



Report of the Director of Resources

Scrutiny (Central and Corporate)

Date: 11th January 2010

SUBJECT: Budget Strategy 2010/11

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 regarding 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 The Council's annual budget is developed in the context of its medium term financial plan. The current strategy was approved December 2007 by Executive Board and covers the period 2008 – 2011. The plan is subject to annual review as part of the annual budget process and Members at their meeting on 2nd February 2009 considered an update as part of developing the Council's 2009/10 annual budget. This report provides a further update in the context of the preparations for the 2010/11 budget.

2. Background

- 2.1 The Financial Plan, which incorporates the financial strategy, 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 three years of the plan.
- 2.3 The Local Government Finance Settlement 2008/09 to 2010/11 was announced on 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 (although increases in grant would be subject to annual confirmation). The increases in Revenue Support grant at the national and local level for the planning period are summarised below:-

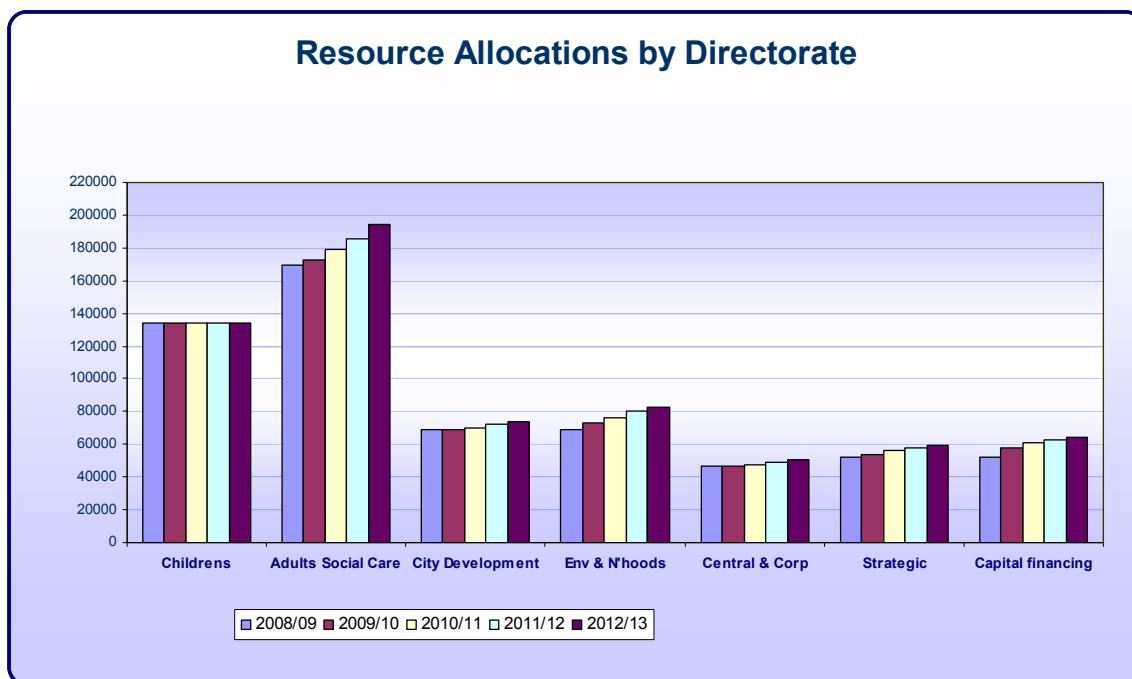
	Formula Grant (RSG)		
	National	Leeds	
	%	%	£m
2008/09	3.5	2.7	7.6
2009/10	2.8	2.1	6.2
2010/11	2.6	1.8	5.4

- 2.4 There are significant variations between authorities, as Members will be aware the Leeds' percentage increases announced were 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 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.
- 2.6 It was announced that the minimum funding guarantee (MFG) per pupil for all schools would be 2.1% in each of the three years.
- 2.7 Taking account of the three year settlement, the Council's financial strategy assumed that the 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 to services were aligned to priorities.

- 2.8 A new approach to the allocation of revenue resources to General Fund services was developed as part of a strategy 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.
- 2.9 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, with 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.
 - 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.
 - Cash standstill over the life of the plan for Children's Services in acknowledgement of the significant scale of realignment required.
 - General reserves will be maintained at or above the minimum level in accordance with the risk based reserves strategy.
- 2.10 These assumptions combined with an estimate of available resources over the life of the plan enabled a five year resource allocation to be determined as part of the strategy which would set the shape for future annual budgets as illustrated below:



2.11 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. Due to the scale of realignment required away from Children's Services the plan recognised that a longer timeframe would be required to achieve the planned shape for this service, and therefore a cash standstill over the life of the plan was proposed at that stage.

2.12 For 2009/10, the Council's approved budget and Council Tax (Band D) can be summarised as follows:

Budget for 2009/10	£556.8m
Funded by:	
Business rates	£242.2m
General government grant	£55.9m
Council tax (2.9% increase)	£258.7m
Band D Council Tax (Leeds Element)	£1,064.37
Police precept	£127.32
Fire precept	£51.38
Total	£1,274.31

2.13 In line with the Comprehensive Spending Review 2007 requirement of achieving efficiencies of 3% per annum, efficiency savings assumed in the 2009/10 budget amounted to £20.3m, to be generated from the following areas:-

- Expenditure efficiencies on schemes funded by Area Based Grants
- Procurement - it was proposed to target off contract spend and to ensure that in areas where there is in-house provision that this is first used before services are externally procured
- Review of energy contracts subject to renewal during 2009/10
- Staffing – a range of employment related matters including improved attendance

2.14 In addition to specific savings and efficiencies built into directorate budgets, a number of short term funding sources were included in the budget as follows:-

	08/09 £000s	09/10 £000s	Variation 09/10 - 08/09 £000s
Section 278	6,000	5,200	- 800
Capitalisation	3,700	3,700	-
LPSA Performance Reward grant		2,500	2,500
LABGI	-	500	500
Use of Earmarked Reserves	3,185	5,574	2,389
Use of Education Leeds reserves	1,090	1,090	-
Use of general reserves	5,130	-	- 5,130
Total	19,105	18,564	- 541
Percentage of Net Expenditure	3.53%	3.33%	-0.20%

2.15 The Council has in place well developed processes for the in-year monitoring of its budget at all levels. Quarterly financial health reports are submitted to the Executive Board which are then forwarded to this Scrutiny Board as part of its role in scrutinizing the Council's budget. As explained to Members in November, at the half year stage of 2009/10 the authority was projecting a £5.5m budget shortfall. This has arisen due to pressures on income and demand led budgets, which are still continuing. In order to minimise the impact on reserves at the year end, a series of actions have been implemented across all directorates which are:-

- a. There will be no external recruitment except in exceptional circumstances in order to maintain essential services
- b. All directorates to review their current use of agency staff and to look to end usage unless there is an urgent need and are essential for the safe delivery of front line services.
- c. There should be no overtime granted unless essential for the safe delivery of front line services.
- d. Expenditure on running costs should be frozen except payments which are required to meet contractual commitments or are essential for the safe delivery of front line services.
- e. Where there is a need to incur expenditure and there is an internal provider, the internal provider must be used.

3. The Pre-Budget Report

3.1 Alistair Darling, the Chancellor of the Exchequer, delivered his Pre-Budget Report to Parliament on the 9th December 2009. The report seeks to address the on-going effects of the global financial crisis and sets out developments in Government economic policy since the Budget last April.

3.2 The key points are as follows:

The Economy

- The economy is now expected to shrink this year by 4.75% (compared with the -3.5% estimate in the April Budget), but the Chancellor predicts that it will grow by between 1.0% and 1.5% during 2010.
- Government borrowing will be £178bn this year (up by £3bn from previous estimates). The estimate for 2010/11 is also up by £3bn to £176bn. For future years the estimates are unchanged: £140bn in 2011/12, £118bn in 2012/13 and £96bn in 2013/14 (approximately half the current value).
- Public sector net debt (as a proportion of GDP) is anticipated to rise from 55.6% in 2009/10 to 77.7% by 2014/15.
- The Chancellor claims that the recession will be short with GDP beginning to recover in the second half of 2009 and the country returning to growth of between 1.5% and 2% in 2010/11 and 3.5% in 2011/12 and 2012/13.
- CPI is estimated to be 2¼% in 2009/10, falling back to 2% in 2010/11 and 1½ in 2011/12 before gradually rising to 2% again by 2014/15. RPI will rise dramatically from -1½% in 2009/10 to 3% in 2010/11 and then stabilise at 3¼% thereafter.
- The statement confirms that there is to be no Comprehensive Spending Review before the election.
- In last year's Pre-Budget Report the Chancellor announced that the employee, employer and self-employed National Insurance rates were to rise by 0.5% from 1st April 2011. These increases have now been doubled to 1.0
- As anticipated, the headline rate of VAT is to go back to 17½% from 1st January 2010.

Local Government and the Public Services

- The Government is to maintain the planned 2.2% growth in public sector current expenditure for 2010/11 but from 2011/12 onwards growth will fall back to 0.8%.
- The 1.0% cap on public sector pay settlements for 2010/11 is to be extended to 2011/12 and 2012/13. This is expected to save £3.4bn a year.
- There is to be a review of senior pay across the public sector led by Bill Cockburn which will report to the 2010 Budget.
- The Government is also to examine the scope for local authorities to borrow against:
 - future Community Infrastructure Levy revenues;
 - Renewable Heat Incentive and Feed-in Tariff revenue streams; and
 - revenues from new council homes.
- The Government's temporary increase in the threshold at which an empty property becomes liable for business rates is to be maintained for a further year. For 2010/11, empty properties with a rateable value of less than £18,000 will be exempt from business rates, exempting 70% of empty properties. The higher threshold reflects the effects of the business rates revaluation.
- Reforms to the NHS, teachers, local government and civil service pension schemes will cap employer's contributions and will save £1bn a year from 2012.
- The average guideline rent increase for 2010/11 is to be reduced from 6.1% to 3.1%.
- The entitlement to free school meals is to be extended to primary school children of low income working families. This will benefit around 500,000 children.
- In order to control rising costs, the 2009 Budget announced that tenants would no longer be permitted to receive more in Housing Benefit than they have to pay in rent. However, recent consultation suggests that there are disadvantages to withdrawing the excess so the Government has decided to delay the reform until April 2011 and launch an immediate consultation on its approach to Housing Benefit reform and affordability.

3.3 The 2009 Pre-Budget report also announced further details of the £12 billion a year of savings set out earlier in *Putting the Frontline First: Smarter Government*, £11 billion of which are planned to be delivered by 2012/13. The amount includes £670 million from local government:

- £550 million to come from:
 - more efficient waste collection and disposal
 - reducing the burden of inspection, assessment and reporting
 - reducing duplication and inefficiency between different tiers of local government
- £120 million from improvements to the administration of concessionary travel.
- The government has also looked at additional local government efficiency savings by 2012/13, on top of those previously published, through better procurement and through cutting lower-value or lower-priority programmes on the basis of early findings of the Public Value Programme.
- £250 million from reducing variations in spend on residential care, including greater use of preventative approaches to care for older people allowing people to stay longer in their homes.
- £160 million from clamping down on fraudulent access to social housing tenancies, and rationalising smaller DCLG funded community programmes, and ending time-limited schemes.
- £60 million from the cost of concessionary travel by aligning eligibility with forthcoming changes in state pension age.
- £340 million from improved targeting of regeneration and housing growth funding, concluding the New Deal for Communities programme, prioritising regeneration and growth programmes to maximise value for money as the economy recovers, and by tackling the barriers to housing growth including a reduction in the impact of regulation on house building.

4. Development of the 2010/11 Budget Strategy

- 4.1 Since the last update of the Financial Plan, the financial landscape facing all local authorities has changed. Attached, as an appendix, is a report prepared for Corporate Governance and Audit Committee. This report sets out the macro economic issues facing the public finances, and it is clear that all public bodies will face significant financial challenges over the short and medium term, although at this stage quantifying how this will impact upon the Council's finances beyond 2010/11 is subject to a great deal of uncertainty. However, the Government did on the 26th November 2009, publish the Government's formal proposals on the distribution of Formula Grant to English local authorities for 2010/11 which confirmed no changes to the allocation of formula grant to the figures previously published. The 1.8% increase for the Council equates to £5.4m.
- 4.2 The total resources available to the Council for 2010/11 will depend upon the decision taken on the level of Council Tax. The table below sets out resource availability in 2010/11 for different levels of increases in Council Tax.

Council Tax increase %	Total Increased spend inc Formula Grant	
	£m	%
4.0%	16.7	3.00%
3.5%	15.4	2.77%
3.0%	14.1	2.54%
2.5%	12.8	2.30%
2.0%	11.5	2.07%
1.5%	10.2	1.84%
1.0%	8.9	1.60%
0.5%	7.6	1.37%
0.0%	6.3	1.14%

- 4.3 It should be noted that it incorporates an estimated increase in the Council tax base, so that for example a 0.0% increase in Council tax generates additional resources over and above that which is provided by the increase in Government formula grant.
- 4.4 The Government have indicated that authorities should not assume that previous years' capping principles will apply to 2010/11 and have written to all authorities stating that they expect the average Band D council tax percentage increase to reach a 16 year low in this period and have also indicated that they will take capping action against any excessive increases. The average increase in 2009/10 was 3.0%, so this implies an average increase of less than 3.0%.
- 4.5 In addition to taking account of available resources for 2010/11 and indeed beyond, there are a number of other changes which now have to be factored into an update the approved financial strategy and resulting resource allocations. These include:
- The current strategy assumes the use of £5m general reserves per annum. However, the 2009/10 base includes the use of £5.6m of earmarked reserves, therefore creating a pressure of £0.6m if only £5m general reserves are to be used to support the 2010/11 budget. The latest projection for 2009/10 would indicate that additional reserves will be required to balance the current year and will not therefore be available in 2010/11 if general reserves are to be maintained at the minimum level.
 - The revenue cost of supporting the capital programme investment is estimated to increase by £6.0m. This increase reflects a significant reduction in capital receipts and results in a higher revenue cost of servicing the debt.
 - The Waste Strategy is a key local service priority, and as such £2.0m has been top sliced from the available resources. Similarly, a re-assessment of achievable efficiencies within the Jobs and Skills service has required an additional £0.5m to be allocated.
 - The 2% p.a. savings target in respect of support services will allow an additional £0.6m to be allocated to front line services.
 - An additional £1.9m is required to pay for the Street Lighting PFI contract, previously funded by the sinking fund which was fully utilised to support the 2009/10 budget and is therefore no longer available.

5. Initial Budget Submissions

- 5.1 All directorates have now submitted their initial budget proposals which are based on the following key assumptions:

Key Assumptions	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s
Pay Award - unfunded element of 08/09 pay award	0.3%			
Pay Award	1.0%	2.0%	2.0%	2.0%
NI rate increase		0.5%		
Pensions - rate increase	0.8%	0.5%	0.5%	0.5%
Price Inflation	1.0%	2.0%	2.0%	2.0%
Income Inflation	2.0%	3.0%	3.0%	3.0%

- 5.2 The budget process is on going and a report will be submitted to the Executive Board on the 12th February 2010 which will include recommendations to be made to full Council on the 24th February 2010 as to the Council's budget for 2010/11 and related Council Tax.

- 5.3 In addition to the pressures identified in the Financial Plan, there a number of key directorate pressures to be addressed as part of the 2010/11 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.
- Personalisation agenda within Adult Social Care
- Demography both within Adults and Children's social care
- Safeguarding issues in both Children's and Adult Social Care Services. It is clear that given the safeguarding issues, it will not be possible to constrain spending within Children's Services to the cash standstill assumed within the strategy.

- 5.4 Taking account of the above and the adjustments that are required to the financial strategy, it is evident that spending pressures far exceed the available resources for 2010/11. This position clearly requires additional efficiencies to be identified across the Council in order to achieve a balanced budget for 2010/11. 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
- Staffing including review of working practices and sickness
- Review of service delivery options

6. Dedicated Schools Budget

- 6.1 The financial year 2010/11 is the final year of the current three year funding period for schools. The funding formula to be used to generate the Dedicated Schools Grant

delivering the majority of funding is confirmed, as are the formulae for the calculations of the School Standards Grant and School Development Grant. Actual grant allocations will be based on pupil numbers as at January 2010 and will be confirmed in the summer.

- 6.2 Nationally, Dedicated Schools Grant is increasing by 4.3% per pupil in 2010/11. The increase for Leeds is 4.1% per pupil. Based on the latest estimate of pupil numbers this equates to a cash increase of 4.1%. All other funding sources for schools, including School Standards Grant and School Development Grant, increase by a maximum of 2.1% per pupil. The minimum funding guarantee for schools through the Leeds Funding Formula has been set at 2.1% per pupil.
- 6.3 The funding for post 16 pupils is delivered through a formula determined by the Learning and Skills Council (LSC). It is calculated at a school level by the LSC and Leeds City Council passports the funding to school sixth forms. The funding available to the LSC for 2010/11 has increased by £202m and it has been announced that there will be no increase in the funding rate at the heart of the calculation. Arrangements for any funding guarantee and protection for Sixth forms with reduced funding per student have not yet been announced.

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. In 2009/2010 the HRA provides for negative subsidy of £44.6m and an average rent increase of 3.1%.
- 7.2 If account is taken of government support for the borrowing undertaken for the delivery of decent homes and the PFI allowances for Swarcliffe, then Leeds is a net recipient of resources of £31.3m.
- 7.3 In July 2009 the Government issued a consultation paper on the future of Council Housing finance. The Council's response was to welcome the Government's proposals to opt out of the current subsidy system through a one off distribution of debt, although further information is required in order to determine the financial implications for Leeds City Council. More detailed proposals from the Government are expected in the spring of 2010.

8. Beyond 2010/11

- 8.1 With a Comprehensive Spending Review postponed until after the General Election, it is at this time difficult to quantify, but the attached report and the above commentary upon the Chancellor's Pre Budget Statement clearly indicate that all public bodies will face significant financial challenges as Government finances are tightened beyond 2010/11. The Council has for a number of years adopted a medium term approach to financial planning, and given the changing financial landscape facing the authority it is evident that the current financial strategy will need to be reviewed and revised during the summer of 2010. This is not only to ensure that the strategy remains aligned to the update of the Council Business Plan that will occur during 2010, but also to shape future spending priorities and to target the delivery of further efficiencies over the medium term. The attached report also describes the on-going development of a new

approach to value for money within the Council, and this will be a key element to delivering the Council's financial position beyond 2010/11.

- 8.2 An early assessment of base budget pressures in respect of 2011/12 and 2012/13 has been made as shown in the table below. These pressures need to be considered in the context of the likely level of resources available. RSG is widely expected to increase in the range of 0% and -10% over the next three years and there will be pressure to limit increases in Council Tax to the level of prevailing inflation. For information, each 1% variation in Council Tax is equivalent to £2.6m, whilst each 1% variation in Formula Grant is equivalent to £3.0m. Thus, for illustration, a 10% reduction in the Council's Formula Grant over the three years from 2011/12 would equate to a reduction in grant of around £10m for each of the three years.

	2011/12 £000s	2012/13 £000s
Pay Award	12,225	11,119
Price Inflation	10,628	10,925
Income Inflation	- 4,790	- 4,933
Total Inflation	18,063	17,111
Debt	3,500	4,000
Street Lighting	913	
LPSA2 - Performance Reward Grant	2,500	-
Total Unavoidable Pressures	6,913	4,000
Total	24,976	21,111

- 8.3 The above pressures should not be seen as a comprehensive list, but more designed to indicate the scale of issue and pressures which would need to be met within the resources available.

9. **Conclusion**

- 9.1 As anticipated in the Financial Plan, 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 faces. 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.
- 9.2 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 2010.
- 9.3 Beyond 2010/11, although difficult to quantify at this stage, it is clear that all public bodies will face significant financial challenges as Government finances are tightened. It is clear that the Council faces a significantly different financial landscape to that which was envisaged when the Council's current financial strategy was developed. It is thus intended that a significant review and revision of the Council's financial strategy is undertaken during 2010, which needs to have a clear focus on the prioritisation of services and the delivery of efficiencies.

10. **Recommendation**

- 10.1 Scrutiny (Central and Corporate) is requested to consider the budget strategy for 2010/11.