CITY OF YORK COUNCIL	
Executive	23rd June 2009
Report of the Assistant Director of Resources (Finance)	

Budget Process and Resource Alignment Arrangements for 2010/11

Summary

1. This report sets out the proposed arrangements to support the preparation of the 2010/11 budget and the alignment of resources based on the Council's strategic and corporate priorities.

Background

2. In line with recognised best practice in financial management and performance management, the Council needs to ensure its budget for 2010/11 is robust and sustainable and fundamentally aligned to the strategic themes detailed in the Corporate Strategy 2009/2012.

3. Furthermore, in response to the statutory requirement to have sound, transparent plans in place to deliver the specific efficiency savings required in 2010/11 and beyond, it is essential the Council has a clear understanding of its financial position and future challenges as expressed through the Medium Term Financial Strategy (MTFS).

4. The processes outlined in this report will ensure robust financial management is maintained whilst enabling early decisions and actions to be taken that will result in the containment of identified budget pressures through 2010/11 and the Medium Term.

5. The MTFS 2009-2013 (Table 1 below) was considered and approved by Full Council on 26th February 2009 and outlined a financial forecast of the main risks and key future influences on the Council's financial position.

MEDIUM TERM FINANCIAL PLAN			
	2010/11	2011/12	2012/13
	£m	£m	£m
RESOURCES			
Increase in Grants and Council Tax	4.00	3.20	2.90
Corporate Efficiency Savings	3.25	5.15	7.15
Service Savings	0.00	0.00	0.00
TOTAL RESOURCES AVAILABLE	**7.25**	**8.35**	**10.05**
INDICATIVE ALLOCATIONS			
Cash Increase in budgets (Pay/prices)2% pa	2.20	2.20	2.20
Treasury Management	1.00	1.00	1.00
IT Development	0.40	0.40	0.40
Capital Programme	0.75	0.75	0.75
Recycling and Waste	0.40	0.40	2.00
Concessionary Fares	0.30	0.30	0.30
Contingency Sum	0.80	0.80	0.80
Other unknown pressures/priorities	1.40	2.50	2.60
TOTAL INDICATIVE ALLOCATIONS	**7.25**	**8.35**	**10.05**

Table 1 – Revenue Plans 2010-13

6. The MTFS demonstrates a clear need for the delivery of £15m net real efficiency gains over the 3 year period. These savings are essential in order to sustain a balanced budgetary position over the period 2010/11 to 2012/13. It should be noted that although service savings are shown as Nil within the MTFS over the next three years, there may need to be flexibility to change that assumption should there be significant changes to financial pressures, or timing issues on the achievement of efficiency savings.

7. The Government's Budget revealed that local government's 3% CSR07 efficiency target has been increased nationally from £4.9bn to £5.5bn, with councils expected to find 4% efficiency savings in 2010-11. The Government has said that the additional £600m will be retained by councils to reinvest in services. Beyond CSR07, the government will seek additional £9bn per annum efficiency savings across the public sector by 2013-14. It is not clear what local authorities' share of these savings will be but it is reasonable to assume that we will need to increase the level of efficiencies in the coming years. The Council's partnership with NKA demonstrates that positive and pro-active action is being taken to plans are in place to ensure these savings are delivered.

8. The impact of the economic downturn will have led to the deterioration of the financial position expressed in the current MTFS. The impact of low interest rates on the Council's investments, together with an increased demand for council services from citizens in weakening financial situations will inevitably mean that pressures exist to drive out further savings than originally planned. Therefore, whilst the efficiency programme target at present is to deliver £15m savings in a three year period, the likelihood is that we will need to achieve more. In this context, the Council needs to demonstrate flexibility in its approach to the nature and scale of efficiency savings over the next few years. As part of the proposed new process it is intended that an updated MTFS is produced in July that will provide a firmer indication of the financial issues facing the Council over the next few years.

9. In the context of this challenging financial position, it is essential to further develop the integration of priority setting and resource alignment if the Council is to be successful in setting a robust budget that can effectively deliver the desired outcomes. The proposals outlined in this report will build on the recommendations contained in the existing financial strategy and will support further effective decision making on the 2010/11 budget. The process will also provide clear evidence that resources are being actively aligned to priorities through a structured, transparent and effective process.

Proposal

10. In order that budgetary decisions are taken in the context of updated priorities, identified financial pressures and VFM considerations, it is essential that a systematic and robust approach is undertaken in the build up to the setting of the 2010/11 budget. Annex A identifies the proposed process and time-line to deliver the 2010/11 budget constructed around a planned, structured methodology and focused on the use of critical financial intelligence.

11. The budget process will support both the continued development of the Council's robust financial strategy and the effective alignment of resources to its stated priorities, whilst ensuring that a risk-based

approach is maintained in determining the adequacy of levels of reserves.

KEY ELEMENTS OF THE PROPOSED PROCESS

12. The existing financial strategy has established broad principles for the development of future budget processes and these can now be clearly defined as part of the development of the 2010/11 budget. A fundamental maxim of the proposed process is that Directorates are clearly responsible for the robust and effective self-management of their existing financial resources and that restraint is exercised in bidding for additional budget. It is proposed that the key elements of the 2009/10 financial strategy are:-

- **Cash Limit Budgets**

13. Pre-agreed cash increases to base budgets for each service resulting in clearly defined and strictly enforced cash limits within which Directorates must contain their net expenditure. The existing approved financial strategy is predicated on a cash increase of 2% to Directorate budgets in 2010/11 with a clear expectation that Directorates self-manage all non-exceptional budget pressures within this cash limit.

- **Base Budget Reviews**

14. Explicitly linked to self-management within defined cash limits will be the need for directorates to demonstrate the re-allocation of a minimum of 1% of their net budget to contain internal financial pressures. This process will take the form of a focused Base Budget Review within Directorates and will enable the Council to clearly demonstrate the re-distribution of existing resources to areas of greater pressure. This will provide tangible evidence that the Council is allocating financial resources on the basis need, and is moving away from an entirely incremental approach to budget allocation. The figure of 1% is recommended as a minimum. In many cases Directorates may wish to identify a higher level of reprioritisation, and this will in particular be the case should there be a number of cost pressures that need to be addressed. Fundamentally this process is about self management of pressures within Directorates, and will provide absolute transparency in terms of showing how pressures are being addressed.

- **Growth Bids**

15. Traditionally, the budget process at CYC has encouraged bidding for additional funding for relatively minor budget pressures. In the future, the process outlined above, based on self management of financial pressures through focused Base Budget Reviews will need to be followed to avoid long lists of relatively minor growth bids.

In the present challenging budget climate it is considered that a more appropriate and effective approach to bidding for additional resource be agreed. In order to limit the volume of growth bids and as a result facilitate more effective decision making on resource allocation, it is recommended that de-minimus levels are established for all growth bids in future budget planning exercises.

It is expected that the principle of financial self-management within cash limits will instil a discipline of internal re-prioritisation of less significant 'growth' issues within existing directorate budget allocations.

In addition, the bids above the de-minimus levels need to be defined, developed and submitted within one of two distinct categories of growth:-

- **Unavoidable Major Corporate Growth** – this will include areas of expenditure for which the Council **must** make budgetary provision (examples will include Waste Management, Concessionary Fares and the impact of the economic downturn on the Treasury Management function). It is expected that these areas would go forward as part of the budget process as "Unavoidable" and would be clear recommendations from the Director of Resources in terms of the need for the Council to provide for these amounts. It is proposed that a de-minimus level of £100k is established for bids falling within this category.

- **Meeting Corporate Priorities** – this category will include bids that relate to the achievement of priorities that are strictly defined within the Corporate Strategy. A clear corporate process will be established to consider the legitimacy and relative ranking of these bids involving workshops/officer groups to ensure the approach to the allocation of resource to Corporate priorities is dealt with effectively and transparently . Given the limited financial resources available to support these bids, it will be essential to ensure that all scope for internal re-direction has been explored within Directorates prior to bids being recommended for approval. It is proposed that a de-minimus level of £25k is established for bids falling within this category.

- **Efficiency Targets**

16. The MTFS presented as part of the Budget report to Council on 26th February identified a cumulative 3 year target of £15m net real efficiency gains (2010/11 £3.25m, 2011/12 £5.15m, 2012/13 £7.15m). These targets were considered necessary in order to ensure the

Council could meet forecast future financial pressures without the need for cuts or reductions in services.

In order to provide assurance on the delivery of the efficiency savings it will be critical that robust and effective validation of efficiency proposals takes place in order to ensure that savings targets are realistic and deliverable.

Both the validation of savings proposals, and the ongoing monitoring of the actual achievement of savings will take place during the upcoming and future budget planning periods. The scale and nature of the projected efficiency savings, together with the critical dependence on these savings as part of the achievement of the MTFS, inevitably mean that, from a risk perspective, significant financial management controls will need to be established in order to provide corporate assurance that the identified savings are realistic and deliverable.

- **Reserves**

17. The effective management of financial reserves will be tactically critical if the Council is to meet the targets contained within the MTFS. As part of the planning process for the 2010/11 budget, a fundamental review of reserves will be undertaken corporately. The objective of this review will be to determine the optimum scale and nature of the reserves required over the next 5 years in order to both deliver the MTFS and ensure strong financial management is maintained throughout what will be an extremely challenging financial period.

The review will establish a 5 year strategy for the Council's Financial reserves based on a fundamental understanding of identified risks and known future commitments. This will result in a clear Reserves Policy that will form a critical element of the Council's overall financial management framework.

- **Capital Programme**

18. Although an effective framework currently exists for the development and monitoring of the Council's Capital Programme, further improvements can be made to the process. Enhancements to the capital planning process can provide further assurance that the Council is optimising the use of its capital resources in meeting the stated priorities within the Corporate Strategy. Improvements will include the development of more explicit linkages between the development of the revenue and capital budget to ensure that the optimum overall financial funding strategy is achieved by the Council.

A review of the CRAM process will also ensure that the existing model for the ranking of capital projects remains relevant and fit for purpose.

There is a need for significant revenue contributions to the capital programme in coming years, and these will need to be “unavoidable” revenue budget growth. Furthermore, due to the current pressures on the Capital Programme, it is unlikely that any further Major Schemes will be considered.

Budget Process Timeline

19. In order that budget planning decisions are taken in the context of stated Corporate Priorities, identified financial pressures and savings identified through the efficiency programme, it is essential that a systematic and robust approach is undertaken in the build up to the setting of the 2010/11 budget. Appendix A identifies the proposed timeline to deliver the 2010/11 budget based on a planned and structured methodology which is focused around the use of critical financial intelligence.

Consultation

20. As part of the recognised budget planning process, statutory consultation will take place with the business community. Consultation will also take place with citizens and consideration is being given to reviewing how best to effectively engage as part of the planning process.

Options

21. **Option 1** – Executive support the proposed arrangements for budget planning and resource alignment for the 2010/11 Budget as outlined in this report.

22. **Option 2** – Executive propose alternative arrangements to those contained in this report. However, it should be noted that the proposed approach has been developed to ensure a robust, transparent and sustainable budget is produced in line with statutory requirements and best practice. Any alternative approach would necessarily need to meet these requirements.

Corporate Priorities

23. Reviewing the financial planning processes, to ensure best practice, long term planning, and effective links with efficiency and corporate planning is a key objective of the Effective Organisation theme of the Corporate Strategy 2009/12. Financial capacity has been built into the

MTFS to ensure that future funding is available to deliver corporate priorities.

Implications

24.

(a) **Financial**) These are covered in the main body of this report.

(b) **Human Resources (HR)** None

(c) **Equalities** None

(d) **Legal** The council has a legal duty to set a balanced budget on an annual basis. The Local Government Act 2003 places responsibilities on the Council's Chief Finance Officer to advise the Council on the robustness of budget proposals and the adequacy of its financial reserves. The proposals in this report will support both the Council and the Chief Finance Officer in meeting these legal responsibilities.

(e) **Crime and Disorder** None

(f) **Information Technology (IT)** None

(g) **Property** None

(h) **Other** None known.

25. Risk Management

If the recommendations contained within this report are not agreed, there is a risk that the Council's financial management arrangements could be judged unsound. This may result in reputational criticism and could adversely affect the Council's Use of Resources score which forms part of the Comprehensive Area assessment.

26. Recommendations

Executive are asked to:

agree the proposed budget planning process as outlined in the body of this report.

<u>Reason</u>

To ensure robust financial management arrangements are in place to support the preparation of the 2009/10 budget and the Medium Term Financial Strategy.

Contact Details

<table>
<tr><td>Author:</td><td colspan="4">Chief Officer Responsible for the report:</td></tr>
<tr><td rowspan="4">Keith Best
Assistant Director of Resources (Finance)
01904 551745</td><td colspan="4">Keith Best
Assistant Director of Resources (Finance)</td></tr>
<tr><td>Report Approved</td><td>√</td><td>Date</td><td>11/6/09</td></tr>
<tr><td colspan="4">Ian Floyd
Director of Resources</td></tr>
<tr><td>Report Approved</td><td>√</td><td></td><td>11/6/.9</td></tr>
<tr><td colspan="5">Specialist Implications Officer(s)</td></tr>
<tr><td colspan="3">Wards Affected:</td><td>All</td><td>√</td></tr>
<tr><td colspan="5">For further information please contact the author of the report</td></tr>
</table>

Background Papers:

Recommendations of the Executive on the Council's Detailed Revenue Budget Proposals for 2009/10 and the Council's Capital programme Budget for 2009/10 to 2013/14 – ***Budget Council 26 February 2009***

Financial Strategy 2009-13 – ***Executive 16th February 2009***

Capital Programme Budget 2009/10 to 2013/14 - ***Executive 16th February 2009***