

Report of the Director of Resources

Revenue Budget 2008/09

Summary

- 1 This paper presents the Revenue Budget proposals for 2008/09 and details the potential financial position for the Council in 2009/10 and 2010/11. To assist with this latter point where possible the report details figures for future years alongside their 2008/09 equivalents. There is a separate report on the agenda covering the Capital Budget. At Budget Council on the 21st February there will also be proposals for Fees and Charges.
- 2 The proposals in this paper present a balanced budget for the Council for 2008/09 with the following key features:
 - a. Revenue investment of £15.822m^{TABLE 1} the funding for which will be achieved through:
 - i. Revenue savings of £4.296m^{TABLE 1};
 - ii. An additional £4.000m¹ from a City of York Council Tax rise of 4.95% resulting in a Band D Council Tax, for City of York Council only, of £1,030.67, an increase of £48.61^{TABLES 13 & 15};
 - iii. Meeting £1.823m of one-off expenditure from general fund reserves^{PARA 49};
 - iv. Additional Revenue Support Grant Funding of £4.023m^{TABLE 12};
 - v. A reduced contribution from the collection fund surplus of £0.65m (reduced from £0.850m to £0.200m)^{PARA 44};
 - vi. Other adjustments on corporate budgets and additional non-general grant totalling £2.330m^{ANNEX 1}.
 - b. A net revenue budget of £112.423m, which will be funded by:
 - i. Council Tax income of £68.234m (including a £200k contribution from the 2007/08 collection fund surplus)^{PARA 44};

¹ This comprises £3.17m from existing properties, a further £0.68m from those expected to be built in 2008/09 and £0.15m from improved collection rates.

- ii. Government grant of £42.366m ^{TABLE 10};
 - iii. Use of reserves, of £1.823m ^{PARA 49};
- c. Funding for pupil led aspects of education, primarily schools, of £86.329m to be met by the Dedicated Schools Grant ^{PARA 89};
- 3 A comprehensive consultation exercise has been undertaken as part of the budget process. The recommendations in this report are based on a set of proposed growth and savings items which when amalgamated with the grant settlement and a 4.95% Council Tax increase produce a balanced budget. Other options that formed part of the consultation exercise are included at Annex zz. In considering whether or not to accept any of these additional proposals Members need to take due cognisance of the need to ensure that any amendments to the budget are balanced, that is savings and growth must either equal each other; or be corrected via appropriate transfers to or from reserves; or result in equivalent adjustments to the Council Tax levied by the Council; or reflect adjustments to the fees and charges levied.
- 4 The figures in paragraph 2 highlight that setting the 2008/09 budget is a difficult process and hard choices need to be made. The Council faced a gap of almost £16m between its projections of necessary expenditure in 2008/09 and its existing income levels. This gap of £16m has been closed by £3.4m of net increased Council Tax (including movement in collection fund surplus), £4m of additional government grant, £5.5m efficiency, other savings and increases in fees and charges, £1.1m additional grant for the new concessionary fares scheme and £1.8m use of reserves to meet one-off time limited expenditure. The savings identified are only likely to result in under 10 posts that are currently filled being lost and every effort will be made to redeploy the staff affected. However, these proposals will enable the Council to maintain and continue to improve its existing quality services (such as education and social care) whilst investing in core priorities and areas of need. Alongside this the Council has also been able to address public priorities such as; free national bus passes for the over 60's, free evening car parking for residents and enhanced waste recycling arrangements. It is useful to put this in the context of a Council Tax increase of approximately 95 pence per week and that in 2007/08 York had the second lowest Council Tax and second lowest spend per person of any Unitary Authority.
- 5 The Government grant settlement and an inflation only Council Tax rise would be nowhere near enough to fund all of the growing pressures on Council budgets which total almost £16m. This total includes £4.3m for pay and prices inflation, over £1.5m for the concessionary bus travel act costs, £2.7m withdrawal of direct grant support to services (this has been incorporated into the £4m increase in general grant) and £0.7m from the retraction of supporting people funding. In addition to known commitments, there are increasing volume and price/cost demands on services, particularly in social services and in waste where a landfill tax increase of £8 per tonne will add around £0.55m to costs. The total non schools growth allowed for in the proposed budget is £9.282m. A full list of these pressures is shown at Annex 3.

6 To help fund the rising budget pressures and keep Council Tax down, the non-Education budget proposals include efficiency savings and income generation proposals of £4.296m. A full list is shown at Annex 4.

7 Members should note that there are a number of potential expenditure pressures which may materialise in 2008/09, but which cannot at this stage be quantified with any certainty. It is proposed that a General Contingency of £0.8m is set to cover these eventualities. This level of contingency is proposed based on a risk assessment of all the unfinalised financial issues that face the Council next year. The contingency allows for just under 50% of the known issues to be funded should they arise. Possible calls on this contingency are detailed at Annex 2.

8 It is important when setting the 2008/09 revenue budgets that members do so in the knowledge of a range of significant issues that may affect the Council in next few years and which York may not have sufficient resources to address. Given the council's tight financial position; the levels of reserves now held; the effects of the significant additional expenditure pressures; the Government grant settlement and the significant level of efficiency savings; increases in charges and budget cuts that are needed to balance the budget; it has not been possible to identify acceptable options to enable the Council to fully prepare for all of the following issues. The 2008/09 budget that is proposed in this report is very 'tight' in a number of key areas. For example there is no allowance for inflationary growth on the majority of non staff and non contractual budgets and, in effect, these are cash limited. In addition the budget also requires a significant number of savings initiatives to be implemented. Of particular concern are the following key issues that could well add significant pressure, either to the 2008/09 budget after it has been set, or to future Council budgets:

- a. The deficit on the pension fund ^{PARA 22} ;
- b. The introduction of job evaluation ^{PARA 27} ;
- c. The future costs of waste management ^{PARA 112A} ;
- d. The increasing numbers of elderly persons and the costs of services for them ^{PARA 112 E} ;
- e. The threatened substantial cuts in grants for 'supporting people' ^{PARA 112F} ;
- f. The Highways PFI bid and possible funding necessary to address the backlog of outstanding works needed to the City highways infrastructure, and the level of works needed to Council buildings ^{PARA 112G} .

9 All of the above issues are covered in more detail later in this report.

Background

- 10 The base for the 2008/09 budget is the Council's net revenue budget for 2007/08 of £103.227m². The Medium Term Financial Strategy for 2008/09 (presented to the Executive in September 2007) estimated that to stay within the government's likely range for a 2008/09 Council Tax rise, meet all known expenditure pressures, and provide for service investment; the Council would be facing a budget gap for 2008/09 of around £10 - 11m after allowing for increased government grant and a Council Tax increase towards the upper end of the likely capping limit.
- 11 This gap takes into account the government's stated desire to see council tax increases averaging well below 5%. In the recent past the word 'average' has been used in a way that actually equates to a maximum and therefore the Director of Resources' opinion is that the proposed increase in 2008/09 of above 4.95% would be inadvisable. A figure of 4.5% to 4.75% should almost certainly be free from any threat of capping, but given the Council's low Council Tax and grant funding position it needs as high a Council Tax increase as can be achieved within the vagaries of the capping process. Members are reminded that any reduction in the size of the increase has knock on effects into future years, as future % increases would be from a lower than otherwise base.
- 12 York has consistently fared badly in the level of Government grant it receives compared to other local authorities and in 2008/09 this fell to an all time low of 58.6% of the unitary average.

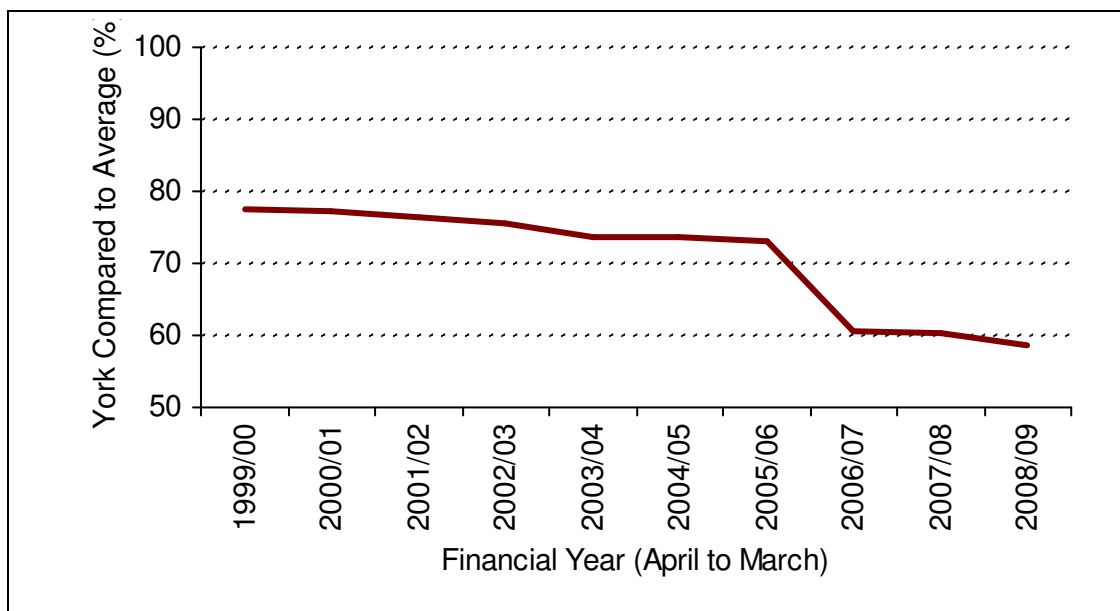


Figure 1 – Comparative Levels of Grant per Person (all unitary councils)

² This figure excludes £1.312m non-recurring expenditure funded from reserves as such expenditure does not impact upon the net revenue budget of the Council.

Council a 3.2% increase in grant compared to a Unitary average increase of 4.8%. York did worse than average due to the unwinding of a set of floor and ceiling grant arrangements within the social services block.

- 15 Members of the Executive are asked to recommend the income and expenditure proposals in this budget paper for the approval of Full Council on 21 February 2008.

Future Issue

- 16 With 2007 having contained the Lyons review, the 3 year Comprehensive Spending Review and a range of other government led developments and initiatives it is likely that 2008/9 will be a year focussed more on planning, delivery and consolidation. The key upcoming issues for consideration that have a significant financial element will be consideration of the opportunities presented by a supplementary business rate, deciding on the use of LPSA2 reward grant when it is received in 2009/10 and the outcome of the Highways PFI bid which should be in April 2008, but has been much delayed.

Expenditure Pressures & Budget Position

- 17 Annex 1, summarised in Tables 1 and 13, sets out the latest estimate of the Budget position for 2008/09, using the funding assumptions described in the earlier section and the savings and growth presented to EMAP meetings. This shows that in 2008/09 the Council's net budget requirement will increase by £9.196m from £103.227m to £112.423m.

Expenditure Requirements	2008/09 £'000
Net Expenditure Budget for 2007/08	104,539
Less: One-off Funding for non-recurring items	-1,312
Starting Expenditure Requirement for 2008/09	103,227
Unavoidable and Corporate Non-Schools Expenditure Pressures	6,540
Directorate Growth Funded via Reprioritisation	9,282
Total Expenditure Pressures	15,822
Savings Proposals	-4,296
Adjustments on Corporate Budgets	-1,218
Additional direct grant for the new concessionary fares scheme	-1,112
Net Budget Growth / Additional Funding Requirement	9,196
Revised Projected Expenditure Requirement for 2008/09	112,423

Table 1 – 2008/09 Expenditure Requirements

- 18 Service and corporate spending pressures and growth proposals are outlined in Annex 3. Further detail on key corporate spending pressures is detailed below.

Growth

- a. Price Inflation (non-avoidable expenditure increases only, all other budgets cash-limited) ^{PARA 19}
- b. Pay Inflation ^{PARA 21}
- c. Employers' Pension Contributions ^{PARA 26}
- d. Job Evaluation Costs ^{PARA 27}
- e. Minimum Revenue Provision ^{PARA 36}
- f. Impacts of prior year savings ^{ANNEX 3}

Savings

- a. Reduced financing for borrowing (capital programme) ^{PARA 35}
- b. Interest earned on cash balances ^{ANNEX 4}
- c. Contingency Savings (Non-Utilised 2007/08 Funding) ^{ANNEX 4}

Price Inflation

- 19 As Figure 4 demonstrates during 2007 general price inflation⁴ has been running at between 2.8% and 3.9%. This is higher than the position for 2006.

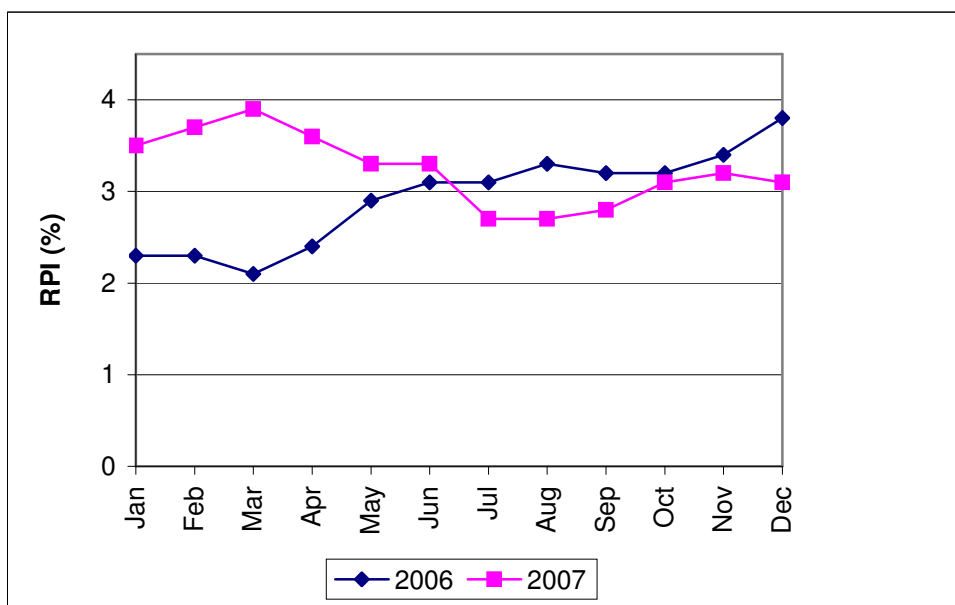


Figure 4 –RPI (Excluding Mortgage Interest)

- 20 Even with this increased level of uncertainty in the level of general inflation the severity of the expenditure pressures facing the Council for next year means that it is once again proposed that there is a general cash freeze on non-pay budgets. However, there are a number of unavoidable price increases including contractual prices and the cost of utilities / fuel all of which need

⁴ RPI excluding Mortgage Interest

additional funding. In total £1.452m has been allocated to cover such costs. Also included within this figure is a sum for the increased cost of Council Tax Benefits, at 4.95% in line with the overall Council Tax rise for York residents, and provision for Housing Benefits for both private and council tenants.

Pay Inflation and Employers' Superannuation Contribution

- 21 While estimates have been based upon a 2.5% APT&C pay increase the actual award has yet to be agreed, with the unions requesting a package of over 6%. The Council also employs a number of staff under different national conditions (for example Craft, Soulbury and Teachers). Where appropriate pay inflation for these employees has been included in line with current agreements and forecasts. In total pay awards are estimated to cost £1.895m.
- 22 The triennial valuation of the North Yorkshire Pension Fund (NYPF) was undertaken at the end of 2006/07. This review showed that the funding level of the whole fund had risen from 59% (£525m deficit) at 31 March 2004, to 67.2% (£618.5m deficit) at 31 March 2007, of which York's share was £95.3m (£2.3m less than previously). As recognised in last year's budget this was still below where the Council needs to be and additional investment should be considered to bring the fund back to a balanced level.
- 23 While the trustees of the Fund recommended a 30 year maximum recovery period to get back to 100% funding of all liabilities, as a default approach to covering these shortfalls the Council felt it would be more prudent to have a shorter recovery period and elected to maintain its fixed contribution rate of 17.6% of payroll costs for the period 2005/06 to 2007/08. Even so this rate increased York's recovery period from 15 to 24 years.
- 24 The 2007 actuarial valuation and the future actuarial projections allow for estimated changes in a number of demographic areas, most notably longevity. In addition the government has introduced changes to the Local Government Pension Scheme as a whole, including a move to 1/60th from 1/80th for each year worked and removal of lump sum provisions. These changes require an increased level of contributions from both employers and employees, with higher paid employees having to pay contributions of up to 7.5% compared to the previous 6%.
- 25 The triennial valuation in March 2007 takes account of
 - a. Changes to the National Scheme;
 - b. Longevity rates;
 - c. Membership profiles;
 - d. Investment growth;
 - e. Return on gilts;
 - f. Assumptions on future growth and inflation.
- 26 The Council's pension contributions are calculated as a % to be paid on top of pay costs. This % is 17.6% and consists of 10.2% for future service and 7.4% towards the deficit (known as Past Service), this was based on a 24 year recovery period. Now that a further 3 years have passed, the Council is down

to a 21 year recovery period and the actuary requires a future service contribution of 12.4% and a past service contribution of 6.9% totalling 19.3%. These figures take account of a substantial reduction in ill-health early retirements and the actuary has reduced the contribution rate for that element by 50%. In addition the Council has the option to work on a higher assumed rate of investment return than normal and this budget proposes that we do that, reducing the contribution rate by a further 1.3%. This leaves a pension contribution rate of 18% which is 0.4% (£255k) more than at present and this figure is included in the overall budget proposals. More detail on pensions is included at Annex 10.

Job Evaluation and Equal Pay

- 27 One of the consequences of the 2004 national three-year pay deal is that the Council must undertake a full pay and grading review based on a job evaluation exercise, and implement any resulting changes by 2007/08. There has been a delay in this, but positive discussions are being held with the unions with the aim of implementing a pay structure with effect from April 2008. No additional budgets to those already set aside (£2.6m ongoing plus much smaller contributions within school budgets and the HRA) are proposed in the 2008/09 budget although it should be noted that the funding within the 2008/09 budgets for both the April 2008 pay award and for increments will be utilised within the new pay scheme, subject to it being implemented with effect from April 2008.
- 28 The one-off funding built up in 2005/06 and 2006/07 of £1.54m together with the unused element of 2007/08 funding is likely to be fully utilised in making additional equal pay settlements (with further equal pay roadshows for the 2007/08 year due March 2008), settling outstanding claims from 2006/07 and prior years and in meeting the operating costs of the job evaluation and equal pay projects.
- 29 The council has attempted to reach agreement with over 1,400 mainly female posts over compensation relating to equal pay legislation. To date about 1,250 have reached agreements at a cost to the council of around £2.1m. The council is actively seeking to reach agreement with the remaining staff but most of these and some others have taken employment tribunal cases against the Council. 160 of these are due to be heard in a preliminary General Material defence hearing during the last 2 weeks of April. This will almost certainly lead to additional liabilities falling on the Council, but until further legal discussions have been held it is too early to say whether these will lead to additional costs beyond those already budgeted. Any such costs would fall to be met from reserves which are already under some pressure.

Corporate Redundancy and Early Retirement Budgets

- 30 The Council initially adopted a uniform policy for redundancies and early retirements in August 2002, with an update in January 2007. All redundancies and early retirements that fall under this policy are paid for from a corporate budget, whilst the costs of any exceptions to the policy are usually paid for by the relevant directorate.

- 31 The Council's policy is that it will normally pay for costs of early retirement and redundancies in the year in which they occur. Occasionally, due to either the size of the charge, or existing pressures on the budget, these costs can be spread over a period of up to 5 years. In addition, the budget must cover the costs of prior year decisions which are charged to the Council on an annual basis, for example, early retirement costs arising out of local government re-organisation and the continuing annual costs of teachers' early retirements.
- 32 In summary, the estimated outturn for 2007/08 is:-

	£000's
Recurring Budget	1,338.5
2007/08 One-Off Virements	293.7
Total 2007/08 Budget	1,632.2
Estimated 2007/08 Expenditure	1,609.6
Estimated Underspend	22.6

Table 2 – Estimated Out-turn for 2007/08

- 33 The breakdown of the above, in terms of prior year, redundancy and early retirement payments is shown in the table below:-

	Cost £000's	No. of Employees
Annual Charges for Prior Year Retirements	715.7	
Non-Schools		
Redundancies (incl. Retirement Costs)	260.7	14
Early Retirements	140.0	5
Schools		
Redundancies (incl. Retirement Costs)	410.8	24
Early Retirements	52.8	16
Administration Charges	29.6	
TOTAL	1,609.6	

Table 3 – Analysis of Spend 2007/08

- 34 As a result of the above and the small number of redundancies projected to result from this budget no change is proposed in 2008/09 to the Council's corporate redundancy and early retirement budgets.

Capital Financing

- 35 The Council has to make provision within the revenue account to fund the interest and principal repayments on any borrowing it undertakes. Until 2006/07 the FSS formula provided an explicit allocation of funds to support this expenditure however, with the implementation of the four-block model, this is no longer the case. The Council also funds a significant proportion of its

capital expenditure from capital receipts. The continued use of capital receipts will result in the reduction of investment income which could have been generated if these receipts had been invested on the money markets.

- 36 The Minimum Revenue Provision (MRP) represents the minimum amount the Council must set aside to repay its debt, rather like the Principal element of a mortgage repayment. This is calculated as a percentage of the Council's capital financing requirement. The capital financing requirement reflects the Council's underlying need to borrow for a capital purpose. The additional growth of £212k represents the increased amount of set aside needed to comply with the statutory requirements. In addition to the MRP there are interest costs of borrowing additional funds to finance the capital programme. A thorough review of all treasury management costs has been undertaken as part of this years budget exercise and because of anticipated borrowing not being taken in 2007/08, there is more than sufficient budget currently available to cover the costs of any anticipated borrowing in 2008/09. In fact, as a result of the review, the treasury budgets can be reduced by £273k in 2008/09 and there continue to be sufficient budget to allow the 2008/09 borrowing to be funded. This position reverses itself in 2009/10 when additional funding will be required.

Waste Management

- 37 It is both a Council and Government priority to reduce the amount of household waste being sent to landfill. In order to achieve this and assist in reaching the target of diverting biodegradable waste from landfill to achieve Landfill Allowance Trading Scheme (LATS) targets the kerbside recycling scheme has been expanded. The scheme now includes more households and a cardboard and plastics collection that requires 3 larger vehicles. Further proposals are contained within this budget to expand kerbside recycling within the city centre on a pilot basis at a cost of £80k per year. The full costs of implementation of kerbside and other city centre recycling will be informed by the pilot, but will be significantly more than the cost of the pilot and is likely to require funding in future budgets before 2010/11. Investment is needed across the waste management agenda in order to meet LATS targets and avoid fines and in total the budget for 2008/09 includes £864k of growth pressures. These comprise:

- Landfill Tax, £450k
- Impact of Growth in Property Base, £133k
- Waste Strategy, £250k
- Advance purchase of land options for waste treatment facilities, £31k.

Budget Growth and Investment

- 38 Service departments have identified a number of areas which require increased investment. They have been evaluated on the basis of statutory requirement, risk to Council business, health and safety of the public and Council staff, proven customer demand and the contribution to the corporate priorities.

39 Annex 3 lists growth proposals totalling £15.822m. Within this £9.282m represent directorate pressures (Table 4) of which, as summarised in Annex 6, £1.823m is one-off growth that it is proposed to meet from reserves. It should be noted that this £1.823m includes £0.597m one-off funding commitments which are viewed as unavoidable due to their nature or commitments made in previous years.

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Housing	0	0	0
Adult Social Services	3,115	3,667	3,867
Leisure and Culture	0	0	0
Children's Services	524	524	522
City Strategy	2,364	2,764	2,644
Economic Development	0	0	0
Chief Executives	104	104	104
Resources	123	161	171
Neighbourhood Services	1,229	1,791	2,329
Recurring Growth	7,459	9,011	9,637

Table 4 – Recurring Directorate Growth

Savings and Income Generation

40 Annex 4, summarised in Table 5, details the £4.296m of individual savings and income generation proposals submitted by each service department. Other proposals which were rejected are shown in Annex 9.

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Housing Services	32	13	13
Adult Social Services	1,062	1,731	1,731
Leisure and Culture	365	365	365
Children's Services	494	504	504
City Strategy	440	440	440
Economic Development	70	0	0
Chief Executives	253	258	224
Resources ⁵	855	859	859
Neighbourhood Services	725	725	725
Net Total of Savings	4,296	4,895	4,861

Table 5 – Saving Proposals

41 Comments from the Head of Human Resources on the implications of these proposals in terms of posts lost and possible redundancy situations are detailed later in this report.

⁵ This total excludes the £150k offered from improved council tax collection which forms part of the council tax calculation

Summary of Directorate / Portfolio Budgets

- 42 Table 6 summarises the proposed net general fund budgets on a portfolio basis. Under the constitution the Scrutiny Management Committee is entitled to request an annual budget for its work. At its meeting on the 28 January 2008 it determined this request to be £20k which is £14k higher than the existing budget of £6k. This request has been included in the consultation section of the budget figures and appendices for members to consider, but is not included within the options actually proposed for funding within this budget.

	2008/09 £'000
Housing	1,495
Adult Social Services	37,280
Children's Services - General Fund	27,433
Leisure and Culture	9,349
City Strategy	16,516
Economic Development	2,314
Chief Executive	4,702
Resources	4,371
Treasury Management	6,845
Neighbourhood Services	15,044
	125,349
Neighbourhood Services - Traded Services	-354
Contingency	800
Job Evaluation Budget	2,616
Asset Rentals balancing figure	-18,763
Corporate Revenue Budgets (e.g. pensions)	1,231
Other Corporate Budgets (e.g. fuel inflation)	1,544
TOTAL	112,423

Table 6 – Summary of 2008/09 General Fund Portfolio Budgets

Contribution from the Collection Fund

- 43 The Collection Fund is the ring fenced account where all Council Tax is credited⁶. This account can either be in surplus or deficit at the year-end, depending on whether the authority has managed to collect more or less than it originally anticipated and the growth in property numbers. If there is a surplus, the funds are used to reduce the Council Tax. If in deficit, a higher Council Tax must be set and the taxpayer must fund the shortfall. All major precepting authorities⁷ share in any surplus or deficit on the fund, York's share of the surplus is 80.40%.
- 44 For a number of years, due to high collection rates and the buoyancy of the housing market, York's Collection Fund was in surplus. However in 2005/06 this was not the case and hence no surplus was available for distribution. Since 2006/07 the position has improved and as a result it is forecast a

⁶ This includes monies collected on behalf of Parish Councils, the Police and Fire Authorities

⁷ City of York, Police and Fire Authorities

£0.249m surplus will be produced providing a one-off contribution towards the council's budget of £200k.

- 45 The existing components of the current (2007/08) Band D Council Tax for a City of York resident are shown in the Table 7. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council	982.06
North Yorkshire Police Authority	185.40
North Yorkshire Fire Authority	56.04
TOTAL	1,223.50

Table 7 – Make Up of 2007/08 Council Tax

- 46 The recommendation made in these papers is that from April 2008 the City of York Council's (CYC) element of the Council Tax will rise by 4.95% to £1,030.67. Such an increase would yield £4.0m in additional income for the Council. This figure reflects an increase in council tax from existing properties of £3.17m, £0.68m council tax income from new properties and £0.15m from improved collection rates.

Fees and Charges Proposals

- 47 Detailed proposals for fees and charges are presented at Annex 8. The vast majority of proposals are in line with a recommended increase of between 2.5% to 3.0%. However, it should be noted that the proposals in this report do not include any additional income from increased charges for standard stay car parking charges, on-street parking charges, or season tickets for contract parking. These are included in Annex 5 and are to be considered as part of the consultation exercise.

Use of One-Off Funding to Support One-Off Expenditure Items

- 48 Table 8 shows the position on all of the unearmarked General Fund reserves which, it is anticipated, will decrease from an estimated £9.418m at the start of the 2008/09 financial year to £3.597m by the end of 2010/11. In the longer term the Council's budget should not rely on one-off funds to support recurring expenditure, but it is good financial practice to use such funds to support one-off expenditure. In this regard it should be noted that the above figures do not include future unidentified one-off pressures funded by reserves, nor do they include any additional sums that may be due to the Council under the Local Authority Business Growth Incentive (LABGI) scheme. The government have announced that prior to releasing any further sums they are reviewing the scheme, and it is therefore prudent to assume at this moment that none will be received. The Council received £537k during 2007/08 from the scheme. However they do include the temporary use of the venture fund in support of the New Hungate Offices project, which will start to be repaid during 2011/12.
- 49 It is assumed in the budget projections in this paper that all of the net one off expenditure for 2008/09 totalling £1.823m, will be funded from Revenue Reserves reducing the available balance on the general fund to £4.744m.

- 50 Forecasts for the future levels of reserves are shown at Annex 7. In addition the contingency (Annex 2) contains potential one-off expenditure pressures totalling £201k which it may be appropriate to consider funding from the general reserve.

	2007/08 Projected Outturn £'000	2008/09 Budget £'000	2009/10 Budget £'000	2010/11 Budget £'000
General Fund	7,366	4,744	3,656	3,428
Venture Fund	1,898	1,222	833	15
Neighbourhood Services	154	154	154	154
Total	9,418	6,120	4,643	3,597
CPA / Prudent Minimum Reserves	5,201	5,222	5,388	5,388
Headroom in Reserves	4,217	898	-746	-1,792

Table 8 – Projected General Reserves

- 51 Under current CPA guidance, a recommended prudent level of reserves for this Council should be 5% of the net non-schools revenue budget. For 2008/09 this would be equal to 5% of £110.600m, or approximately £5.530m. However in line with best practice the council is looking to move away from this blanket figure to a targeted calculation taking into account identified risks and known commitments. The Director of Resources has undertaken a mini-review of the level and nature of balances held both for general purposes and for earmarked purposes, and also calculated the level that should be held by undertaking a risk assessment for the Council rather than using the former CPA guidance of 5% of net general fund budget. In considering what level of general purpose balances that should be held, rather than those held for earmarked purposes, the Director of Resource has determined that, as a minimum, the prudent level must:
- i. Provide sufficient cover to match the highest peak values for net departmental overspends over the last three financial years (£1.910m);
 - ii. Be sufficient to fund the Council's contribution to the Bellwin scheme relating to the costs of two major disasters in a financial year (£0.760m);
 - iii. Cover a shortfall in council tax income of approximately 0.5% (£0.340m);
 - iv. Cover 2% of the Council's net revenue budget (£2.212m).
- 52 The total of the above is that the prudent minimum level of reserves is calculated at £5.222m compared to the former CPA guideline figure of £5.530m. For 2009/10 the minimum prudential balance is estimated at £5.388m.

- 53 For calculation purposes the overall general reserves comprise the general fund reserve, the venture fund reserve and the commercial services reserve. Details of these are also shown in Annex 7.
- 54 Members are reminded that balances are not normally used to fund recurring expenditure and any further large approvals against these balances will reduce the scope for Members to utilise reserves to fund current year overspends or new investment in future years. Using balances to fund recurring expenditure creates funding problems in future years, as the resources will no longer exist, but the expenditure will.
- 55 It is forecast that by the end of 2008/09 the Council will have relevant reserves totalling £6.120m, against a prudent reserve level of £5.222m. However this position assumes that there will be an underspend during 2007/08 in line with the projections at the second monitor, and that there will be no additional LABGI income received.
- 56 It is clear that the level of reserves being drawn upon to support the 2008/09 budget, whilst affordable, present some considerable risks, particularly in terms of the 3 year projection. It is suggested that the Council review reserves in summer 2008 in light of the 2007/08 end of year accounts which are likely to show an underspend, possibly a larger one than currently forecast. If this is not the case or it is insufficient to resolve the problem then the Council will need to reconsider its planned use of reserves in the autumn.

LPSA2 Reward Grant

- 57 In accordance with the decision of the Executive of 24 July 2007 it is proposed that the residual LPSA2 grant estimated at £850k will be used to implement and manage schemes that will have the greatest impact on achieving key LAA targets. Council Directors and partner organisations will be asked to submit bids for schemes requiring only one-off public funding.
- 58 In accordance with the decision of the Executive the Director of City Strategy and the Director of Resources will develop a robust bid process and supporting documentation (with particular reference to methodology and target monitoring) to facilitate the allocation of any LPSA2 grant funding which may become available. This will be completed by May 2008.
- 59 It is proposed that the Without Walls (WOW) Partnership will determine what the LAA targets for the period 2008/09 - 2010/11 will be by June 2008. At this point it will be able to invite bids from partners, using the methodology developed, to request LPSA2 funds to achieve targets. The WOW Executive Delivery Board will assess the bids and make recommendations to the council as to the most appropriate allocation of the funds by December 2008.

General Contingency

- 60 In order to meet any unforeseen or currently unquantifiable costs which may arise during the financial year, the Council sets aside a contingency amount in the budget. This is a prudent way to ensure that unforeseen costs do not result

in any substantial overspends against budget, which would impact on Council reserves or require in year cuts to be made. Since release of contingency funds is reserved to the Executive it also allows a clear and transparent decision to be made about the release of contingency funds based on information provided in reports to the Executive. Due to the uncertainty of size and nature of the issues and indeed whether some of them will happen at all, the level of funding provided is less than the total potential demands. As Figure 5 shows calls on the contingency have varied significantly in recent years.

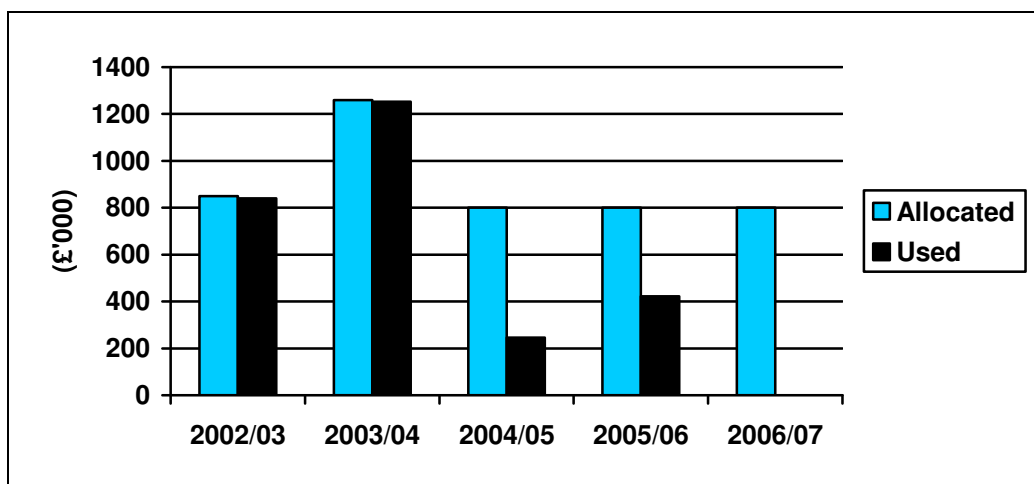


Figure 5 – Size and Use of Contingency

- 61 The General Contingency for 2008/09 will need to be set at a level to allow the Council to cope with some potentially significant financial issues, which are at this stage not fully quantifiable. Details of possible calls on the contingency are set out at Annex 2 and summarised in Table 9.

	2007/08				2008/09	
	One Off £'000	Utilised £'000	On Going £'000	Utilised £'000	One Off £'000	On Going £'000
HASS	280		0		0	93
LCCS	0	40	0		0	306
City Strategy Chief	0	273	400	400	164	1271
Executives	20		0		37	94
Resources	200	200	0		0	100
Neighbourhood Services	0		80		0	150
Corporate ⁸	100	278	545		0	38
Total	600	791	1,025	400	201	1,952

Table 9 – Summary of Potential calls on Contingency

⁸ 2007/08 Included £275 for social care pressures which if required would be utilised by LCCS or HASS.

- 62 In the context of the estimates provided above and the difficulties of costing some of the proposals it is recommended that Members set a robust contingency for 2008/09 at an increased level of £800k compared to £600k in 2007/08.

Contribution to the Council's Priorities

- 63 The council's corporate strategy for 2007 to 2011 has laid down 10 clear priority areas and 4 values:-
- (a) Decrease the tonnage of biodegradable waste and recyclable products going to landfill.
 - (b) Increase the use of public and other environmentally friendly modes of transport.
 - (c) Improve the actual and perceived condition and appearance of the city's streets, housing estates and publicly accessible spaces.
 - (d) Reduce the actual and perceived impact of violent, aggressive and nuisance behaviour on people in York.
 - (e) Increase people's skills and knowledge to improve future employment prospects.
 - (f) Improve the economic prosperity of the people of York with a focus on minimizing income differentials.
 - (g) Improve the health and lifestyles of the people who live in York, in particular among groups whose levels of health are the poorest.
 - (h) Improve the life chances of the most disadvantaged and disaffected children, young people and families in the city.
 - (i) Improve the quality and availability of decent, affordable homes in the city
 - (j) Reduce the environmental impact of council activities and encourage empower and promote others to do the same.

The 4 values are:-

- Delivering what our customers want
- Encouraging improvement in everything we do
- Supporting and developing people
- Providing strong leadership

- 64 All of the growth and savings proposals considered as part of the budget have taken account of the link between the proposal and the delivery of Corporate Priorities. This process has led to the Priorities being more likely to receive growth bids and less likely to be the subject of service cuts than would otherwise have been the case. However, the Council does not accept the premise that all priorities and values should automatically receive more funding. In many cases the corporate priority may already have a reasonable level of funding and the focus should be on the use to which that funding is put to achieve priority outcomes. In other cases priorities have been able to access funding outside of the budget process, from specific grants for example as in the case of the Transport Efficiency review or from Yorkshire Forward as in the case of the Eco-depot. In addition the financial resources allocated to the Priorities and Values are not necessarily the key resources. Councillor, management and staff time and engagement, clarity of purpose, direction and

leadership alongside consideration of the contribution existing funded projects and change programmes can make, are all vital in giving the Corporate Priorities within the Corporate Strategy the emphasis that they deserve.

- 65 The Audit Commission completed a review during 2007 which included discussions on the way in which the Council could more clearly link its resource utilisation to its Corporate Strategy and Priorities. It was agreed that the Budget report to Full Council would include a specific section outlining the types of resources supporting each priority. This information is being prepared and will be included with the report to Full Council on 21 February 2008.

Funding Position

Government Settlement - 2008/09

- 66 In 2006/07 the Government changed its approach to local authority funding. Before this date settlements were based on assumptions of spending need (Formula Spending Share). This spending need was partially funded by formula grant (Revenue Support Grant plus Non-Domestic Rates) and was balanced by a Government assumption on the amount of Council Tax each local authority could raise (Assumed Notional Council Tax).
- 67 From 2006/07 Local Government funding is based on a four-block model which no longer uses notional figures for spending and local taxation. Instead the formulae are now simply a means to distribute actual Government grant. Allocations from this approach are shown in Table 10.

	2007/08 £'000	2008/09 £'000
Relative Needs Block	24,766	24,966
Relative Resource Amount	-17,794	-17,964
Central Allocation	32,244	36,388
Floor Damping	-0,872	-1,024
Net Allocation	38,343	42,366

Table 10 – Government Funding Allocations 2007/08 and 2008/09

- 68 The government also committed itself to longer term financial settlements linked to the comprehensive spending review (CSR) cycle. The CSR 07 announced in September covered the three year period 2008/09 to 2010/11. .
- 69 As Table 11 demonstrates, the funding settlement for 2008/09 indicated a £1.324m increase in formula grant. With smaller increases of £1.160m and £1.108m for 2009/10 and 2010/11. The Council's grant has, due to use of floor damping, been reduced by £2.137m (£1.265m and £0.872m for 2006/07 and 2007/08 respectively) and will be reduced by a further £1.024m, £1.128m and £1.155m in 2008/09, 2009/10 and 2010/11. At this stage no indications are available about when this damping will finally cease and CYC will get its full grant entitlement, but it looks set to continue for several more years yet.

	2007/08 £'000	2008/09 £'000

Formula Grant for Prior Year	37,151	38,343
Transfer of Responsibilities/New Burdens	-0,201	2,699
Adjusted Prior Year Formula Grant	36,950	41,042
Increase in Formula Grant	1,392	1,324
Formula Grant for Year	38,343	42,366

Table 11 – Breakdown of Funding Settlement

- 70 York's funding has been affected by transfers of specific grants and new responsibilities into RSG funding which have resulted in a £2.699m increase in overall grant.
- 71 The largest transfers included within the £2.699m are Children's Services grant (£0.459m), Delayed Discharge grant (£0.302m), Access and Systems Capacity grant (£1.635m) and Waste Performance and Efficiency Grant (£0.203m) and there are growth proposals for each of the transfers included within Annex 3.
- 72 As Table 12 shows, the above adjustments have resulted in additional Government funding of £4.023m being available to support the Council's spending needs the majority of which is required to ensure the continuation of services for which external grant has been withdrawn. It should be noted that this is £1.024m less than would be the case if formula damping were not in place.

	2007/08	2008/09
	£'000	£'000
Reduced RSG due to Grant and Service Transfers	-201	2,699
Additional RSG/NNDR for 2007/08 settlement	1,392	1,324
Total	1,191	4,023

Table 12 – Gross Increase in Government Funding (General Fund)

- 73 Annex 1, summarised in Table 13, shows how these changes in funding affect the overall funding position for the Council. Once the use of reserves is taken into account the Council has £108.423m of funding available against identified budget pressures of £112.423m. This leaves £4.000m to be met from the Council Tax, the equivalent of a 4.95% increase on a Band D property. Including the contribution from the collection fund this would increase the Council Tax element of funding for York to £4.200m.

Funding Requirements	2008/09
	£'000
Existing Funding	104,539
Removal of one-off funding for non-rec exp.	-1,312
Starting Funding for 2008/09	103,227
<u>Funding Changes in 2008/09</u>	
Additional Grant due to Transfers	2,699
Increase in RSG	1,324
Contribution from Collection Fund Surplus	-650
Use of Reserves	1,823

Revised Funding for 2008/09	108,423
Additional Council Tax Income Required	
• From Increase in Council Tax	3,170
• From Additional Properties	680
• From improved collection rates	150
Net Impact of Council Tax Increase of 4.95%	4,000
Net Funding Available	112,423

Table 13 – 2008/09 Funding

Adopting Changes to the Proposals

- 74 Details of service budgets and plans were provided to members as part of the EMAP papers for consultation. Included in those papers were a number of items identified as to be proposed to the Executive and some identified for consultation. The recommendations in this report are based on a set of proposed growth and savings items which, when amalgamated with the grant settlement and a 4.95% Council Tax increase, produce a balanced budget. This balanced budget takes no account of the items listed as to be consulted upon and those listed as not proposed.
- 75 The savings and growth options which have been the focus of the comprehensive consultation exercise, including the EMAPs are shown at Annex 5 and summarised in Table 14. If they were all accepted then there would be a budget reduction of £1.712m. Members are also reminded that under the constitution the Scrutiny Management Committee is entitled to request an annual budget for its work. At its meeting on the 28 January 2008 it determined this request to be £20k which is £14k higher than the existing budget of £6k. This request has been included in the consultation section of the budget figures.

	2007/08 £'000	2008/09 £'000	2009/10 £'000
Housing and Adult Social Services	-559	-240	10
LCCS	-325	-325	-325
City Strategy	-659	-659	-659
Chief Executives	0	0	0
Resources	0	0	0
Neighbourhood Services	151	236	240
Corporate Services	-320	-320	-320
TOTAL	-1,712	-1,308	-1,054

Table 14 – Consultation Options

- 76 At the Council meeting on 24 January 2008 a petition with 21 signatures was presented by Cllr Looker objecting to proposed cuts to Council services at Sycamore House. Copies of the petition can be made available to Members if they wish to see it. Members should consider this petition as part of the consultation process.

- 77 At Executive or Full Council members are invited to move amendments in order to either
- a. Include some of the growth and savings options listed as being consulted upon
 - b. to make amendments to, delete or enhance the list of budget options that are proposed
 - c. to include items from the not proposed lists
 - d. to alter the Council Tax level, taking account of the information about possible capping and allowing for the fact that each 0.1% reduction in Council Tax requires a further £64.8k of budget to be identified.
- 78 Members also need to take due cognisance of the need to ensure that any amendments to the budget are balanced, that is savings and growth must either equal each other; or be corrected via appropriate transfers to or from reserves; or result in equivalent adjustments to the Council Tax levied by the Council; or reflect adjustments to the fees and charges levied.

Housing Revenue Account (HRA)

- 79 There is a separate budget report for the HRA which is attached at Annex 10. The proposals will ensure that the HRA is fully balanced, with expenditure commitments being matched by ring-fenced income. To balance the account and meet revenue growth requirements of £280k, and following a proposed rent increase of 5%, savings proposals of £1,086k have been made. The working balance on the HRA at the 31 March 2008 is estimated to be £5.577m, a decrease of £0.413m over the balance at the end of 2007/08. This balance is required to achieve the decent homes standard by 2010 in line with the HRA business plan. Full details of all proposals and supporting information are in the HRA Budget Report.

Dedicated Schools Grant and the Schools Budget

- 80 For schools funding delivered through the Dedicated Schools Grant (DSG), 2008/09 is the first year of a three-year budget period. The DSG is provided by the Department for Children, Schools and Families (DCSF), is the main funding stream for schools' expenditure and is ring-fenced for funding the provision of education for pupils in schools (maintained, Pupil Referral Units [PRUs], Private, Voluntary & Independent [PVI] nurseries or externally purchased places). As such it covers funding delegated to individual Council maintained schools through the Local Management of Schools (LMS) Funding Formula and funding for other pupil provision which is retained centrally by the Council (e.g. Special Educational Needs [SEN], Early Years, PRUs etc.). The DSG is distributed according to a formula, which guarantees a minimum per pupil increase for each Council of 3.1% in 2008/09 and 2.9% in 2009/10 & 2010/11 (was 5% in 2007/08). Additional funding is then allocated based on Ministers' priorities.

- 81 The Council by itself cannot use the DSG for any purpose other than Schools Budget expenditure, although with the permission of the Schools Forum limited contributions can be made to the following areas:
- Combined budgets supporting Every Child Matters objectives where there is a clear educational benefit.
 - Prudential borrowing, where overall net savings to the Schools Budget can be demonstrated.
 - Some SEN transport costs, again only when there is a net Schools Budget saving.
- 82 There are also strict limits (Central Expenditure Limits [CEL]) on the amount of the DSG that the Council can retain to fund pupil costs outside mainstream schools and PVI nurseries e.g. SEN, Out of City Placements, PRUs, Behavioural Support etc. At this stage the Council has no plans to ask the forum to agree to any increases in centrally retained expenditure above the CEL.
- 83 Headline figures from the DSG settlement showing that for 2008-11 York's increase in DSG is estimated at £9.669m or 11.6% and below the national average of 12.0%. As pupil numbers in York are projected to fall over this period, this equates to an increase of £489 per pupil or 13.5%, above the national average of 13.1% per pupil.
- 84 Within these figures, additional funding above the minimum percentages per pupil (3.1%, 2.9% & 2.9%) has been allocated to York for a number of government priorities namely:
- Personalised Learning (£2,777k)
 - Pockets of Deprivation - targeting pupils from deprived backgrounds within authorities that have an overall relatively low level of deprivation (£673k)
 - Funding 6th Day of Exclusion (£21k).
- 85 Compared to other Councils York has fared relatively well in the settlement, particularly in 2008/09 when the percentage increase in per pupil funding is the 6th highest out of all 149 Councils (24th highest over the 3 year period). On a cash increase per pupil basis, York ranks 36th highest in 2008/09 (78th highest over the 3 year period).
- 86 The reason for this is the extra funding for "Pockets of Deprivation". This has only been allocated to 46 Councils as it is intended to support children from deprived backgrounds who attend schools in less deprived Councils. York has been allocated £30 per pupil in 2008/09, the 5th highest allocation nationally. There is a presumption that this extra funding will be allocated to schools in the city based on relative levels of deprivation.
- 87 Despite these increases though, York's actual funding level is still at the lower end nationally, 23rd lowest (out of 149 Councils) by the end of the 3-year period. This means that if York received the national average funding in 2008/09 there would be an extra £265 for every pupil or £6.036m in total. This

would be enough to give an extra £266k to every secondary school and £56k extra to every primary school. This is also the equivalent of an additional 165 teachers or 300 additional classroom assistants.

- 88 The DSG is ring-fenced for funding the provision of education for pupils in schools. As such it covers funding delegated to individual schools through the LMS Funding Formula and funding for other pupil provision that is retained centrally by the LEA. It is distributed according to a formula that guarantees a minimum per pupil increase for each authority (5% in 2007/08). Additional funding is then allocated based on Ministers' priorities. For 2007/08 personalised learning and practical options for 14-16 year olds have been identified as priorities.

Funding Available within the DSG (£86,329k)

- 89 The funding available includes the estimated 2008/09 DSG allocation of £86,527k less an estimated deficit carry forward from 2007/08 of £198k, mainly due to a small overestimation of pupil numbers in 2007/08.

Balancing the Dedicated Schools Grant

- 90 There is currently £57k of DSG unallocated within the draft Schools Budget at the time of writing this report. Further work will be undertaken in conjunction with the Schools Forum to identify options for allocating this funding, with officers recommending that additional resources are targeted towards Behaviour Support Services. At its budget meeting on 12 February the Executive will be updated on the outcome of the discussions with, and decisions/comments of, the Schools Forum.

Precepts

- 91 In addition to the Council Tax to be charged by the City of York, the overall charge must include the precepts from the Police Authority, Fire Authority and Parish Councils. Due to the timing of this report these precepts are not yet available but will be included in the report which is considered by full council on the 21 February. However to put this decision in context in 2007/08:

- The Police Authority increased its precept by 3.0% (£5.40) resulting in a Band D Council Tax of £185.40.
- The Fire Authority increased its precept by 3.89% (£2.10) resulting in a Band D Council Tax of £56.04.

- 92 As Table 15 demonstrates in 2007/08 these increases resulted in a total Band D Council Tax for York of £1,223.50.

	2007/08			2008/09	
	Increase (£)	Increase (%)	Council Tax	Council Tax	Increase (%)
CYC	42.29	4.50	982.06	1,030.67	4.95
Police	5.40	3.00	185.40		

Fire	2.10	3.89	56.04	
Total	49.79	4.24	1223.50	

Table 15 – Headline Council Tax Figures for City of York Area

- 93 There are 31 parish Councils within the City of York Council area all of which will have set their precepts before the council meeting on the 21 February. In total the parish precepts rose by 8.9% in 2007/08. This overall change masked a wide variety of increases and decreases in the individual parishes ranging from a reduction of 50% at Osbaldwick to increases of 25% at Askham Bryan and Strensall and Towthorpe. Hessay's precept more than doubled in value, but from a base of £1k only went up to just over £2k. In 2007/08 the impact upon individual taxpayers also varied from a Council Tax charge of £7.57 per Band D property in Strensall and Towthorpe, to £30.44 in Heslington.

National Non Domestic Rates (NNDR)

- 94 In April 2007 the two NNDR multipliers were 44.4p in the pound for normal properties and 44.1p in the pound for smaller properties (based upon the total rateable values of all properties held by a single owner). From April 2008 these multipliers will increase to 46.2p (4.05%) and 45.8p (3.85%) respectively. Bills for individual ratepayers will also be adjusted in line with the national transitional relief scheme, which from April 2005 to March 2009, aims to mitigate the effect of those properties that would otherwise see large changes in their NNDR bills.
- 95 During the consultation meeting with the business community concern was expressed that as a city York did not benefit from growth in its business community through the payments made by companies via NNDR. The NNDR income which the council collects is remitted in full to the Treasury, which redistributes amounts to Local Authorities as part of the RSG settlement process. In addition to this there is the national LABGI scheme which is designed to reward councils with one off funding if they exceed a target for the generation of business rates. This reward funding can be used for any purpose.
- 96 Unfortunately for York the current trend in rateable value for business premises has been downwards with large-scale businesses closing their operations, for example Terry's of York. Therefore, although there is a perception that in certain parts of the local economy there is steady growth, overall there has been a fall in real terms in the amount of business premises being occupied. York looks unlikely to benefit from this scheme either in 2007/08 or 2008/09 after which it is not known if the scheme will continue. It is worth noting that council owned properties comprise 3.6% of the total NNDR liability for the York area.

The Government's Efficiency Agenda

Efficiency

- 97 The current efficiency agenda that was introduced as part of the comprehensive spending review (CSR) in 2004 is coming to the end of its first phase at the end of 2007/08. An amended process is being introduced for the 3 years from 2008/09 onwards
- 98 The current scheme, which was originally known as 'Gershon' had cashable and non-cashable targets of 2.5% per annum of which at least half had to be cashable against a Government prescribed baseline. The Council's cumulative target for the 3 years was £8.8m and the Council is on target to achieve £10.6m, an over achievement of £1.8m. The £10.6m comprises of £9.3m cashable and £1.3m non-cashable savings.
- 99 The whole of the cashable savings declared to date have originated as part of the annual budget process as savings proposals to balance the budget which, after scrutiny, have also met the Government's criteria to be classed as an efficiency saving.
- 100 As part of CSR 07 it was announced that the efficiency agenda would continue although there will be several key amendments to the process. The non cashable element of the savings will be removed and the cashable savings are set as a 3% national target, although there is no requirement to set a target at individual local authority level. The other change is that the whole efficiency approach adopted by the authority is likely to be subject to enhanced scrutiny through the new Comprehensive Area Assessment process which will focus on how the council is tackling efficiency and getting full engagement, as opposed to how much of the target has been achieved.
- 101 Although there is no requirement for the Council to publicly set itself a target for efficiencies it is felt that this will be a useful tool in monitoring progress even if just for internal purposes. The national target equates to 9.3% over the next three years. Given York is already provably efficient in value for money terms this will be a tough target to achieve. It is also a considerable increase over the current cashable target. As such it is proposed that York adopts the national target as its own as that in itself will be a stretching yet realistic target which sends out the right message about the Council's drive for further efficiency. A phased approach to its achievement is considered more realistic for example;

	2008/09	2009/10	2010/11
Target	1.5%	3.1%	4.7%

- 102 The new scheme allows Local Authorities to carry forward any cashable savings that exceeded the current three year target and for York this is estimated at £500k. An initial review of the savings proposals contained in this report for 2008/09 suggests the ones that meet the efficiency criteria could total in the region of £1.5m. The Council will have, therefore, approximately £2m in year 1, which on the revised baseline of £134.7m gives an estimated achievement of 1.48%, before any other efficiencies that may be generated in year from the approved efficiency and strategic procurement programmes. These programmes will need to deliver considerable additional efficiencies

during the next 3 years in order to both meet the target and more importantly to produce savings to help balance the Council's future budgets.

- 103 To assist Local Authorities the Government will be allocating £185m nationally via the new Regional Improvement and Efficiency Partnerships (RIEP's) which are an amalgamation of the Regional Centres of Excellence and the Regional Local Government bodies. It has been suggested that Yorkshire and the Humber could be allocated up to £20m and therefore the Council will need to bid for a share of this funding to assist in achieving the efficiency gains once the detailed criteria are known

Medium Term Financial Position

Overall Position

- 104 While it is a legal requirement that the Council balances its budget for the next financial year and sets a Council Tax, it is essential that this is done in the context of its medium term requirement. This is done to avoid significant swings from year to year; to plan ahead if the financial projections indicate the need for major reductions in spending or Council Tax increases; and to ensure that increasingly scarce resources are correctly targeted.
- 105 In support of this medium term approach the Government have produced a 3 year grant settlement covering 2008/09 to 2010/11. This is a development which will bring greater stability and certainty to funding for local services in the belief this should allow better financial management and more efficient use of resources, and introduce greater stability to the Council Tax. The government has also indicated that in future settlements would mirror the three year cycle of comprehensive spending reviews (CSR) leading to a further 3 year settlement in the 2010 CSR covering 2011/12 to 2013/14.
- 106 Even allowing for a Council Tax increase of 5% Annex 1, summarised in Tables 16 and 17, shows current projections of a shortfall in resources of £7.315m in 2009/10 and £13.797m in 2010/11. At this stage these figures include a number of assumption, including:
- An assumed £4m additional departmental recurring growth pressures;
 - £5.200m and £5.440m for pay and price increases;
 - £0.528m and £0.559m for the overall impact of capital expenditure;
 - £0.8m contingency fund in each year.

Funding Available	2009/10 £'000	2010/11 £'000
<u>FUNDING</u>		
Existing Funding	112,423	116,820
Removal of one-off funding for non-rec exp.	-1,823	-1,138
Starting Funding	110,600	115,682

Funding Changes		
Estimated Increase in RSG	1,167	1,113
Contribution from Collection Fund Surplus	-200	0
Use of Reserves	1,138	278
Additional Council Tax Income		
• From Increase in Council Tax	3,400	3,607
• From Additional Properties	715	757
Net Impact of Council Tax Increase of 5%	4,115	4,364
Net Funding Available	116,820	121,437

Table 16– Funding for 2009/10 and 2010/11

Expenditure Requirements	2009/10 £'000	2010/11 £'000
Net Expenditure Budget Brought Forward	112,423	124,135
Less: One-off Funding for non-recurring items	-1,823	-1,138
Starting Expenditure requirement	110,600	122,997
Unavoidable and Corporate Non-Schools Expenditure Pressures		
Recurring	8,996	7,925
Non-Recurring	1,138	278
Total Unavoidable Pressures	10,134	8,203
Directorate Growth Funded via Reprioritisation Assumed Growth	4,000	4,000
Total Expenditure Pressures	14,134	12,203
Adjustments to prior year Savings Proposals	-599	34
Net Budget Growth / Additional Funding Requirement	13,535	12,237
Gross Budget Requirement	124,135	135,234
Funding Available (Table 16)	116,820	121,437
Projected Saving Requirement for 2008/09	7,315	13,797

Table 17 – Expenditure Requirements for 2009/10 and 2010/11

107 While the gap does include current known pressures and the implications of decisions proposed in this report, it does not take into account any issues arising from Governmental and Council policy decisions. Prior experience

indicates that such developments may well require funding over and above the levels currently identified.

- 108 In determining its approach the Council needs to pay due regard to a number of factors, not least potential future capping criteria. In this area the Government has made it clear that it anticipates average Council Tax increases to be below 5% for 2008/9 and this blunt % based approach to capping seems set to continue.
- 109 Based on such factors the Council needs to consider a range of future options. Such developments need to focus on:
- The Council's low level of relative expenditure and its need to maximise available resources.
 - Maintaining an annual Council Tax increase of no more than five percent per annum.
- 110 While the above options provide a target range for future Council Tax increases of no more than 5% the Council should continue to look to balance current and future expenditure pressures with the city's position as the lowest spending unitary authority. As such the Council should continue to seek to maximise its income levels both in terms of central Government funding, fees and charges and the levels of Council Tax yield it secures.
- 111 It should be remembered that outside of these concerns the Council needs to correctly manage those services such as schools for which it receives direct grant funding and to ensure that the HRA works towards the decent homes standard whilst maintaining adequate working balances. There is a clear business plan in place to achieve both the decent homes standards and a solvent HRA until 2010, but the financial position of the HRA will worsen after that and work needs to be carried out soon in order to assess the Council's options (including the subsidy buy out option) for maintaining a financially and operationally viable HRA.

Additional Pressures and Risks

- 112 In considering the level of council tax increase and this years proposed budget the authority needs to be aware of the significant pressures that the Council faces in the near future. These include:
- a. The future costs of waste management

There are significant cost pressures facing the Waste Management budget over coming years. Landfill Tax is currently increasing by £8 per tonne and the introduction of Landfill Allowances limits the amount of biodegradable municipal waste⁹ that the Council can dispose using landfill. On current forecasts the Council will not achieve the Landfill Allowance Trading Scheme (LATS targets) at some point in the future probably 2009/10 or

⁹ BMW is calculated as being 68% of total waste arisings.

2010/11 and will have to then buy LATS permits or pay fines of £150 per tonne. This is a consequence of the Landfill Allowance falling significantly to 20,640 tonnes by 2020. On current estimates this could potentially cost the Council £11.5m over the following four years leading up to the implementation of the waste PFI solution. The Council needs to refine its LATS strategy during 2008/09 to identify all cost effective options to minimise the need to buy permits or pay fines. The Council also needs to start putting aside significant resources (at least £700k per year) from the start of 2009/10 onwards in order to fund the waste management or LATS costs that will be incurred in the following 4 years and to build up a base budget to fund York's share of the waste PFI solution.

b. The introduction of job evaluation and the settlement of Equal Pay claims

The Council still faces significant cost risks all the time that it doesn't have a new job evaluated pay and grading scheme in place and for at least one year and possibly two after that. The risks relating to job evaluation are that it is extremely difficult to model the costs as they, to a certain extent, depend on reactions to the scheme, staff turnover, and issues such as the number and value of successful appeals and whether new payments for allowances occur as planned. It has been the experience in many councils that the eventual costs of their new pay and grading schemes are considerably more than planned, in some cases over 100% more. Both officers and the unions are working hard to reach a negotiated pay and grading scheme within the existing approved budgets.

The risks associated with equal pay are more difficult to assess. The main issues are the further compensation that will be offered to the 1400 posts affected, and the acceptability of that offer to those staff; and the outcome of the 160 cases currently awaiting tribunal hearings. It is unclear to what extent these can be settled within existing approved budgets, but there is a risk that they cannot be. Further details will be available within 3 months.

c. The deficit on the pension fund

The triennial valuation shows that whilst the overall deficit has reduced slightly and the term for recovery until there is no deficit has reduced to 21 years, there is still a substantial deficit of over £95m. This in itself is a key risk for the authority as the valuation was at a time when stock markets were high compared to the current significant global financial problems and the new contribution rate of 18% is based on an assumption of strong investment returns which now look very questionable. Unless there is a substantial improvement from the current position the next triennial valuation (or possibly even an interim one) may require a substantial increase in the contribution rate. Each 1% increase in the rate costs over £710k per year

d. The level of reserves

The information in this report and Annex 7 forecasts that the need to spend reserves on one-off items is significant in both 2008/09 and 2009/10. It is

quite feasible that reserves will go below the CPA advised limit, although a more significant underspend than currently forecast in 2007/08 is possible and would alleviate the situation. The Council needs to review its reserves and take any action necessary as soon as the year end figures for 2007/08 are known.

e. The increasing numbers of elderly and the costs of services for them

Current estimates envisage that the client base for social care will have increased from 4,892 in 2002/03 to 6,353 by 2008/09. The impact of this growth in the client base will be further magnified should historic increases in the average cost per client also continue.¹⁰ Alongside this a number of actions have been taken to control social care costs. In order to maintain a balanced budget into the future it is imperative that these actions are successfully monitored and delivered. Adult Social Services face a number of significant challenges and changes, mainly related to the personal choice and funding agenda and the procurement of services. The Council's response to these issues and the changing demographics is critical to its future financial stability.

f. The threatened substantial cuts in grants for 'Supporting People'

The Supporting People grant has been significantly reduced from £8.4m in 2006/07, to £8.2m in 2007/08 and then further to £8.0m in 2008/09. Looking ahead, alterations to the allocation formula would mean a further significant reduction in funding over the next 10 years. Supporting People now funds the majority of 22 The Avenue, a Mental Health facility, almost all supported living schemes, a significant element of warden call and all homeless hostels. Such reductions would not just impact on the Council but reduce funding across the sector. Due to the scope of the schemes which Supporting People funds the Council would have to step in to fund services where they were statutory or a statutory obligation to the customer existed (for example if funding for a supported living scheme reduced or ceased then the Council may face increased costs for residential care).

g. The backlog of outstanding works needed to the City infrastructure, in particular roads and Council buildings

Members will be aware that in spite of the recent investment allocated to improve highways the Council has only managed to reduce the rate of deterioration. Further investment in bridges and gulleys is proposed within this budget, but the problems are beyond the scope of what the Council could realistically fund. The Council is thus pursuing a PFI bid which would bring a major investment in the cities highway infrastructure at relatively little additional cost to the Council. The additional cost would be required from 2012 onwards in order to show the Council making an additional financial commitment to the scheme. There is currently no budget for this and it is difficult to estimate as it would depend upon on the outcome of negotiations

¹⁰ For personal care the average costs per client rose from £56 per week in 2001/02 to £95 to 2004/05. Since 2001/02 across all life stages there has been an increase from an average of £58 to £96 (65%).

with the government and a whoever the successful contractor was. It is likely that the additional cost would be between £0.5m and £1.8m per year. There are also likely to be costs falling on Neighbourhood Services due to loss of overhead recovery and profits relating to their Highways team and implications for the City Strategy highways staff.

In terms of Council buildings, the capital resources which were allocated to deal with the repair backlog and access issues have been directed at those buildings which are most used by the public and which the operational services have identified in their Service Asset Management Plans as being retained for service delivery in the foreseeable future. As a result the amount of urgent repairs required (i.e. those which will need doing in the next 2 years) has reduced just over £14m (excluding Housing) and accessibility to buildings continues to improve with DDA compliance now having reached 86%, which is top quartile performance. There is still need therefore to continue with these works using the agreed criteria and continued capital and revenue resources will be needed in the coming years. To address this the council will need a combination of modernisation, asset replacement, partnerships, government funding, asset sales and its own limited internal resources. However, whilst this approach and level of funding is making notable progress in a number of key areas and the government's Building Schools for the Future, Schools Modernisation Funds and Decent Homes targets is resolving issues in those areas, there is overall a significant gap between the level of funding and the required standard of asset repair and maintenance as embodied in the governments new asset management PI's and targets.

h. The Council's reliance on Treasury Management and interest rates

The Council has for a very long time had good Treasury Management performance. In recent years this has become excellent with our borrowing rates being among the lowest in the country and loans almost always being taken out at market low points. Investments have outperformed market benchmarks and cash flow has been very strong, although more could still be done in terms of the timeliness of income collection. This performance and the interest earned is now built into our interest and borrowing budgets and we have to achieve it in order to meet our budget expectations. With the global economic situation there is risk that this will not be achievable. The Council's budget is susceptible to interest rate falls. The positive side of things is that despite having significant future need to borrow for mainly capital projects, the Council is in a position where it doesn't have to borrow in order to fund its spending plans until February 2010. This gives flexibility about when to borrow between now and then. Markets are being carefully monitored to identify the best times to borrow. A fall in long term interest rates within the next 2 years is expected and would be ideal for the Council's long term borrowing needs, but any significant fall in short term interest rates for a prolonged period would have significant adverse effects on the Council's revenue interest earnings.

Specialist Implications

113 The following implications apply to this report:

Financial

114 These comprise the body of the report.

Human Resources (HR)

- 115 Where requested HR have been involved in the development of the budget proposals and have worked with local managers to identify the HR implications of the proposals. A detailed analysis of the proposals has been undertaken by HR staff and it is expected that the savings proposals will result in a reduction of approximately 24 full time equivalent posts and could potentially lead to a maximum of 9 redundancies (with the associated costs of related redundancy payments). However it is likely that the overall number of redundancies will be lower than this as Human Resources, in conjunction with local managers, will work to mitigate the effect of the savings proposals on individual employees through processes such as redeployment. There are also a number of proposals which may result in staffing reductions, primarily through restructuring exercises, although the precise numbers will depend on the agreement of the final proposals and can not therefore be quantified at this time. In addition the retention of external grant funding in some areas will also reduce the final number of posts to be removed from the establishment below the level currently indicated.
- 116 The HR implications described above will be managed in accordance with established Council procedures. As part of this process consultation with affected staff and their representatives has been undertaken at a corporate and departmental level. In addition, these reductions will occur in different phases during the next financial year which will help to ensure as many people as possible are found suitable alternative employment with the Council.
- 117 There is a statutory requirement for consultation with both the trade unions and employees affected where 20 or more posts may be affected. Therefore the Council has issued an Advance Notification of Redundancies (HR1) to the BERR (formerly the Dept of Trade and Industry) and the trade unions. Failure to do so could result in delays to redundancies taking place and penalties associated with non-compliance.
- 118 A number of the growth items contain bids for additional resources. If these growth items are not agreed, managers will need to revisit departmental service plans and either identify alternative ways of delivering the additional work, or prioritise work that will either not be delivered or will be delivered over longer timescales than currently anticipated. Some of the growth bids, if approved, may provide redeployment opportunities for staff affected by savings proposals elsewhere.
- 119 Action is already being taken to more effectively manage vacancies in order to provide opportunities for staff who may be affected and recruitment controls

have been developed in order to assist with the redeployment process. This action will continue whilst savings proposals containing staffing implications are implemented.

- 120 In addition, in future years the Council will continue to face significant budget pressures. In these circumstances, it will become increasingly necessary for consideration to be given to how some services can be maintained if further incremental reductions are needed. It would be prudent for the Council to begin the planning process now in order to consider how services may need to be re-designed or delivered in different ways in the future, in order to maintain service standards and performance. Failure to adequately plan for these changes may compromise the Council's ability to achieve excellence in the future.

Equalities

- 121 No equalities issues have been identified in the development of this report. Where potential equality issues arise from individual proposals they will need to be dealt with by operational management as part of any subsequent implementation process.

Legal

- 122 The council has a legal requirement to set a balanced budget on an annual basis. This year the budget must be set by March 7, although given the timing of York's first Council Tax collection on 1 April and the necessary time to print and distribute bills the Council actually needs to set its budget by February 27 at the latest if it is to avoid significant additional cash flow and interest costs of between £250k and £400k. The proposals contained in this report would, if adopted by the Executive and Full Council, enable this duty to be met.

Crime and Disorder

- 123 None other than the growth and savings proposals in this report.

Information Technology (IT)

- 124 This report proposes the funding in full of £424k of the IT development plan. There are 5 schemes costing £38k on which no decision is yet proposed and these would require a bid to the Executive against the Council's contingency in order to proceed. Full details are in the IT Development plan report considered by the Executive in the Autumn of 2007.

Property

- 125 None in this report

Statutory Advice From the Director of Resources/ Comments on Capping

- 126 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 the 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, reserves and general robustness of the process.

- 127 The proposals in this budget give a balanced budget for 2008/09 and give consideration to the 2009/10 and 2010/11 financial years. The Council has taken many steps to try to put itself on a firmer long term financial footing including addressing some significant Social Services demands and expenditure pressures and taking some significant steps to tackle the challenges of waste management. It has also set up and undertaken some considerable revenue and capital projects which are aimed at improving the long term stability, viability and efficiency of the Council.
- 128 In the coming months the financial implications of a number of significant issues facing the Council will become clearer. These include the outcome of the Highways PFI bid, the results of tendering for the waste PFI project, and the year end outturn figures for 2007/08. These together with latest information of LATS, the implications of the grant settlement and the review of reserves will feed into the production of the revised Medium Term Financial Strategy in the summer of 2008. This will incorporate information on the key issues facing the Council in the next 5 years or so. It is important that the Council takes steps to further prioritise and to redirect expenditure to meet the financially significant changing needs and demands that it will be facing in coming years.
- 129 Notwithstanding the positive steps which continue to be taken, the current low Council Tax levels, low grant funding and low expenditure make it increasingly difficult for the Council to have a resilient long term funding position in relation to its ambitions for good quality service provision. In addition the Council is struggling in terms of its capacity to deliver whilst significant annual savings and cuts have to be implemented to maintain a balanced budget.
- 130 There are no proposals contained within this report to use balances to fund recurring items of expenditure. While the correct level of reserves is a matter of judgement, both the CPA guide limit of 5% and a risk based method have been utilised to inform this decision. The resulting calculation indicates that the council should, as a minimum, hold general reserves of £5.222m for 2008/09 and £5.388m for 2009/10. I am recommending that the Council looks to remain above this target for the next two years, although the current forecasts show the Council will move below these levels in the future. It is thus particularly important that the reserves are reviewed once the 2007/08 outturn is known and a new strategy for reserves developed. This is particularly important as Annex 1 shows that there is potentially great pressure in future years and there will be a need to support aspects of the admin accom project from the Venture Fund from 2009/10 onwards. 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. The Executive has considered and agreed the Council's Risk Management Strategy, which identified the major risks facing the Council and provided details as to how

these would be dealt with. With regard to budgetary control, I believe that the Council has tight control systems in operation that are regularly reviewed by the District Auditor and internally. The Council needs to concentrate and take remedial action in order to control overspends and achieve income targets.

- 131 In coming to my view I have examined York's performance against a range of financial management systems that need to be in place
- a. Service Planning and budget monitoring systems;
 - b. Budgets aligned to responsibility;
 - c. Proper financial reporting;
 - d. Financial policies linked to policy and service objectives;
 - e. Clear roles and responsibilities;
 - f. Financial regulations are appropriate and in place;
 - g. In particular the practice of ensuring that almost all saving proposals are specific, allocated to an individual manager, planned, realistic and achievable should ensure that the Council's overall budget balancing is realistic.
- 132 With regard to the robustness of the budget, I consider that the estimates in the budget are sound and that the proposals to achieve a balanced budget are achievable. The overall package, which includes a Contingency sum of £0.8m, is a realistic approach in dealing with the financial pressures facing the Council next year. I would draw Members attention to the earlier comments on the medium term position and the actions required now to start preparing for these challenges.
- 133 The Government have announced that they will again consider capping Councils who, they feel, are raising Council Tax levels excessively. The capping criteria they use are often based on budget growth and Council Tax increases. The Government have talked about average increases needing to be well below 5% and in the past have clearly meant maximum rises of 5%, but they do not publish the criteria they will use until after we will have set our budget. Based on their actions in the past I believe that in 2008/09 the maximum Council Tax rise that York should consider is the 4.95% in this report. Whilst a lower rate would be safer in terms of capping the consideration of safety needs to be set against the damage to future funding that a rise below the maximum possible will do to York, given the future funding pressures that the Council faces.
- 134 I do have serious concerns about future budget pressures in the forecast and about the pension fund, where the deficit is running at about 85% of our net annual budget. In the light of these pressures, and York's relatively low Council Tax I would recommend that Members set the Council Tax as high as possible, whilst staying below our estimates of the possible capping limit. If it

were not for capping the Council should be considering higher levels of Council Tax (or further savings if it were possible and acceptable to make them) in order to deal more effectively with the pension fund and the other future financial pressures.

- 135 However, in reaching their final decision members need to balance this opinion with the risks and implications of the Council being capped. Not least amongst these are the reputational damage which capping could cause and potential costs of rebilling which are estimated at £170k.

Recommendations

- 136 Members are asked to consider the appropriate levels of Council Tax that they wish to see levied by the City of York Council for 2008/09. In doing so they should pay due regard to factors such as:
- a. Expenditure pressures facing the Council in 2008/09, 2009/10 and 2010/11 as detailed at Annex 1;
 - b. The impacts in 2008/09, 2009/10 and 2010/11 of the growth requirements and savings proposals outlined in Annexes 3 and 4;
 - c. Medium term financial factors facing the Council as outlined from paragraph 104 onwards;
 - d. The levels of reserves projected to be held at the 31 March 2008, 2009 and 2010 (Annex 7);
 - e. Significant future pressures identified in paragraphs 112;
 - f. The statutory advice from the Director of Resources provided from paragraph 126 onwards;
 - g. The need to ensure that any adjustments to these proposals are self balancing within the requirements laid down by the Director of Resources as the Council's Responsible Financial Officer.
- 137 In light of these considerations Members are asked to recommend to Council approval of the budget proposals as outlined in this report, in particular:
- a. The net revenue expenditure requirement for 2008/09 of £112.423mm, as set out in Table 1;
 - b. The housing revenue account proposals outlined in Annex 12;
 - c. The dedicated schools grant proposals outlined from paragraph 80 onwards;
 - d. The revenue growth proposals for 2008/09 outlined in Annex 3;
 - e. The revenue savings proposals for 2008/09 outlined in Annex 4;

- f. In terms of the council's reserves to:
- i. Agree the use in 2008/09 of £1.823m of revenue reserves as outlined in paragraph 49;
 - ii. Endorse the adoption of a risk based calculation to inform the Director of Resources opinion on the appropriate minimum level of general reserves as described at paragraph 51;
- g. The fees and charges proposals in Annex 8.

- 138 Members are invited to consider all of the budget items and suggest any changes to them which retain the proposals in balance. In particular members are requested to respond to the items marked for consultation in Annex 5, none of which are currently contained within the budget proposals, in light of the consultation feedback information in Annex 11.
- 139 The reason for these decisions is to provide full council with a balanced set of budget proposals which it can consider in reaching its decision on the budget and resultant council tax which it will set for 2008/09.
- 140 The effect of approving the income and expenditure proposals included in the recommendations would result in an increase in the City of York element of the Council Tax of 4.95%. It is intended that the total Council Tax increase including the parish, Police and Fire Authority precepts, will be agreed at the full Council meeting on 21 February 2008.
- 141 Members are requested to approve the increase for council dwelling rents by an average of 5.25% in line with government guidance on rent restructuring as set out in Annex 13. Reason: To ensure a balanced Housing Revenue Account.

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Report Approved Yes Date 1/2/08

Report Approved Yes Date 4/01/07

Specialist Implications Officer(s) Human Resources

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Title

Tel No. Extension

Wards Affected: List wards or tick box to indicate all

All All

For further information please contact the author of the report

Background Papers

Medium Term Financial Strategy - Executive
2nd Finance and Performance monitoring report - Executive
EMAP reports January 2008
Government Grant settlement papers

Annexes

- 1 Summary of Budget
- 2 Contingency
- 3 Growth and Reprioritisation
- 4 Saving Proposals
- 5 Consultation on Budget Proposals
- 6 Use of reserves
- 7 Estimated Reserve Balances
- 8 Fees and Charges (in Member Library)
- 9 Alternate Saving Proposals
- 10 North Yorkshire Pension Fund Triennial Valuation
- 11 Consultation responses
- 12 Housing Revenue Account budget report