

Report of the Cabinet Member for Corporate Services

2012 – 14 Budget Update

Purpose of Report

1. The purpose of this report is to provide an update on the 2012-14 budget process.

Background

2. The previous budget report to Cabinet on 19th July 2011 set out the process for ensuring a robust budget is developed and approved within the statutory timescale. It also introduced a 2 year budgeting period and outlined the need to achieve savings of some £20m over the next 2 years.

Budget Process Update

3. The 2012-14 budget process will be the second and third annual budgets to be set under the current spending review and as such continue to present councils across the country with significant challenges. In York, demand for council services continues to rise against a backdrop of reduced central funding which creates significant financial pressures.
4. Financial planning is embedded within the organisation as a continual process, which ensures financial pressures are dealt with in a timely and appropriate manner, and meetings have been ongoing between Members and Officers since the summer to formulate proposals that meet the current challenges.
5. As part of the financial planning process, the council maintains a detailed Medium Term Financial Forecast (MTFF) and the latest version shows that savings of £12m are required in 2012/13 and £10m in 2013/14, a total of £22m.
6. A number of significant pressures are driving this savings requirement, not least in 2012/13:
 - i) A significant provisional reduction in the council's Formula Grant settlement of £5m.

- ii) Continued pay and pension pressures. The council is currently budgeting for prudent pay increases whilst building increased capacity to deal with future changes to the Local Government Pension Scheme.
- iii) Continuing the increased capacity for waste management in line with the requirements of the PFI project.
- iv) Meeting the challenges of rising demand for other council services such as social care.

7. In terms of next steps, meetings between Members and Officers will continue in order to produce a set of proposals that form a balanced budget that will be presented to Cabinet on 7 February 2012, before full recommendation to Council on 23 February 2012.

Council Tax Freeze Grant

8. In relation to Council Tax, the Chancellor of the Exchequer has announced that Central Government will be offering local Councils the opportunity to extend the Council Tax Freeze for a further year and that this would be funded by one-off underspends.

9. Whilst the offer pledges a grant the equivalent to a 2.5% increase in 2012/13 (c. £1.8m in York's case), it differs from the 2011/12 offer (which guaranteed the funding for four years) in that the funding is only available for one year, creating a corresponding cost pressure for the 2013/14 budget.

10. The following paragraphs compare two scenarios, one where the grant is accepted and the other where a Council Tax increase is used. For ease of comparison, where a Council Tax increase is used, this is set at 2.5% for illustrative purposes only so that the effects can clearly be compared against the freeze grant. In both cases, it shows the corresponding impact on the two year budget's approximate required savings of £22m, given that any reduced Council Tax income would shift the emphasis to budget savings in order to reach a balanced budget.

11. Table 1 overleaf shows the impact of taking illustrative 2.5% Council Tax increases in both 2012/13 and 2013/14. This shows that a total of £3.6m of resources is added to the base budget over the two years and therefore has no impact on the £22m savings target.

	<u>2012/13</u>	<u>2013/14</u>	
Council Tax Increase	2.5%	2.5%	
	£m	£m	Total
Council Tax Increase	1.8	1.8	3.6
Council Tax Freeze Grant	0.0	0.0	0.0
Impact on Base Budget	1.8	1.8	3.6
Medium Term Strategy Imbalance	0.0	0.0	0.0
Assumed Budget Savings	12.0	10.0	22.0

Table 1 - 2.5% Council Tax pa

12. Table 2 on the other hand shows the impact of a 0% Council Tax rise, including receiving the freeze grant in 2012/13 then an illustrative 2.5% Council Tax increase the following year. Where this differs from Table 1 is that only £1.8m of resources have been added to the base budget due to the fact that the effects of the 2.5% Council Tax increase in 2013/14 are negated by the need to meet the pressure from the freeze grant falling out of the base. This then serves to put the Medium Term Strategy out of balance by that 'lost' £1.8m and inflates the 2013/14 savings target from £10.0m to £11.8m, or £23.8m over the two years. The only other option to recover this £1.8m would be to increase Council Tax beyond the projected levels of 2.5%.

	<u>2012/13</u>	<u>2013/14</u>	
Council Tax Increase	0.0%	2.5%	
	£k	£k	Total
Council Tax Increase	0.0	1.8	1.8
Council Tax Freeze Grant	1.8	-1.8	0.0
Impact on Base Budget	1.8	0.0	1.8
Medium Term Strategy Imbalance	0.0	1.8	1.8
Assumed Budget Savings	12.0	11.8	23.8

Table 2 - 0.0% Council Tax in 12/13 followed by 2.5%

13. It is clear from the figures that taking a Council Tax increase in 2012/13 is of greater long term financial benefit to the council than taking the freeze grant and dealing with it falling out of the base budget in 2013/14 (in effect avoiding the need to increase savings targets to meet the £1.8m gap).

Capital

14. Resources available to support new schemes are limited and pressure continues to be placed on the funding of the existing capital plans. As part of the CRAM process new bids are being considered that support the council plan along with a review of all existing approved capital schemes. Extension of rolling programmes for future years are also being considered in line with

the 5 year rolling capital programme to ensure capital investment remains available for those priority areas.

15. The capital programme places reliance for funding on prudential borrowing and as such the revenue implications of all schemes are being considered.

Consultation

16. The council's budget process has numerous consultation strands. Equalities advice is being sought, and implications noted, at all stages of the budget planning process. Furthermore, members of the public and business leaders will be consulted in the run up to setting the budget in February.
17. There continues to be extensive consultation with Trade Union groups on the ongoing implications of the council's financial situation via corporate and directorate JCC's.
18. The Fairness Commission released its recommendations on 28 November 2011 and Members will consider their findings as part of formulating their final budget proposals.

Corporate Priorities

19. This report demonstrates that early and comprehensive planning of the budget process is key to the effective management of the Council's resources and delivery of the Council Plan.

Implications

20. The implications are:
 - Financial - the financial implications are dealt with in the body of the report.
 - Human Resources - there are no specific human resource implications to this report.
 - Equalities – there are no specific equality implications to this report, however equalities issues are being accounted for at all stages of the budget process.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no specific crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property - there are no property implications to this report.
 - Other - there are no other implications to this report.

Risk Management

21. There are a number of risks associated with the budget process, in particular with regard to the delivery of the overall savings target over the 2 year budget period and work is ongoing to develop proposals.

Recommendations

22. Members are asked to note the current position and the ongoing work that is being undertaken to deliver the 2012-14 budget.

Reason: So that the budget process can be completed in a timely manner.

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