

Report of the Director of Resources

**Financial Strategy 2009-13**

**Summary**

- 1 This paper presents the Financial Strategy 2009-2013, including the detailed Revenue Budget proposals for 2009/10. There is a separate report on the agenda covering the Capital Budget.

The proposals in this paper present a balanced budget for the Council for 2009/10 with the following key features:

- a. Revenue investment of £11.386m the funding for which will be achieved through:
  - i. Revenue savings. The Council has gone through a very rigorous and difficult exercise to propose revenue savings of £4.962m which increase the efficiency of the organisation but will have minimal impact on front line services
  - ii. An additional £2.760m from a City of York Council Tax rise of 4.5% resulting in a Band D Council Tax, for City of York Council only, of £1,075.03, an increase of £46.29
  - iii. Meeting £1.251m of one-off expenditure from general fund reserves
  - iv. Additional Formula Grant funding of £1.114m
  - v. A contribution from the collection fund surplus of £0.236m
  - vi. Other adjustments on corporate budgets and additional non-general grant totaling £1.063m.
- b. A net revenue budget of £116.895m, which will be funded by:
  - i. Council Tax income of £70.665m
  - ii. Government grant of £43.480m

- iii. Use of reserves, of £2.389m
  - iv. Collection Fund surplus adjustment of £0.236m
  - v. Unused contingency from 2008/09 of £0.125m
- c. Funding for pupil led aspects of education, primarily schools, of £89.243m to be met by the Dedicated Schools Grant;
- d. 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 4.5% Council Tax increase produce a balanced budget. Other options that formed part of the consultation exercise are included at Annex 5. In considering whether or not to accept any of these additional proposals Members need to take due cognizance 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.
- 2 The savings identified are likely to result in 9.1 fte posts being lost of which 2.5 fte are occupied, 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 maintain 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 89 pence per week and that in 2008/09 York had the third lowest Council Tax and lowest spend per person of any Unitary Authority.
- 3 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 per annum will add around £0.5m to costs. The total non-schools growth allowed for in the proposed budget is £10.248m. A full list of these pressures is shown at Annex 3.
- 4 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 £4.962m. A full list is shown at Annex 4.
- 5 Members should note that there are a number of potential expenditure pressures which may materialise in 2009/10, but which cannot at this stage be quantified with any certainty. It is proposed that a General Contingency of £0.6m is set to cover these eventualities. This level of contingency is proposed based on a risk assessment of all the as yet unquantified financial issues that face the Council next year. The contingency allows for just under 70% of the known issues to be funded should they arise. Possible calls on this contingency are detailed at Annex 2.

- 6 The budget provides for the use of reserves to fund one-off expenditure items totalling £1.251m. This use of reserves is based upon current projected underspending on the revenue budget for this year of around £1.4m. This represents prudent management of in-year resources with a view to ensuring that future pressures can be resourced. Provision for the impact of the economic downturn is also made within the sum on £1.251m.
- 7 The Medium Term Plan sets out the forecast expenditure plans for the Council, against the levels of projected grants and Council Tax. It is clear that the Council faces a number of significant pressures in coming years and the need to deliver efficiency savings will continue over the next few years, with a view to ensuring service quality is maintained and improved. A number of key assumptions are made within the financial plans, and these are set out later in this report. The Medium Term Plan has at its focus the need to deliver real efficiency and also provide provision for meeting priorities in the future.
- 8 The budget as set out continues significant investment in a range of Council priorities, and provides for affordable investment in a range of pressures and priorities facing the Council. Medium term planning has been enhanced through the revised strategies, which seek to ensure prudent and affordable financial planning over the longer term. The impact of the budget proposals is considered within the report, with specific reference to Council priorities, the economic downturn and consultation.
- 9 The strategy takes particular account of the economic downturn, this is important in terms of risk and also in terms of the Council making a positive contribution to dealing with the economic situation. In terms of risk various factors are considered:
  - Levels of income - e.g. car parking, treasury management
  - Additional funding – establishing a £400k credit crunch special one-off contingency and £40k on-going base budget.

Additional Information is included in the section on Budget Impact Assessment.

## **Financial Strategy 2009-2013**

- A. Purpose and Scope of the Strategy
- B. Links with other Strategies
- C. Local and National Priorities
- D. Current National Issues
- E. The Financial Strategy's Objectives
- F. Development of the Financial Strategy
- G. Consultation
- H. Financial Context
- I. Revenue Budget 2009/10 - Detailed Analysis
- J. The Revenue Plan 2009-2013
- K. Impact Assessment

(note: the Capital Plan will be incorporated into the final Financial Strategy – this report is considered as a separate Agenda item)

### **A. PURPOSE AND SCOPE**

- 10. The Financial Strategy sets out the framework of the Council's budget by detailing how available resources will be allocated between services, reflecting Council priorities, and providing the framework for the preparation of annual budgets. In particular it:
  - sets out the Council's medium term financial aims;
  - sets out the measures to be taken to ensure they will be achieved;
  - sets out the Council's approach to delivering improved services and value for money over the next few years;
  - describes the Council's arrangements for developing the medium term financial plan, including:
    - the identification and prioritisation of spending needs
    - the key financial influences on our medium term financial planning and the assumptions made in developing the plan
    - the challenges and risks associated with the plan and how we will deal with them.
  - sets out the Council's policy on reserves and balances.

The Financial Strategy covers all revenue and capital spending plans (capital report is covered as a separate Agenda item)

## **B. LINKS WITH OTHER STRATEGIES**

11. The Council's financial strategy and plan is linked with and supports service priorities and the Council's other strategies and plans. These include:
- the Community Strategy
  - the Council's Corporate Plan
  - the Asset Management Plan
  - the IT Strategy and Work Programme
  - the Procurement Strategy
  - the Treasury Management Strategy
  - the HR Strategy and other related HR policies

## **C. LOCAL AND NATIONAL PRIORITIES**

### **Our priority themes**

12. The corporate strategy is currently undergoing a refresh process, which will ensure that the Council's priorities align to that of the city. To do this, the Council's priorities will be focused around the 7 themes of the Sustainable Community Strategy, which are described below.
- **A Healthy City**  
We want to be a city where residents enjoy long healthy and independent lives. For this to happen we will make sure that people are supported to make healthy lifestyles choices and that health and social care services are quick to respond for those that need them.
  - **A Thriving City**  
We will continue to support York's successful economy to make sure that employment rates remain high and that local people benefit from new job opportunities.
  - **A Sustainable City**  
We aim to reduce our impact on the environment while maintaining York's special qualities and enabling the city and its communities to grow and thrive.
  - **An Inclusive City**  
We will do our best to make sure that all citizens feel included in the life of York. We will help improve prospects for all, tackle poverty and exclusion and make services and facilities easy to access.
  - **A Safer City**  
We want York to be a safer city with low crime rates and high opinions of the city's safety record.
  - **A Learning City**  
We want to make sure that the local people have access to world-class education and training facilities and provision. This will help them to develop the skills and

aspirations they need to play an active part in society and contribute to the life of the city.

- **A City of Culture**

We want to inspire residents and visitors to free their creative talents and make York the most active city in the country. We will achieve this by providing high quality cultural and sporting activities for all.

13. The Council's medium term financial planning is driven by these priorities. By integrating the development of the budget and financial plan with these priorities we seek to ensure that resources have been allocated to deliver the corporate priorities, in a robust and sustainable manner. The Financial Strategy also seeks to make links with national priorities. In considering any proposals for investment the links to national priorities are considered. By planning over a number of years the Financial Strategy aims to ensure that Local and National priorities are delivered in the long term, and service improvement and realignment is planned in an effective manner.

## **D. CURRENT NATIONAL ISSUES**

### **External Influences**

14. As Council Tax provides for only 17.4% of the Council's gross revenue spending, most of the Council's resources come from central government and, consequently, our Financial Strategy is to some extent shaped by factors outside our immediate control. However, there are many facets to an effective Financial Strategy and the Council must ensure it proactively manages its resources with a view to ensuring robust financial planning that delivers Council priorities.

### **Comprehensive Area Assessment**

15. The white paper 'Strong and Prosperous Communities' set out wide ranging proposals for support and improvement of local services. A key part of these proposals is a new performance assessment framework, the Comprehensive Area Assessment (CAA), which comes into operation from 1 April 2009.
16. CAA will focus on the delivery of outcomes that are the responsibility of the Council and our partner organisations including Police, Health, Fire and Rescue services and other Local Authorities. The process is based on two assessments, an Area Assessment and an Organisational Assessment.

Community outcomes, efficiency, partnership working and value for money are key measures in these assessments with a new set of national indicators measuring the performance of the Council and its partners against Government priorities.

The proposals are being piloted at this time in several councils across the country and final details of the CAA process will be published in the spring of 2009. The results of the first year's assessments will be published in November 2009.

### **Three year settlements for Formula Grant and Revenue Financing**

17. In July 2005 the Government announced the introduction of a multi-year settlement process in order to give more stability and certainty to Local Authorities. The first full three-year settlement was announced in December 2007 and covered the 2008/09, 2009/10 and 2010/11 financial years.

The introduction of 3-year settlements is aimed to improve the ability to forecast the overall financial position for the Council. However there will remain significant uncertainties in long term planning, as the level of grant is only part of a complicated set of assumptions in long term financial planning.

### **Public Spending Plans and National Priorities**

18. It should be recognised that the growth in public spending in recent years (primarily towards Health and Education) is unlikely to continue at the same rate. Public services are however under increased pressure from their customers for improved service provision. In addition, national targets for improved service delivery are becoming common, including electronic service delivery, planning, concessionary fares and recycling.

This financial strategy seeks to ensure national priorities are considered alongside local priorities.

### **Efficiencies**

19. In October 2007 the Department of Communities and Local Government (DCLG) published a report 'Delivering Value for Money in Local Government'. The report highlights that public services have been set a target of achieving at least 3% net cash releasing Value for Money gains per annum, between 2008 and 2011. Collectively councils are expected to achieve £4.9 billion cash releasing efficiency by 2010-11.
20. These efficiencies have to be achieved through a greater focus on Value for Money and through a culture of innovation. Responsibility for identifying opportunities for efficiency gains is left to individual councils and it will be up to them to put in place the processes that they need to plan VFM projects, track delivery, measure achievement, and assure service quality. All councils' progress on efficiency will be monitored and challenged through a number of methods including Comprehensive Area Assessment (CAA) and a new performance framework consisting of 198 performance indicators which includes a new national VFM indicator.
21. The Council recognises the need to ensure VFM and this will be reflected in the new Corporate Strategy. To help deliver further VFM the Council has engaged an efficiency partner to work with the Council with a view to achieving improved efficiency and effectiveness.

### **Sustainability**

22. Sustainability is a key measure of CAA. It is about long term social and economic benefits ensuring a strong healthy and just society as well as

environmental concerns. In order to ensure that the Council's services and actions promote sustainability the Council has developed a Sustainability Policy which contains principles and measures that are to be implemented over the coming years.

### **Local Area Agreements**

23. Local Area Agreements (LAA's) are about improving local services through a 3-year agreement between the main public sector agencies working in an area and the government.
24. Local Public Service Agreements were developed by government as a means of raising performance and providing better public services in key areas. LPSA agreements focus on the performance of a selection of services, and set specific improvement targets for them to hit. The participating services are provided with up-front investment to aid achievement of this enhanced performance. For meeting the targets set or for making significant progress towards them, a reward grant is payable by government.
25. York's second LPSA ran from April 2005 to December 2008 and had a potential Performance Reward Grant (PRG) of £3,935,028. There were 12 areas for improvement under this second agreement, headed by specific Council departments, or as in the case with a number of targets, by Safer York Partnership. With all but one performance result in, projections show that we are likely to achieve £2.3m, or approximately 60%, of our available fund. The remaining result relates to Not in Education Employment or Training (NEET's) and will be available shortly. Once submitted this data will be subject to internal audit before a claim for the full amount of Performance Reward Grant can be made to the DCLG.

### **Significant Partnerships**

26. In order to deliver more efficient services the Council continues to work with a range of partner organisations throughout the area. In some cases it has entered into a formal agreement with partners for the delivery of services and projects, examples include –
  - Safer York Partnership
  - Joint Commissioning with the Health Authority
  - Joint Agency Panel for Out of Authority Placements
  - Learning Disabilities Integrated Services
  - Community Asset Transfer, St Clements Hall
  - Yorkshire Purchasing Organisation
  - Waste PFI with North Yorkshire County Council

### **Area Based Grants**

27. The Government has significantly increased Local Authorities' flexibility over the use of their main stream resources in recent years by moving at least £5 billion into non-ring fenced general grants over the Comprehensive Spending Review period. £4 billion of this amount has been moved into Area Based Grants. Area Based Grants are allocated on a 3 year basis to tie in with 3 year finance



settlements. The grants are non ring fenced and the grant determinations do not include any conditions for use. Local Authorities are therefore free to use the grants as they see fit to support the delivery of local, regional and national priorities in their areas. During 2009/10 the Council will receive Area Based Grants of £15.4m which is approximately double the amount received in 2008/09 due to the transfer in to the Area Based Grant of the Supporting People grant.

## **External Funding**

28. The Audit Commission sees the achievement of external funding as a key part in the demonstration of Value for Money. External funding opportunities include European funding, lottery funding, and Yorkshire Forward funding. The Council must carefully appraise the role that external grant resources can play in meeting its objectives. Decisions about bidding for external grants must be taken in the context of the priorities in the Corporate Plan.

## **E. THE FINANCIAL STRATEGY'S OBJECTIVES**

29. The Financial Strategy is designed to maintain financial stability and, as far as possible, avoid the need for large unplanned increases in Council Tax and unaffordable borrowing, whilst ensuring we have sufficient resources to achieve the corporate aims and priorities. To this end, it is proposed that the Medium Term Financial Strategy should ensure the following specific objectives:

### **Objective 1- Budgets are Prudent and Sustainable in the Long Term**

This seeks to ensure that budgets recognise real cost pressures, and that no over reliance is placed upon any one-off savings, and/or use of one-off reserves. This will be achieved by ensuring:-

- adequate provision is made for inflation pressures, current economic conditions, pay awards, and new legislation
- the revenue budget is not supported by one-off savings, or any significant use of reserves
- effective budget monitoring to ensure early identification of issues and action planning

### **Objective 2- Financial Plans Recognise Corporate Priorities and Objectives**

This seeks to ensure that financial plans link with corporate planning and priorities, and that there is provision within the Financial Strategy for growth/development funding on an ongoing basis. This will be achieved by ensuring:-

- additional investment and savings proposals make explicit reference to corporate priorities
- local and national targets are considered
- long term vision and objectives are considered within the report
- provision within financial planning figures for growth and contingency amounts based upon perceived risk,
- a review capital prioritisation process/option appraisal

### **Objective 3 - Significant risks are identified, and factors to mitigate against those risks are identified**

Risk Management is crucial in long term planning, and it is essential that the Financial Strategy clearly identifies the associated risks, and that this is supported by an embedded risk management culture within the organisation. This will be achieved by:-

- risk management being embedded in corporate and service planning
- financial risks being specifically considered on an ongoing basis, and specifically reflected within the Financial Strategy
- targeting high risk areas when setting budgets and monitoring these areas closely throughout the year

### **Objective 4 - The Capital Programme is planned over a 5 year period, with "Unsupported" Borrowing minimised, other than where there are clear financial or economic benefits for the development of the City**

This seeks to ensure that unsupported borrowing is minimised, thereby ensuring the capital programme is prudent and sustainable. This will be achieved by ensuring: -

- the development of a 5 Year capital programme
- the use of unsupported borrowing will be minimised
- where schemes demonstrating economic rather than financial benefits are funded by unsupported borrowing the associated revenue costs will be reported, considered and approved by Council, to ensure that they are affordable
- an adoption of an Invest to Save Strategy
- contingency funding is included within the capital programme
- a Corporate approach to external funding opportunities

### **Objective 5 - Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account**

It is important that the Financial Strategy is realistic and that there is a corporate awareness of the constraints on Council funding. This will be achieved by ensuring:-

- specific reference within each financial strategy of constraints and current issues
- regular reporting to Executive on local government finance issues
- awareness of the financial position within the organisation through an effective communication strategy

### **Objective 6 - Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the Financial Plans, recognising that these increases may be subject to change**

The Government may in the future require authorities to set out planned Council Tax increases for the next three years. It is important in developing the financial plan that an assumed Council Tax increase is included, ensuring that financial plans do not place over-reliance upon excessive Council Tax increases. This will be achieved by ensuring that financial plans take account of this level of Council Tax increase, Government expectations on Council Tax increases, and in particular that target efficiency gains reflect the likely levels of Council Tax. However, it has to be recognised that additional burdens and demands can be placed upon local authorities, and that it may not always be feasible to achieve an increase in Council tax in line with the inflation rate.

**Objective 7 - Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council**

It is important to strike a balance between maintaining adequate reserves and contingencies and delivering priorities and achievement of value for money. This will be achieved by ensuring an annual review of reserves, linked to corporate priorities and treasury management implications.

**Objective 8 - Value for Money and achievement of improved efficiency and service delivery underpin the Financial Strategy**

Value for Money should be at the heart of everything the Council does, and the pursuit of improved efficiency and performance needs to be established as an ongoing underlying principle. This is being achieved through:-

- a corporate efficiency programme, linked to transformation through the Easy Programme
- a corporate approach to external funding
- embedded finance and performance reporting to Members
- benchmarking the costs and performance of our services

**Objective 9 - The Financial Strategy supports the achievement of excellence in financial management and Use of Resources**

A Financial Plan in isolation will achieve little. It needs to be supported by:-

- effective financial governance arrangements
- effective Corporate Governance embedding the principles contained within the CIPFA/SOLACE good governance framework, and the implementation and assurance of these principles through the Council's Single Improvement Plan/Business Model
- financial management that supports performance
- effective monitoring arrangements
- effective financial reporting

This will be achieved by:-

- implementation of the action plan in relation to the Use of Resources assessment. A highly visible Single Improvement Plan focused on core procedures and processes that an effective Council needs to have in place

- developing the financial culture within the Council
- financial reporting and documentation based upon stakeholder needs
- improved financial systems (General Ledger Upgrade)
- Training and Development - finance/non finance
- Integration of financial and non financial performance measures

These objectives are further explored throughout this report.

## **F. DEVELOPMENT OF THE FINANCIAL STRATEGY**

30. As noted above, the development of the budget and medium term financial plan is driven by the Council's priorities. The Financial Strategy aims to help Members to determine priorities and forecasts the changes in demand for services, and the likely financial implications of changes in legislation. The Strategy also demonstrates the future cost of policies or proposals, and seeks to balance the demand for spending with the resources likely to be available. The Strategy provides a financial framework within which departments and individual managers can plan their services.
31. The financial strategy comprises a 5-year revenue plan and a 5-year capital plan. The plans will be reviewed annually and rolled forward by a year.
32. The process, from the start of the review of the financial plans through to the approval and allocation of budgets, will span the whole year and will engage regularly with senior Members and senior Managers throughout the Council. Ownership and understanding of the Financial Strategy is crucial in ensuring effective long term planning within the Council.
33. One of the key features of the budget process is the linkage between the corporate financial requirements and the operational needs and demands of the Council. This is done through the Service Plans that identify funding requirements for the revenue and capital budget, performance outcome expectations and risk assessments.

The Financial Strategy will be communicated to staff and other key stakeholders.

## **G. CONSULTATION**

34. The Council's budget has been widely consulted on. The forms of consultation included the following
  - 1) the postal and web based survey of citizen's priorities for budget growth and savings
  - 2) Web-based survey amongst the council's business panel of c350 local businesses
  - 3) meetings of partners, the voluntary sector and the business community where an in depth analysis of the situation and options were presented
  - 4) EMAP meetings where budget proposals, options and details, including Service Plans, were presented

The main form of consultation was the postal and online survey of citizens' views.

These surveys had a total of 7,748 responses, around a 9% return. This is a good response rate for this type of survey and up almost 20% on the 2008 consultation.

## H. FINANCIAL CONTEXT

35. Ever since York became a Unitary Council in 1996 its funding and spend position has been comparatively low compared to other the Unitary Authorities which were created at the same time. York has a comparatively low level of Council Tax, spend per head and receives one of the lowest grant per head settlements as the following three charts show.
36. In 2008/09 York had the third lowest Band D equivalent Council Tax of all 46 Unitary Council's, it had the lowest spend per head and received the 7th lowest Government Grant per head. Therefore York can be considered to be one of the lowest funded authorities in the country which is why decisions about the budget and the consequential impact on the council's priorities and services are difficult and important.

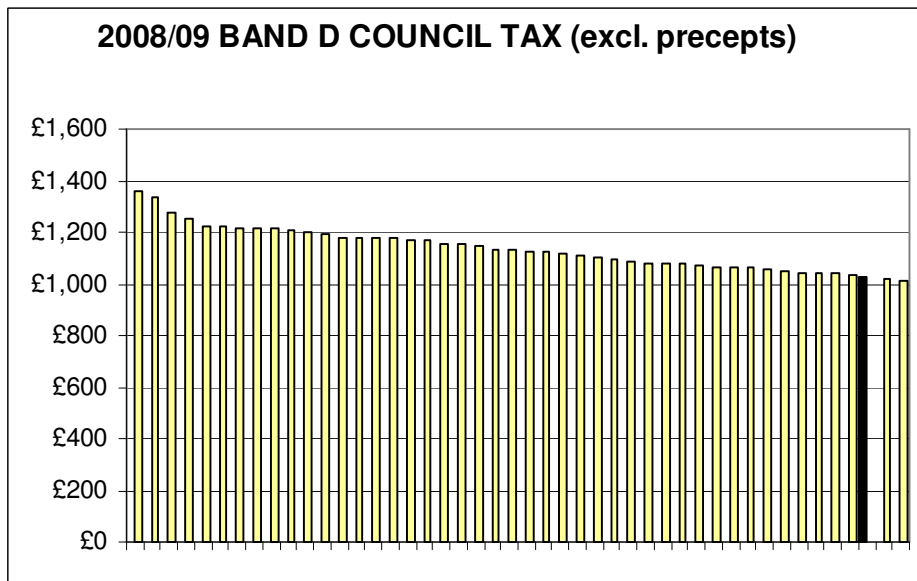


Chart 1 2008/09 Band D Council Tax – All Unitaries

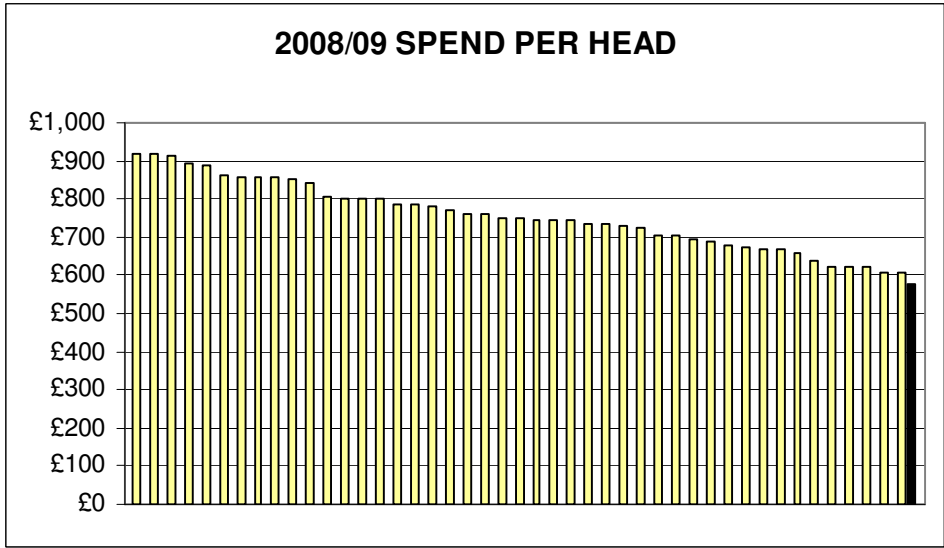


Chart 2 2008/09 Spend per Head – All Unitaries

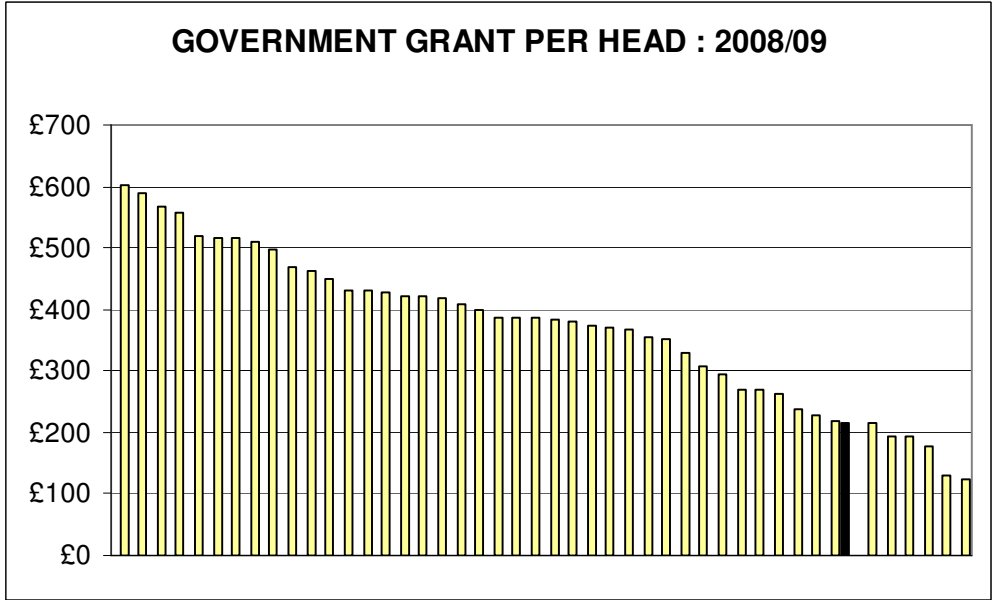


Chart 3 2008/09 Grant per Head – All Unitaries

## I. THE REVENUE BUDGET 2009/10 - DETAILED ANALYSIS

### Background

37. The base for the 2009/10 budget is the Council's net revenue budget for 2008/09 of £110.471m. The Medium Term Financial Strategy for 2009/10 (presented to the Executive in September 2008) estimated that to stay within the government's likely range for a 2009/10 Council Tax rise, meet all known expenditure pressures, and provide for service investment, the Council would be facing a budget gap for 2009/10 of around £6m after allowing for increased government grant and a Council Tax increase towards the upper end of the likely capping limit.
38. The provisional funding settlement for 2009/10 was published on 26 November 2008 and final details were published on 21 January 2009. This gave the Council a 2.74% increase in grant compared to a Unitary average increase of 3.4%. York did worse than average due to the fact that it is at the ceiling when it comes to grant increases and so it could not have got any more than 2.74%.
39. Members of the Executive will be asked to recommend the income and expenditure proposals in this budget paper for the approval of Full Council on 26<sup>th</sup> February 2009.

### Expenditure Pressures & Budget Position

40. Annex 1, summarised in Tables 1 to 7, sets out the latest estimate of the Budget position for 2009/10, using the funding assumptions described in the earlier section and the savings and growth presented to EMAP meetings.

<b>Expenditure Requirements</b>	<b>2009/10 £,000</b>
<b>Net Expenditure Budget for 2008/09</b>	<b>112,294</b>
Less: One-off Funding for non-recurring items	-1,823
<b>Starting Expenditure Requirements for 2009/10</b>	<b>110,471</b>
Unavoidable and Corporate Non-Schools Expenditure Pressures	6,105
Directorate Growth Funded via Reprioritisation	2,292
Non-recurring growth from 2008/09	1,138
Contingency	600
One-off growth	851
Special one-off contingency for Corporate Credit Crunch	400
<b>Total Expenditure Pressures</b>	<b>11,386</b>
Total Expenditure Requirements for 2009/10	121,857

Table 1 – 2009/10 Expenditure Requirements

The corporate and directorate spending pressures and growth proposals are outlined in Annex 3 and summarised below:

<b>Corporate Growth</b>	£000
Corporate Pay and Prices inflation	2,590
Pay increments	882
Impact of Job Evaluation on employer's pension contributions	80
Treasury management	790
Energy Inflation	539
Full year effect of growth decisions in 2008/09	712
Replacement of one-off savings from 2008/09	147
IT Development Plan	350
Increase in Flood Levy	15
<b>Total Corporate Growth</b>	<b>6,105</b>

Table 2 – 2009/10 Corporate Growth

#### Price Inflation (£437k within the £2,590k)

Even with the 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 proposed that there is a general price inflation allowance of 2.5% on net controllable non-pay budgets.

#### Pay Inflation and Employers' Superannuation Contribution (£2153k pay, £80k superannuation allowance)

For many years the council has used 2.5% as an estimate for pay increases, however there is now widespread opinion that there will be downward pressure on pay awards in 2009/10 and as such the estimate has been reduced to 2.25%. 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 £2.153m.

An assessment of the increase in the employers contribution to the superannuation fund due to the changes from the introduction of the new pay and grading scheme has been made. It is estimated that the changes will mean a 0.125% increase in the employers contribution which is £80k per annum.

#### Pay and Grading Increments (£882k)

The council introduced its new pay and grading scheme in December 2008 and backdated any gains to 1st 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 2009/10 budget with the exception of a contribution to the increased cost of increments of £882k. The full cost of increments will be in region of £2.1m but the remainder of this funding is contained in the funding model for the pay and grading project. However at the appeal submission deadline in early January 2009 occupants of 515 posts had submitted an appeal against their original score for their job. Depending on the outcome of those appeal hearings there could be a financial impact outside of the budgets held for the project.



The current funding model for this project contains £1.4m of pay protection costs for the 980 staff whose pay has been reduced. These pay protection costs will reduce by each year from a combination of staff leaving or who get promoted and being replaced by people who will go straight on to the lower grade and the agreed protection formula which reduces the amount of protection by 5% each year until the pay has reached its new lower level. The budget released by the protection fallout will be recycled on a 50/50 basis to fund the cost of successful appeals and make a contribution to the increased costs of increments.

The Council is still attempting to settle a number of equal pay claims that are outstanding. However these budget proposals for 2009/10 do not contain any requests for additional funding for this issue as it is hoped that the number of claims already against the council can be settled within the one-off funds already set aside for this issue. However if any new claims are received there is no funding left to deal with this situation and further reports will need to be brought to members if this situation arises.

#### Treasury Management (£790k)

The Council has to make provision within the revenue account to fund the interest and principal repayments on any borrowing it undertakes. Overall there is a growth proposal for £790k in the treasury management budgets mainly due to a reduction in the interest earned from investments and the additional cost of the Minimum Revenue Provision, these are partially being offset by less interest being paid on external borrowing.

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. Further detail on Treasury Management is included in a further report on this agenda.

#### Energy Inflation (£539k)

The Council's bi-annual contracts for energy have been re-negotiated and the price has had to increase to reflect the overall market increases that have occurred since the previous contracts were agreed.

#### Full year effect of growth decisions in 2008/09 (£712k)

Decisions taken as part of the 2008/09 budget have full year implications in 2009/10, these are shown in the table below.

<b>Directorate</b>	<b>2009/10 £000</b>
<b>Neighbourhood Services</b>	
Household Waste Site Management Contract	40
Air Quality Monitoring Contract	2
Pilot extension of recycling to terraced properties	80

<b>Resources</b>	
Audit Commission – Fee increase	10
Reduction in housing benefit admin grant	28
<b>Housing and Adult Social Services</b>	
Supporting People – retraction of grant	130
Homecare contracts increase	22
Increased number of complex learning disability cases	400
<b>Total</b>	<b>712</b>

Table 3 Full year effect of growth decisions in 2008/09

Replacement of one off savings in 2008/09 (£147k)

A number of savings proposals in the 2008/09 budget were only one-off and for 2009/10 these savings cannot be sustained and therefore they are proposed to be replaced by growth.

IT Development Plan (£350k)

The IT development plan has been reviewed and a new allocation for 2009/10 is proposed. This is a smaller allocation than in previous years but reflects what is estimated to be deliverable alongside some of the major IT replacements that are ongoing or planned, i.e. the new financial management system and the proposed replacement of the HR and Payroll system. This figure assumes a “slippage” of £100k, reflecting previous trends for under-spending and provides for the schemes as set in Annex 10.

**Directorate Budget Growth and Investment**

41. Service departments have identified a number of areas which require increased investment. Annex 3 lists growth proposals totaling £10.248m split between base budget of £8.997m and one-off of £1.251m. Within this, £2.292m represents recurring directorate pressures and in addition, as summarised in Annex 6, £1.251m is one-off growth that it is proposed to meet from reserves. It should be noted that in addition to this £1.251m there is an amount of £1.138m which was approved in 2008/09 but is for continuing one-off commitments in 2009/10.

<b>Directorate Pressure</b>	<b>Proposed Ongoing Funding</b>	<b>One-off's funded from Reserves</b>	<b>Amounts Uncertain Funded from Contingency</b>
<b>Neighbourhood Services</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
York Community Pride	20		
Wheeled Bins & Recycling	90		
Landfill Tax			400
Kerbside Recycling	210		
Noise Patrol	19		
Street cleaning LPSA	50	11	
Safer York Partnership	10		

York Ward Budget	15		
Towthorpe HWRC		20	83
<b>City Strategy</b>			
Street Lighting Energy	384		
Concessionary Fares	375		
Building Control	0		111
Land Charges	100		
Parking Income			150
Highway Maintenance	150		
Street Light Columns	30		
Access York			200
Highway Drainage Repairs		200	
Highways DC		42	
Waste PFI project management		110	
Subsidised Bus Services	130		
Speed Limit Enforcement		90	
Highways repairs and renewals	125		
<b>LCCS</b>			
Legal Fees	50		
Fostering	70		
External Placements	71		
Temporary Toilets	9		
Archive Services		62	
Barbican Security		120	
0.5fte coordinating transition team post	19		
<b>HASS</b>			
Reprovision of residential care	200		
<b>Corporate</b>			
Revenue contribution to capital programme (note 9)	125		
No dividend from YPO one-off shortfall in income		136	
Asbestos survey		60	
Credit Crunch Funding	40		
Corporate Credit Crunch Reserve		400	
	<b>2,292</b>	<b>1,251</b>	<b>944</b>
<b>Contingency Proposed</b>			<b>600</b>

Table 4 - Directorate Growth recurring and one-off plus contingency items

### Easy@ York Programme

42. In addition to the Directorate growth above the easy@york programme will also require further repayable advances from the Venture Fund for its work to continue into phase 2. The first phase of the easy@york programme has already delivered significant service improvements and realisable efficiency savings totaling £322k per annum. The second phase of the programme was due to run until 2010/11, in-line with the move to the new HQ, so that the team could manage

the redesign of face to face contact in a new customer centre. Following the delay to the HQ project, it is now necessary to extend the easy@ork programme until 2012/13 so that the face to face service can be effectively established.

43. As we enter a period of substantial change, with the Efficiency Programme, Admin Accom and easy@york all running alongside each other, the extension of easy@york gives us opportunity to support the organisation through these changes and undertake more transformation and efficiency work, working in collaboration with our efficiency partners Northgate Kendric Ash to drive out both improvements and savings.
44. Annex 11 sets the detailed financial plan. In short the cost of increasing the duration of the programme is being met by extending both the original phase 1 base budgets and the savings made as part of phase 2 for a further 2 years. Additional savings are also to be made by reducing the ongoing support costs of the technical solution by bringing it in house. There will initially be a deficit of £627k in 2009/10 and £626k in 2010/11 whilst we are spending more than we are saving. This will be borrowed from the Venture Fund and as the programme continues, savings will outweigh costs and the Venture Fund will be fully repaid by 2015.

Note:- The section on the balances of reserves in this report assumes the advances to the easy programme have been made.

## Funding Position

### Government Settlement - 2009/10

45. The government has committed itself to longer term financial settlements linked to the comprehensive spending review (CSR) cycle. The CSR 07 announced in September 2007 covered the three year period 2008/09 to 2010/11.

Annex 1, summarised in Table 5, shows how these changes in funding affect the overall funding position for the Council.

<b>Funding Requirements</b>	<b>2009/10 £'000</b>
Existing Funding	112,294
Removal of one-off funding for non-recurring exp.	-1,823
One-off use of collection fund surplus	-200
<b>Starting Funding for 2009/10</b>	<b>110,271</b>
<b>Funding Changes in 2009/10</b>	
Increase in Formula Grant	1,114
Contribution from Collection Fund Surplus	236
Use of reserves	1,251
Unused contingency from 2008/09	125
Non –recurring growth from 2008/09	1,138
<b>Revised Funding for 2009/10</b>	<b>114,135</b>
Additional Council Tax Income Required	
• From Increase in Council Tax of 4.5%	2,760
<b>Net Funding Available</b>	<b>116,895</b>

<b>Additional Funding in 2009/10</b>	<b>6,624</b>
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Table 5 Funding Available 2009/10

### Budget Position Summary

46. The above has highlighted both corporate and departmental expenditure pressures and new funding that the Council will be receiving in 2009/10 the following table shows the budget position at this stage.

	<b>£000</b>
Corporate Expenditure Pressures	6,105
Departmental growth requirements	2,292
Contingency	600
Non recurring growth from 2008/09	1,138
One-off growth	1,251
<b>Total Expenditure Pressures</b>	<b>11,386</b>
Additional Government Grant	1,114
Additional council tax income at 4.5%	2,760
Net Collection Fund Surplus	36
Non recurring growth from 2008/09	1,138
Use of reserves	1,251
Unused contingency from 2008/09	125
<b>Total Additional Funding</b>	<b>6,424</b>
<b>Budget Gap</b>	<b>4,962</b>

Table 6 Budget Position Summary

### Savings and Income Generation

47. To address this budget gap directorates have put forward savings proposals of £4.762m and corporate efficiency savings of £0.2m have also been identified. Annex 4, summarised in Table 7, details the £4.762m of individual savings and income generation proposals submitted by each service department. Other proposals which were rejected are shown in Annex 9.

	<b>2009/10 £'000</b>
Housing Services	0
Adult Social Services	1,361
Leisure and Culture	191
Children's Services	929
City Strategy	617
Economic Development	70
Chief Executives	399
Resources	692
Neighbourhood Services	503
<b>Net Total of Savings</b>	<b>4,762</b>
<b>Corporate Savings</b>	<b>200</b>
<b>Total savings</b>	<b>4,962</b>

Table 7 - Saving Proposals

48. The savings proposals above, if accepted will reduce the establishment by 9.1 fte posts of which potential redundancies of 2.5 fte's may have to be made, the remainder of the posts are vacant. It is not possible to calculate a cost in terms of redundancy or early retirement as staff maybe redeployed into other posts. 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.

### **Council Tax and the Collection Fund**

49. The existing components of the current (2008/09) Band D Council Tax for a City of York resident are shown in the Table 8. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council	1,028.74
North Yorkshire Police Authority	193.37
North Yorkshire Fire Authority	58.56
<b>TOTAL</b>	<b>1,280.67</b>

Table 8 - Make Up of 2008/09 Council Tax

The recommendation made in these papers is that from April 2009 the City of York Council's (CYC) element of the Council Tax will rise by 4.5% to £1,075.03. Such an increase would yield £2.760m in additional income for the Council.

50. The Collection Fund is the ring fenced account where all Council Tax is credited. 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 authorities share in any surplus or deficit on the fund, York's share of the surplus is 80.46%.
51. 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. During 2008/09 the position has improved slightly and as a result a one-off contribution towards the council's budget of £36k is being made.

### **Fees and Charges Proposals**

52. Detailed proposals for fees and charges were included in each directorates budget EMAP papers in January 2009 and as such are available in the Members Library. However since the Housing and Social Services EMAP there has been a slight change to the recommendations so these are included at Annex 8 for approval. The vast majority of proposals are in line with a recommended increase of between 2.5% to 3.0%.

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

53. Table 9 shows the position on all of the un-earmarked General Fund reserves which, it is anticipated, will decrease from an estimated £10.932m at the start of the 2009/10 financial year to £8.110m 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. It should be noted that the figures below include an estimated underspend on the 2008/09 budget of £1.4m and the release of Venture Fund money to the easy@york project of £627k in 2009/10 and £626k in 2010/11.

It is assumed in the budget projections in this paper that all of the net one-off expenditure for 2009/10 totalling £2.389m, will be funded from Revenue Reserves (net of the use of the Collection Fund surplus) reducing the available balance on the general fund to £5.477m.

	<b>2008/09 Projected Outturn £'000</b>	<b>2009/10 Budget £'000</b>	<b>2010/11 Budget £'000</b>
General Fund	7,803	5,427	5,477
Venture Fund	2,883	3,144	2,387
Neighbourhood Services	246	246	246
<b>Total</b>	<b>10,932</b>	<b>8,817</b>	<b>8,110</b>
CPA/Prudent Minimum Reserves	5,309	5,521	5,686
<b>Headroom in Reserves</b>	<b>5,623</b>	<b>3,296</b>	<b>2,424</b>

Table 9 - Projected General Reserves

54. Under current CPA guidance, a recommended prudent level of reserves for this Council should be 5% of the net non-schools revenue budget. For 2009/10 this would be equal to 5% of £113.930m, or approximately £5.696m. 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. In considering what level of general purpose balances that should be held, rather than those held for earmarked purposes, it has been 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% (£0.360m);
  - vi. Cover 2% of the Council's net revenue budget (£2.279m).

The total of the above is that the prudent minimum level of reserves is

calculated at £5.309m compared to the former CPA guideline figure of £5.697m.

For calculation purposes, the overall general reserves comprise the general fund reserve, the Venture Fund reserve and the Neighbourhood Services reserve. Details of these are also shown in Annex 7.

### General Contingency

55. 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 decisions to release contingency funds are 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.
56. The General Contingency for 2009/10 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 10.

2009/10	One Off £'000	On Going £'000
<b>City Strategy</b>	0	0
Concessionary Fares	0	111
Parking Income	0	150
Access York	200	0
<b>Neighbourhood Services</b>	0	0
Landfill Tax	0	400
Towthorpe HWRC	0	83
<b>Total</b>	<b>200</b>	<b>744</b>

Table 10- Summary of Potential calls on Contingency

In the context of the estimates provided above and the difficulties of costing some of the proposals it is recommended that Members set a contingency for 2009/10 of £600k.

### Adopting Changes to the Proposals

57. 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 4.5% Council Tax increase, produce a balanced budget. This balanced budget takes no account of the items listed as to be consulted



upon.

58. The savings and growth options which have been the focus of the comprehensive consultation exercise, including the EMAPs, are shown at Annex 5. If they were all accepted then there would be a budget reduction of £1.102m.

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
- d. to alter the Council Tax level, taking account of the information about possible capping and allowing for the fact that each 0.5% reduction in Council Tax requires a further £338k of budget to be identified.

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)**

59. There is a separate budget report for the HRA which is attached at Annex 12. The result of all the adjustments outlined within the report is an in-year surplus of £509k. Together with the projected brought forward working balance of £7,547k and after making a contribution to the capital programme, this leaves a working balance of £8,056k on the account.
60. This surplus is broadly in line with that forecast in the HRA business plan. The HRA surplus needs to remain on the account to be reviewed once the HRA business plan is updated to reflect both the budget detailed in this report and the 2008/09 outturn position. Members are reminded that the HRA surplus is needed to fund expenditure in future years.

### **Dedicated Schools Grant and the Schools Budget**

61. For schools funding through the Dedicated Schools Grant ( DSG), 2009/10 is the second year of a DCSF three-year budget period. For 2009/10 therefore the DSG allocation for York will be based on the December 2007 announcement, updated for changes in pupil numbers.
62. The DSG is ring-fenced for funding the provision of education for pupils in schools ( maintained, PRUs, PVI nurseries or externally purchased places). As such it covers funding delegated to individual council maintained schools through the LMS Funding Formula and funding for other pupil provision which is retained centrally by the council (e.g. SEN, Early Years, PRUs etc.). It is distributed

according to a formula that guarantees a minimum per pupil increase for each authority (2.9% in 2009/10). Additional funding is then allocated based on Ministers' priorities. For 2009/10 personalised learning has been identified as a priority.

63. The council itself cannot use the DSG for any purpose other than schools block funding, 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.
64. 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 e.g. SEN, Out of City Placements, Early Years, PRUs, Behavioural Support etc.
65. The headline figures from the DSG settlement show that for 2009/10 York's increase in DSG is estimated at £3.108m (+3.61 %) giving a sum of £3,939 per pupil (+3.63%). For 2009/10 this includes additional funding (above the minimum 2.9% per pupil) of £879k that has been allocated to York for Personalised Learning at KS3 and in primary schools.
66. Despite these increases though, York's actual funding level is still at the lower end nationally, 23rd lowest (out of 149 LAs) by the end of the 3-year period. This means that if York received the national average funding in 2009/10 there would be an extra £279 for every pupil or £6.306m in total. This would be enough to give an extra £278k to every secondary school and £59k extra to every primary school. This is also the equivalent of an additional 168 teachers or 306 additional classroom assistants.

#### Funding Available within the DSG

67. The funding available includes an initial estimate of the 2009/10 DSG allocation of £89,243k less an estimated deficit carry forward from 2008/09 of £300k (based on the 2nd budget monitor for 2008/09 reported to EMAP in December). This estimate will be updated once the provisional results of the annual schools and early years census are known later this month.

#### Balancing the Dedicated Schools Grant

68. There is still a budget gap within the Schools Budget of £29k at the time of writing this report. Further work will be undertaken in conjunction with the Schools Forum at its meeting on 30 January to identify options for bridging this gap. At its budget meeting on 16 February the Executive will be updated on the outcome of the discussions with and decisions/comments of the Schools

Forum.

## Precepts

69. 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 26 February.

- The Police Authority will be meeting on 9<sup>th</sup> February 2009 to determine its precept and council tax charge
- The Fire Authority will be meeting on 11<sup>th</sup> February 2009 to determine its precept and council tax charge.

As Table 11 demonstrates in 2008/09 these increases resulted in a total Band D Council Tax for York of £1,280.67.

	Increase (£)	2008/09		2009/10	
		Increase (%)	Council Tax	Council Tax	Increase (%)
CYC	46.68	4.75	1,028.74		
Police	7.97	4.30	193.37		
Fire	<u>2.52</u>	<u>4.50</u>	<u>58.56</u>		
<b>Total</b>	57.17	4.67	1,280.67		

Table 11 - Headline Council Tax Figures for City of York Area

There are 31 parish Councils within the City of York Council area all of which have now set their precepts for 2009/10 at an average rate of 4.2%, however there are a wide range of variations in individual increases.

## National Non Domestic Rates (NNDR)

70. In April 2008 the two NNDR multipliers were 46.2p in the pound for normal properties and 45.8p in the pound for smaller properties ( based upon the total rateable values of all properties held by a single owner). From April 2009 these multipliers will increase to 48.5p (5%) and 48.1 p (5.02%) respectively.
71. 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.

## J. THE REVENUE PLAN 2010-2013

72. The medium term revenue plan is based on an analysis of the key influences on the Council's financial position and an assessment of the main financial risks facing the Council. The financial forecast is set out below and the individual components of it are discussed in more detail in the following sections.

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

Table 12 – Revenue Plane 2010-2013

### **Increase In Grants and Council Tax**

73. This assumes increases grant funding of just over £1m per annum, and Council Tax increases as follows:-

2010/11	4%
2011/12	3%
2012/13	2.5%

Clearly these forecasts are merely for planning purposes, but they are based upon the broad objective that the medium term an should not be based upon excessive council tax rises. Ultimately it will be for members to consider the balance between Council Tax and spending pressures, but an effective plan should promote the development of choices, rather than making an assumed high level of Council Tax.

### **Corporate Efficiency**

74. At the heart of the Council's medium term plan is the Corporate Efficiency Programme. This seeks to transform how the Council delivers services and

ensure we can meet financial pressures without the need for service reductions/cuts.

75. The Corporate Efficiency Programme sets a 3 year target of £15m net real efficiency gains. Recognising that there will be a natural "build up" of these efficiencies, the plan sets lower levels of savings in earlier years.
76. Crucially, at this stage there are no service based targets set. Instead, all Directorates will need to embrace fully the Corporate Efficiency Programme with a view to the Council responding as one organisation, delivering transformation across the Council, and achieving real efficiency in service delivery.
77. The plan is dependent upon the efficiency targets being met. Should the targets not be met, the Council will be forced to consider individual Directorate savings targets.

### **Cash Increase**

78. Rather than make assumptions about pay and prices, a new approach is planned for coming years. This will set pre-determined cash increases for individual Directorates. This will aid long term planning, will ensure costs are controlled, and require Directorates to self manage all non-exceptional budgetary pressures (exceptional major items will still be able to be considered for corporate growth as set out below). Each Directorate will know well in advance how much their cash increase will be and will need to manage accordingly. An increase of 2% is assumed, recognizing both the general trend on pay and prices at present, but also the need to keep cost pressures to manageable levels.

### **Provision for Major Pressures and Corporate Issues**

79. The plan makes provision for the following major items in the future:-

#### **Treasury**

80. For a very long time the Council has 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 and the reliance on continuing with this level of performance over future years cannot be guaranteed.

#### **Capital Programme**

81. The capital programme which is funded partly from capital receipts includes a number of on-going commitments such as highways maintenance, bridge maintenance and disabled facilities grants. The latest estimate of capital receipts which has taken into account the current economic climate, indicates a significant shortfall in resources over the next 5 years if current commitments are to be

maintained. In order to ensure the programme is fully funded it is necessary to make annual revenue contributions to the capital programme. It is suggested that for 2009/10 £250k (half being specifically for highways maintenance and half for general schemes) is made and then around £500k - £600k per annum for the next 4 years, subject to annual review and in particular assessment of the economic situation.

### **Waste Management**

82. There are significant cost pressures facing the Waste Management budget over coming years. Landfill Tax is currently increasing by £8 per tonne per annum and the introduction of Landfill Allowances limits the amount of biodegradable municipal waste 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 2010/11 or 2011/12 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 2009/10 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 from the start of 2010/11 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.

### **Concessionary Fares**

83. The total cost of this budget is now approaching some £5m. A 5% increase year on year is some £250k.

### **Contingency Sum**

84. A sum of £800k is included for each of the next 3 years, for pressures that will affect the Council, in line with recent practice of providing such a contingency for cost pressures that are not easily quantifiable when the budget is set

### **Provision for other Pressures/Priorities**

85. This reflects the need for provision to meet both unknown cost pressures, and also to provide an element of funding that will be able to be targeted at Council priorities.

It is planned that this funding will be allocated very carefully according to Council priorities, and any general "Pressures" will wherever possible need to be self managed by Directorates within their overall cash increases.

### **Deficit on the Pension Fund**

86. 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.

### **An Aging Population**

87. Current estimates envisage that the client base for the 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. 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 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.

### **K. IMPACT ASSESSMENT OF THE BUDGET PROPOSALS**

88. The budget set out aims to tackle a variety of issues. Clearly it aims to be prudent and to set medium term plans which are set out in the report. However, a financial plan is more than just about the numbers, it is about how resources are allocated and what impact that allocation has upon a range of issues. The following sections bring together how this budget has contributed to the following:-

- Council Priorities
- Feedback from consultation
- Economic downturn
- Sustainability
- Equalities

#### **Council Priorities**

89. The budget proposals contained within this report will support the achievement of the Council's overall objectives in many ways, specific initiatives include;
- Proposed one-off investment of £400k and continuing investment of £40k per annum issues that arise due to the economic downturn ("Thriving City)
  - Investment in increased recycling (Sustainable City)
  - Investment in elderly residential care, fostering and external placements of children and subsidized bus services (inclusive City).
  - Increased spend on highway maintenance, street cleaning and Safer York Partnership (Safer City).
  - Cuts in administration and embarking on an ambitious efficiency programme (Effective Organisation).

## Feedback from Consultation

90. The Council has consulted on its budget through various forms including a postal questionnaire to every household, face to face sessions and budget forum. The feedback from the consultation is shown in detail at Annex 9 and the top 5 proposals for savings and increased spending that received the most support are shown in table 13 below.

<b>Top Priorities for Making Savings</b>	<b>% Support</b>
Reduce the amount the Council spends on administration	72.2
Generate new income from the Yorkshire Wheel (subject to planning)	42.70
Concessionary bus passes for the over 60's to start at 9.30am	40.0
Increase the charges for adults on personal development courses	36.30
Reduce financial support to external organizations in economic development and tourist support	32.40
<b>Top Priorities for Increased Spending</b>	
Maintain highway and footpath maintenance at current levels	45.8
Increase payments to elderly residential care providers to maintain level of places	34.90
Ensure there is enough money to meet the increasing costs of children in care	31.20
Extend Kerbside Recycling throughout the City	29.40
Continue to support current levels of subsidised bus services	29.0

Table 13 Summary of consultation feedback

91. The budget proposals included in this report if accepted are addressing the following:-
- General Administration reductions of £880k across the council. This figure will increase significantly over the next three years as further work on the efficiency programme continues.
  - Increases in the fees for adult learners
  - Reductions in financial support to external organisations in economic development and tourism
  - Maintaining highway and footpath maintenance plus making an additional £125k contribution to this are
  - Ensuring there is enough funding for children looked after with investment of £141k
  - Extending kerbside recycling throughout the City of York Council
  - Continuing to support the current level of subsidised bus travel with investment of £505k.

## Responding to the Economic Downturn

92. The financial strategy addresses the economic downturn in a number of ways. Within the separate report on the Capital Programme and referred to within this report, the impact of declining capital receipts is considered. This has major implications for the Council and in order to provide for a balanced capital



programme and to limit the extent of borrowing, the Council will need to make prudent revenue provision to support the capital programme.

93. The revenue budget also considers the impact on a range of budgets and this includes car parking and land charges, where income is likely to suffer. The budget for Treasury Management also considers the impact of reduced interest rates. Additional funding of £40k has been provided as an ongoing sum for the impact of the Credit Crunch and a one-off special contingency of £400k is being recommended to be considered during the year.
94. The Council's Executive recently commissioned consultation with those in the city who best understand its economic landscape, are working to ensure its continuing prosperity or work with communities and individuals whose economic position is most precarious. As a result of this, a range of actions were proposed and supported by the Executive in response to the aims of supporting business, boosting confidence and supporting those most vulnerable. These actions include:-
- Match funding with others including Norwich Union and York Professionals to establish an enterprise fund for new business start ups.
  - Funding to support a programme of enterprise training in schools in partnership with the North Yorkshire Business and Education Partnership for all Year 9 students in the city.
  - Support to sustain the activities the activities of the City Centre Partnership – maintaining dialogue with the Retailers Forum and engage with city centre traders and retailers to enable them to develop a collective voice on city centre issues.
  - Production of a booklet to assist residents to live in York on a budget.
  - Investment to provide 3 Credit Union community savings points in those communities where they are most needed.
  - To assist the liquidity of those providers of services to the Council. The authority recently committed to ensure that non-limited companies would receive payment within 10 days of receipt of invoice rather than within 30 days.
  - Review by the Head of Property Services and Director of Resources to identify what support may be provided by businesses within the Council's own property portfolio to alleviate the effects of the credit crunch.

The full extent and impact of the economic downturn will not be know for some time yet, so the issue will be constantly monitored throughout 2009/10 and the Council will endeavor to respond wherever possible or practicable to any events as they arise.

## **Sustainability**

95. The Council is making further investment in kerbside recycling in an effort to keep landfill to a minimum and is also continuing to support the joint waste PFI project with North Yorkshire County Council. The project's relocation to a new building is still ongoing and any solution will involve the most environmentally friendly features as possible.

### **Equalities**

96. A desktop Equalities Impact Assessment of the specific proposals contained within the budget has been carried out and a number of areas have been highlighted. These will be referred back to the individual directorates concerned for fuller assessment.

### **Specialist Implications**

97. The following implications apply to this report:

#### **Financial**

98. These comprise the body of the report.

#### **Human Resources (HR)**

99. Any HR implications will be managed in accordance with established council procedures. As part of this process consultation with affected staff will be undertaken to ensure they have every opportunity to find suitable alternative employment with the council.

#### **Risk Management**

100. Attached at Annex 13 is a schedule of risks connected to the budget, these will be monitored regularly throughout the year.

#### **Legal**

101. 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 26 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**

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

#### **Information Technology (IT)**

103. This report proposes the funding in full of £350k of the IT development plan.

## **Property**

104. None in this report

## **Statutory Advice From the Director of Resources/ Comments**

105. The Local Government Act 2003 places responsibilities upon the Council's Chief Finance Officer to advise the Council on the adequacy of its reserves and the robustness of the budget proposals including the estimates contained in this document. This section also addresses the key risks facing the Council in relation to current and future budget provision. The following paragraphs give my views on the budget, reserves and general robustness of the process.
106. The proposals in this budget give a balanced budget for 2009/10 and give consideration to the 2010/11 and 2011/12 financial years. The Council has taken many steps to try to put itself on a firmer long term financial position, with longer term planning and improved budget monitoring. Full scrutiny of the budget proposals for 2009/10 has taken place and I believe that a proper risk assessment of a range of issues has been conducted.
107. Notwithstanding the positive steps which continue to be taken, there remain a range of significant pressures for the future. The major challenge facing the Council in coming years will be to secure savings from real efficiency gains (i.e no deterioration in service quality) and for cost pressures to be managed effectively. In doing so, the Council will also need to provide for additional investment in unavoidable costs and priorities. In addition, looking ahead over the next year the economic situation is clearly a major issue. The Council has sought to recognise this in a number of ways within this budget, however clearly it is a very volatile position and any major deepening of the recession could bring with it significant implications for the Council.
108. There are no proposals contained within this report to use balances to fund recurring items of expenditure. It is particularly important that the reserves are reviewed once the 2008/09 outturn is known and a new strategy for reserves developed. This should provide for reserves/contingency not just for general revenue reserves, but also seek to identify reserves for the capital programme and a range of other issues. Best practice recommends that minimum and maximum levels should be set for all established reserves and these should be reviewed at least every 6 months. In coming months a comprehensive reserves policy will be brought to Council for consideration.
109. This is particularly important as 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 2010/11 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. It should not be assumed that the Council has significant reserves – as can be seen from the tables in this report, the future calls on those reserves are potentially putting the Council in a position whereby reserves may approach minimum levels. In a normal situation

this may not be a cause for concern, however given the economic downturn there may be a need to revise our policy on reserves and increase minimum levels in the near future. This will be further considered in a fuller review of reserves in the coming months.

110. 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 £0.6m, 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. However, there will be a need for very tight cost control and regular monthly monitoring and whilst in recent years the Council has a history of under-spending, I believe that the revenue budget set for 2009/10 is a demanding one which will require each Directorate to ensure close and effective monitoring.
111. 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 2009/10 the maximum Council Tax rise that York should consider is the 4.5% in this report.
112. I would highlight that this is a maximum figure and whilst this report currently does assume an increase of 4.5% Members may wish to consider further options to bring this increase down, in order to reduce any risk of the possibility of being capped this year. In reaching their final decision members need to consider that if the Council were capped it would bring with it reputational damage and potential costs of re-billing which are estimated at £170k.
113. Whilst this report does highlight a range of major cost pressures in the future, I believe the Council is taking steps to manage these. Crucial to this is effective medium term planning and awareness of the issues facing the Council throughout the organization. Key to tackling these pressures will be the need for the Council to embrace a major period of transformational change, through the Corporate Efficiency Programme and [easy@york](#) programme. If the Council fails to respond to these challenges, it will face a need for service cuts.

## Recommendations

114. Members are asked to consider the appropriate levels of Council Tax that they wish to see levied by the City of York Council for 2009/10. In doing so they should pay due regard to factors such as:
  - a. Expenditure pressures facing the Council in 2009/10 as detailed at Annex 1;
  - b. The impacts in 2009/10 of the growth requirements and savings proposals outlined in Annexes 3 and 4;
  - c. Medium term financial factors facing the Council as outlined in the report.

- d. The levels of reserves projected to be held at the 31 March 2009, 2010 and 2011 (Annex 7);
  - e. Significant future pressures identified.
  - f. The statutory advice from the Director of Resources.
  - 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.
115. In light of these considerations Members are asked to recommend to Council approval of the budget proposals as outlined in this report, and set out in detail within the Financial Strategy in particular:-
- a. The net revenue expenditure requirement for 2009/10 of £116.895m, as set out in Annex 1;
  - b. The housing revenue account proposals outlined in Annex 12;
  - c. The dedicated schools grant proposals outlined in the report;
  - d. The revenue growth proposals of £8.997m on-going for 2009/10, plus one-off growth of £1.251m, outlined in Annex 3, plus an additional £1.138m relating to one-off growth proposals brought forward from 2008/09;
  - e. The revenue savings proposals of £4.962m for 2009/10 outlined in Annex 4;
  - f. In terms of the Council's reserves to agree the use in 2009/10 of £2.389m of revenue reserves as outlined in Annex 6;
  - g. Use of unused contingency of £0.125m brought forward from 2008/09
  - h. Use of prior year Collection Fund surplus of £0.236m
  - i. The fees and charges proposals in Annex 8.
  - j. The IT Development Plan proposals as shown in Annex 10.
  - k. An advance from the Council's Venture Fund of £627k in 2009/10 and £626k in 2010/11 to be made to phase 2 of the [easy@york](#) project as outlined in Annex 11 which will enable the project to continue until 2014/15.
116. 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 4.5%. 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 26 February 2008.

## Contact Details

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### Chief Officer Responsible for the report:

Ian Floyd  
Director of Resources

Report Approved  Date 11/2/09

### Specialist Implications Officer(s) Human Resources

#### Name

*Title*

*Tel No. Extension*

**Wards Affected:** *List wards or tick box to indicate 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  
Appendix 1 - Financial Strategy

### Annexes to Appendix 1

- 1 Summary of Budget
- 2 Contingency Items
- 3 Growth and Reprioritisation
- 4 Saving Proposals
- 5 Alternate Savings Proposals
- 6 Use of Reserves
- 7 Estimated Reserve Balances
- 8 Fees and Charges (in Member Library)
- 9 Public Consultation on Budget Proposals
- 10 IT Development Plan
- 11 [easy@york](mailto:easy@york) programme
- 12 Housing Revenue Account budget report
- 13 Risk Assessment