

**Budget Council**

**26 February 2015**

Report of the Director of Customer and Business Support Services

**Recommendations of Cabinet on the Council's Capital Strategy for 2015/16 – 2019/20, the Financial Strategy 2015 – 2020 and the Treasury Management Strategy Statement and Prudential Indicators for 2015/16 – 2019/20**

**Summary and Background**

1. This report presents to Council the recommendations of Cabinet for approval in respect of the capital strategy for the period 2015/16 to 2019/20, the revenue budget proposals for 2015/16 and the treasury management strategy for the period 2015/16 to 2019/20. This report should be read in conjunction with the reports presented to Cabinet on 10 February.
2. On 10 February the Cabinet met to consider the revenue and capital budgets and the treasury management strategy. The following reports, copies of which Members have previously received, were considered;
  - i) Financial Strategy 2015 - 2020
  - ii) Capital Strategy 2015/16 to 2019/20
  - iii) Treasury Management Strategy and Prudential Indicators 2015/16 to 2019/20.

**Consultation**

3. The council's budget has been widely consulted upon. Please refer to the relevant section of the Financial Strategy report for further details.

**Options**

4. Options open to the Council are to approve Cabinet's recommendations or to approve any amendments that may be moved by other Members of Council.

## **Specialist Implications**

5. Implications in respect of setting the budget are contained in the Cabinet reports. Member's attention is drawn in particular to the legal advice and the statutory advice of the Section 151 officer as set out in the Financial Strategy report and repeated in the following sections.

## **Legal**

6. The Council is required to set a council tax for 2015/16 before 11 March 2015. It may not be set before all major precepts (i.e. precepts from the Police and Fire Authorities) have been issued or before 1st March 2015, whichever is the earlier. This decision is reserved to Council and cannot be taken by Cabinet or delegated to officers, although Cabinet has to recommend a budget to the Council. These comments are intended to apply to both the Cabinet meeting and the subsequent Council meeting.
7. Before determining the level of the tax, the Council must estimate its proposed revenue expenditure, taking into account amounts required by way of contingency, any need to raise reserves and any other amounts which the Council is legally required to transfer between funds. It must also estimate its anticipated income, any relevant transfer between funds and any proposed use of reserves. It must then calculate the difference between the two which is the council tax requirement.
8. The Council's Chief Financial Officer (under s151 Local Government Act 1972) is required to report to the Council on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the calculations in connection with which it is made. The Chief Financial Officer has a statutory duty under section 114 of the Local Government Finance Act 1988 to issue a written report if he considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.
9. In reaching decisions on these matters, Members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. The resources available to the Council must be deployed to their best advantage. Members must also act prudently.

Members must also bear in mind their other statutory duties to have regard to certain matters when making decisions. In particular the “equalities duty” to have ‘due regard’ to the need to eliminate discrimination and to promote equality when making decisions and the need to consider any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.

10. Members have a fiduciary duty to the council tax payers and others in the local authority’s area. This means that members must behave responsibly in agreeing the budget. Members have no authority to make anything other than a balanced budget.
11. Among the relevant considerations which Members must take into account in reaching their decisions are the views of business ratepayers and the advice of officers. The duty to consult representatives of non-domestic ratepayers on the Council’s expenditure plans is contained in Section 65 of the Local Government Finance Act 1992.
12. In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the Director of Customer and Business Support Services as Chief Financial Officer. Members are obliged under the Code of Conduct to have regard to the advice of the Chief Finance Officer and Monitoring Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities. In addition, if Members wish to re-instate savings recommended by the Director of Customer and Business Support Services in order to balance the budget, they must find equivalent savings elsewhere.
13. The Director of Customer and Business Support Services is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit (England) Regulations 2011 (as amended) to ensure that the council’s budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. He is in addition subject to the requirements set out in paragraph 141 above.
14. Members must also have regard to, and be aware of, the wider duties placed upon the council by various statutes governing the conduct of its financial affairs. These include the distinction between revenue and capital expenditure and the requirement to set prudential indicators in

line with capital investment plans that are prudent, affordable and sustainable.

15. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears and will not be voting on the decision for that reason. The Member concerned must not vote but may speak. The application of Section 106 of the 1992 Act is very wide and Members should be aware that the responsibility for ensuring that they act within the law at all times rests solely with the individual Member concerned.

## **Statutory Advice from the Director of Customer and Business Support Services/Comments**

### **Introduction**

16. The Local Government Act 2003 places responsibilities upon the council's Chief Finance Officer to advise the council on the adequacy of its **reserves** and **the robustness of the budget proposals** including the estimates contained in this document. This section also addresses the **key risks** facing the council in relation to current and future budget provision. The following paragraphs give my views on the budget (both 2015/16 and beyond), reserves and general robustness of the process.

### **Overall Assessment**

17. The proposals in this budget give a balanced budget for 2015/16 and an overview of future years. The council has well established effective financial management, effective monitoring, and has received very favourable external audit reports in respect of its financial management. The council has managed expenditure within its overall budget in recent years, and the overall financial planning process remains sound.
18. Full scrutiny of the budget proposals for 2015/16 has taken place, in terms of their deliverability, and a proper risk assessment of a range of issues has been conducted.
19. There are significant savings contained within the budget proposals, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge, both in terms of next

year and beyond. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing the risk of the savings proposed; I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent, and I am assured of the robustness of the projected savings, and the extent of rigour in their calculation. They do however represent a major challenge to deliver, one that will only be achieved through full commitment across the organisation. Very careful monitoring of the progress of the savings programme will be essential. A risk assessment related to the individual savings proposals has been conducted, and discussed with senior management. Where savings are not delivered, services are fully aware of the need to find compensating savings.

20. I consider that the overall estimates in the budget are sound and that the proposals to achieve a balanced budget are achievable, albeit demanding. The council has made provision for a number of corporate financial pressures, such as the impact of the capital programme, waste, pay and pensions implications. In addition provision is included for a contingency sum of £650k, and I consider this an important factor in the overall budget assessment. This overall package is a realistic approach in dealing with the financial pressures facing the council next year. In addition the major financial pressures being experienced during 2014/15 have been addressed through significant additional investment provided for Adult Care, Children's Services and Parking Income. There is provision made for the agreed 2.2% pay award.

## **Looking Ahead**

21. Looking ahead there remains a range of very significant pressures for the future. It is almost certain that there will be further reductions in government funding, and the major challenge facing the council in coming years will be to secure further savings and for cost pressures to be managed effectively. In doing so, the council will also need to provide capacity for additional investment in unavoidable costs and priorities.
22. In previous years the Council has set a two year budget, which has significantly aided in terms of long term planning. This year's budget is for one year only, given the upcoming elections in May 2015. However, I would recommend that the Council reverts next year to setting out as a minimum a detailed two year budget strategy (supported by a longer term high level strategy) and that it indeed considers a 3-4 year detailed strategy.

23. As set out in this report, the likely scale of savings between 2016 to 2020 is around £35m. This is over 30% of the net budget. Illustrations are given in the report also of how if Adult care services were protected, how other services would be impacted. It is critical given these projections that the Council develops during 2015/16 its long term financial strategy, and that the implications, risks, and scale of the challenge are recognised. A recent survey from Zurich identified the financial challenges facing local authorities as being the single greatest risk.
24. Key to tackling these medium term challenges will be the need for the council to continue to review all areas of expenditure, and have clear medium term plans. In addition to continuing to find efficiencies, the council will need to consider the level and type of service it provides, as the scale of financial savings required in future years can not be met from true efficiency alone. Meeting the financial challenges facing the council in coming years will require the council to think very carefully about its core priorities, how it works with its partners and key stakeholders, and its overall provision of public services.

## **Reserves**

25. In terms of reserves, the proposals seek to reduce reserves to an amount of £496k above their minimum levels. This recognises that in difficult financial times, and alongside general uncertainty regarding the economy, it is advisable to ensure sufficient reserves are in place.
26. I believe that the council will come in on budget for 2014/15 and this is reflected in the budget monitoring report presented to Cabinet at this same Cabinet meeting.
27. The recommended minimum reserves for 2015/16 are £6.4m. This is considered within the report. I strongly advise Council to ensure there is some headroom between minimum reserves and actual reserves. The budget proposals seek to achieve this.
28. The decision on the adequacy of the level of reserves is linked to the general robustness of the budget process and the council's systems of budgetary control and risk management. These need to ensure that the council will not be exposed to any unforeseen major financial problem requiring the use of reserves to resolve. In considering the overall budget position, I have taken assurance over the recent track record of the council to manage expenditure within budget, and the fact that in very recent times financial pressures have been identified early in the financial year and through concerted action across the council the

position has been brought in line with budget. The council's strong financial management, and financial control, has been commented upon by external auditors recently.

## **Other Issues**

29. The government have stated that they will continue with the system of Council Tax Freeze Grant in 2015/16.
30. It is for members to determine the level of council tax increase, and to decide whether to set a council tax increase that will trigger the council tax freeze grant, or to set a tax at a higher level. Members naturally need to consider the implications of the different options very carefully.
31. I also would highlight the separate capital strategy report, and the issues that are set out within that. In particular, the capital plan has some significant implications in terms of the revenue budget in coming years, and both programmes will need to be carefully managed in terms of ensuring proper provision is made in the medium term. I would stress however that the overall balance in terms of capital investment, levels of borrowing, and revenue implications (and the impact on revenue expenditure) is something that is for Members to determine.
32. In recent years I outlined that there were added risks to the budget due to the changes affecting the council regarding council tax support (previously council tax benefits) and localisation of business rates. With regard to council tax support the risks include non collection, increased benefit claimants (with all the cost of such an increase falling on the council) and risks at a wider level in terms of the impact of wider benefit changes and associated knock on effects for council services. In respect of localisation of business rates, whilst this offers potential benefits, there are also risks. The details of the system still continue to be refined, and there remain a number of areas that concern local authorities. These include the fact that local authorities need to meet the cost of backdated appeals, which could be significant. In addition, clearly there are risks associated with any further downturn in the economy and especially the impact on some high street stores. Both of these issues highlight the direct financial impact on the council of the local economic situation, and the need for the council to ensure priority is given towards ensuring a successful economy.
33. I am aware that as with all budgets there is the potential for amendments to be proposed/agreed which could change the overall package of proposals. In that respect, I would highlight that I would amend/add to my

statement if a decision was proposed that lead to the council's reserves falling below the minimum level (assuming the current budget comes in line with budget). In addition, any other amendments I would consider against the scale of the overall budget and depending upon the extent of the amendment I may revise my statement.

## **Recommendations**

### **Capital Strategy**

34. Cabinet recommends that Council;

- i. Agree to the revised capital programme of £187.019m that reflects a net overall increase of £44.107m (as set out in paragraph 55 table 7 and in Annex B). Key elements of this include:
  - a. Extension of prudential borrowing funded Rolling Programme schemes totalling £5.970m as set out in table 2 and summarised in table 7;
  - b. New schemes totalling £8.763m including an increase in prudential borrowing of £5.538m as set out in table 3 and summarised in table 7;
  - c. New externally funded schemes totalling £15.140m as set out in table 4 and summarised in table 7;
  - d. An increase in HRA funded schemes totalling £14.234m funded from a combination HRA balances/Right to Buy receipts of £14.234m as set out in table 5 and summarised in table 7 subject to the approval of the Director of CBSS in relation to the IT investment (£1.810m).
- ii. Approve the full restated programme as summarised in Annex A totalling £187.019m cover financial years 2015/16 to 2019/20 as set out in table 8 and Annex A

Reason: To set a balanced capital programme as required by the Local Government Act 2003.



## **Revenue Budget**

35. Cabinet recommends that Council;

- i. approve the budget proposals outlined in the Financial Strategy report and, in particular;
  - a. The net revenue expenditure requirement of £119.760m, having been adjusted by a further £162k, following receipt of the final grant settlement
  - b. A Council Tax requirement of £72.736m
  - c. The revenue growth proposals as outlined in the body of the report
  - d. The additional revenue growth of £162k, as a result of the final grant settlement
  - e. The revenue savings proposals as outlined in Annex 3a to 3d
  - f. The fees and charges proposals as outlined in Annex 5
  - g. The Housing Revenue Account budget set out in Annex 6
  - h. The dedicated schools grant proposals outlined in paragraphs 120 to 128.
- ii. Note that the effect of approving the income and expenditure proposals included in the recommendations would result in no increase in the City of York Council element of the council tax.

Reason: To ensure a legally balanced budget is set.

## **Treasury Management Strategy Statement and Prudential Indicators**

36. Cabinet recommends that Council approve;

- i. The proposed treasury management strategy for 2015/16, including the annual investment strategy and the minimum revenue provision policy statement
- ii. The prudential indicators for 2015/16 to 2019/20 in the main body of the Cabinet report

- iii. The specified and non specified investments schedule (Annex B to the Cabinet report)
- iv. The scheme of delegation and the role of the Section 151 officer (Annex D to the Cabinet report)

Reason: To enable the continued effective operation of the Treasury Management function and ensure that all Council borrowing is prudent, affordable and sustainable.

## Contact Details

### Authors:

Debbie Mitchell  
Finance Manager  
(01904) 554161

Sarah Kirby  
Principal Accountant  
(01904) 551635

Ross Brown  
Principal Accountant  
(01904) 551207

### Chief Officer Responsible for the report:

Ian Floyd  
Director of Customer and Business  
Support Services

**Report  
Approved**



**Date**

17 February 2015

**Wards Affected:** List wards or tick box to indicate all

**All**

**For further information please contact the authors of the report**

### Background Papers:

#### Reports to Cabinet meeting held on 10 February 2015

Financial Strategy 2015 – 2020

Capital Strategy 2015/16 to 2019/20

Treasury Management Strategy Statement and Prudential Indicators for 2015/16 to 2019/20

**Annexes:** None