6 The Government also 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.

2.7 It was announced that the minimum funding guarantee (MFG) per pupil for all schools would be 2.1% in each of the three years.

3. Development of the Plan

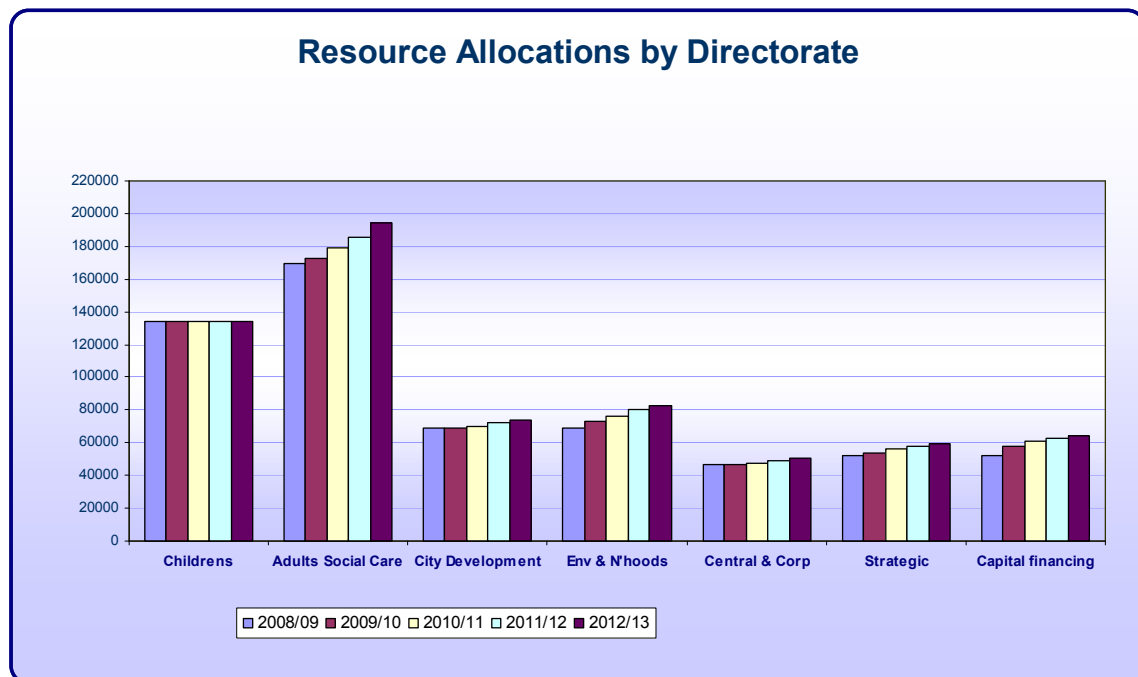
3.1 Taking account of the three year settlement, the estimated level of additional resources that would be available was likely to be less than £20m per annum over the life of the plan which presented a significant challenge to the authority to ensure that future resource allocations were more closely aligned to priorities.

3.2 A new approach to the allocation of revenue resources to General Fund services was therefore developed whereby greater emphasis was placed on directing resources to Council priorities and divesting from areas considered to be lower priority. The level of resources to be allocated to services were determined by 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.

3.3 Based on the new methodology the allocation of resources reflected the following principles:

- 2% per annum targeted savings in Support Services, rising to a cumulative 10% by 2012/13. This applied to all central and local provision of administrative and support activities. Efficiencies to 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 included addressing base budget pressures, and directing resources to key local service priorities such as the Integrated Waste Strategy, and increasing the number of Direct Payments in Adult Social Care.
- Cash standstill over the life of the plan for Children's Services in acknowledgement of the significant scale of realignment required.
- Efficiency savings targeted at areas of the Council's services which appear relatively high compared to other authorities, primarily Children's Services including the LEA and Youth and Community. Pricing policies and service provision will be reviewed where appropriate.
- General reserves will be maintained at or above the minimum level in accordance with the risk based reserves strategy.

- 3.4 These assumptions combined with an estimate of available resources over the life of the plan enabled a five year resource allocation to be determined which set the shape for future budget strategies as illustrated below:



- 3.5 It was acknowledged that the delivery of the plan would require a significant review of some of the Council's services and activities and achievement of the planned shape would not be an easy task. The plan therefore assumed a phased implementation of the realignment in order to minimise the impact on services during the transitional period.
- 3.6 Due to the scale of realignment required away from Children's Services the plan recognised that a longer timeframe will be required to achieve the planned shape for this service, and therefore a cash standstill over the life of the plan was proposed at this stage.

4. Update of the Financial Plan

- 4.1 The Local Government Finance Settlement announced on 26th November 2008 confirmed that there would be no changes to the Formula Grant for 2009/10 which is the second year of the current three year settlement.
- 4.2 The Government has also announced that it expects the average Council Tax increase in England to be substantially below 5% in 2009/10 and has stated that it will not hesitate to use its capping powers as necessary. Indeed, although no decisions about capping in 2008/09 have been taken, the implication is that the capping criteria will be tighter than in previous years.
- 4.3 The level of resources available to the Council in 2009/10 will therefore be in line with that originally envisaged in the Financial Plan and have been allocated to directorates taking account of the following issues:
- Pay awards - are assumed at 2.5% per annum in line with government targets for public sector pay increases, which equates to £12m for 2009/10. The

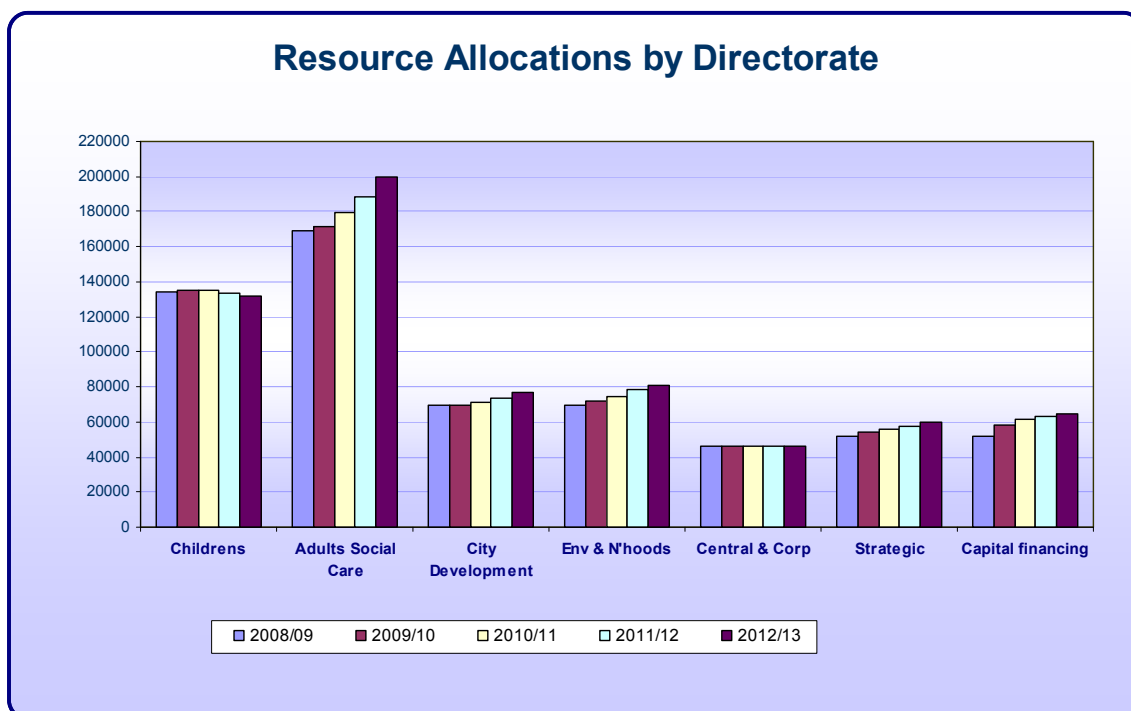
employer's contribution to the West Yorkshire Pension Fund is assumed to increase by a further 0.7% or £2m per annum.

- Running Cost Inflation - general running cost inflation has been increased by 2% per annum across the board except where specific contracts are in place. General income inflation has been increased at 3% per annum.
- NRF – As Leeds does not qualify for Working Neighbourhoods Fund, there will be transitional arrangements for the next two years which will see a reduction in funding of £5.37m in 09/10 and a further £3.59m in 10/11.
- Demographic pressures especially around services for looked after children, older people and people with a disability.
- Waste Collection and Disposal – the government has accelerated the rate of growth in landfill tax to £8 per tonne and it will rise to £48 per tonne by 2010. This will lead to additional costs of around £1.7m in 2009/10. The Council is currently developing its waste management strategy that will set challenging targets for recycling as well as moving away from landfill for the remaining waste. Whilst over time this strategy will be considerably cheaper than the do nothing option, in the short term given the need to pump prime recycling initiatives and the length of time to bring on new facilities, this will result in significant costs over the forthcoming years.
- Capital Financing Costs – increase of £6.2m reflecting the ongoing revenue cost of previous borrowing decisions and the additional £100m of capital investment referred to in paragraph 3.3.
- Efficiency savings targeted at areas of the Council's services which appear relatively high compared to other authorities. Pricing policies and service provision will be reviewed where appropriate.

4.4 A review of the planned shape of the Council's budgets over the remaining 4 year period of the financial strategy results in a re-direction of resources towards Children's Services in the early years of the planning period. In 2009/10, a 1% increase is now planned with a cash standstill in 2010/11, the aim being to give Children's Services a 20% share of the Council's budget by 2012/13.

4.5 In addition, a cash standstill for Central and Corporate functions is now planned for the life of the planning period in addition to the 2% p.a. target savings in support services outlined in paragraph 3.3.

4.6 These revised assumptions combined with an estimate of available resources over the life of the plan have enabled the shape for future budget strategies to be updated as illustrated below:



5.0 Budget 2009/10

5.1 The budget process is on going and a report will be submitted to the Executive Board on the 13th February 2009 which will include recommendations to be made to full Council on the 25th February 2009 as to the Council's budget for 2009/10 and related Council Tax.

5.2 .In addition, to the pressures identified in the Financial Plan, there a number of emerging issues to be addressed as part of the 2009/10 budget preparation. These include:

- Economic Downturn - the economic slowdown is having a significant impact on a number of external income sources including planning and building fees, rental income, markets income, surveyor and legal fees and income from leisure activities. In addition the slowdown in the property market has led to a decline in the number of land search requests. It is projected that the authority could be facing an income shortfall of several million pounds per annum.
- Energy Prices – the Council has recently renewed its gas contract at an additional cost of 37% and its Street Lighting electricity at a similar level.
- Personalisation agenda within Adult Social Care
- Use of Reserves – the 2008/09 budget includes the use of £5.1m of reserves. This is forecast to reduce reserves to the minimum level as determined by the risk based reserves policy. The extent to which the 2009/10 budget is supported by the further use of reserves is dependent on the ability to generate reserves in the current year.

5.3 These pressures clearly require additional efficiencies to be identified across the Council in order to achieve a balanced budget for 2009/10. Work is ongoing to identify efficiencies and savings options at both a directorate and corporate level and in

addition to the identification of general cost reductions and efficiencies the following areas have been targeted:

- Procurement including off-contract spend
- Staffing including review of working practices and sickness
- Review of service delivery options

5.4 For 2009/10 the Government has decided to introduce Regulations that will require councils to include information about efficiency performance on the face of the council tax bill, and in the leaflets that accompany demand notices. This information will be based on forecast cumulative efficiency savings to be achieved by March 2009. This is obtained from National Indicator 179.

6. Dedicated Schools Budget

6.1 The Government has confirmed the indicative figures for school funding for the next two years in line with the original announcement.

6.2 The Leeds finalised DSG settlement for 2008/09 was £393m. The DCSF indicative settlement figures for 2009/10 project gross Leeds DSG income of £405m – a year on year increase of 3.0%. The projected 2010/11 figure is £423m which represents a 4.3% annual cash increase.

6.3 The funding of post 16 education is being reformed to facilitate collaboration by providers, learners and employers. The aim is to deliver 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. In the meantime, the Learning & Skills Council has confirmed a 2.1% increase in sixth form pupil funding rates for 2009/10.

7. Housing Revenue Account

7.1 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.

7.2 The 2008/09 budget for the HRA provides for negative subsidy of £46.4m and an average rent increase of 5.8%. The average guideline rent increase for 2009/10 is 6.2% with negative subsidy of £49.4m.

7.3 Housing finance is currently the subject of a major government review which is due to report back in Spring 2009. Amongst other areas of consideration, this has looked at the whole rationale and mechanism of the housing subsidy system, and may lead to major changes in the way the government uses this 'distributive' system to 'support' local authority housing, including the possible option of councils totally opting out of the subsidy system.

8. Conclusion

8.1 As anticipated, the funding available to the Council over the planning period is limited and clearly not sufficient to meet all the spending pressures that the Council will face. To respond to this the Financial Plan set out a strategy which placed resource

allocation in a stronger policy framework based on an analysis of needs, a focus on delivering efficiencies and an understanding of local priorities.

8.2 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 2009.

9. Recommendation

9.1 Scrutiny (Central and Corporate) is requested to:

(i) Consider the budget strategy for 2009/10.