

**Executive**

**30 June 2016**

Report of the Director of Customer Services and Business Support  
(Portfolio of the Executive Member for Finance & Performance)

## **FINANCIAL STRATEGY UPDATE 2016/17 to 2020/21**

### **Summary**

1. This report presents an update to the Financial Strategy 2016/17 to 2020/21 as agreed by Council on 25<sup>th</sup> February 2016 and sets out the outline process for the 2017/18 to 2021/22 Financial Strategy. It includes a 4 year Efficiency Plan as required by government policy and updates Members on the latest government announcements in relation to funding.

### **Recommendations**

2. Members are asked to:
  - a) agree to the outline budget planning process for 2017/18 to 2021/22
  - b) recommend to Full Council the adoption of the Efficiency Plan 2016/17 to 2019/20 which is set out in Annex 1.

Reason: In order to achieve the proposed savings and efficiencies set out in the Council's Financial Strategy and Efficiency Plan and protect priority areas and key statutory safeguarding services.

### **Background**

#### Financial Strategy 2016/17 to 2020/21

3. The Financial Strategy agreed by Council on 25th February 2016 delivered a balanced budget for 2016/17, including revenue savings of £6.1m and growth of £6.5m (including £2.2m for pay and prices, £1.9m for looked after children and £0.8m for adult social services).
4. The Strategy set out the strategic direction towards achievement of savings proposals for each directorate over the 4 year period from 2016/17 to 2019/20. This included the directorate approach to protecting

priority areas, safeguarding key statutory services and further details of the type of savings or efficiencies under consideration for the medium term.

5. The budget process adopted a risk based approach, and in particular prioritised statutory services to vulnerable adults and children, and key frontline services. For example savings across Corporate Services in 16/17 were 7.3% of net budget whilst in Adult Services they were 2.4%. Whilst all areas were asked to consider the long term implications of up to a 30% reduction in their net spend over the next 4 years, assessment of options, risks, and links with priorities took place in formulating the final proposals submitted in February 2016.
6. The medium term strategy will focus on a transformational approach across all areas and a significant amount of savings will be delivered by restructuring services. Ensuring that there is the capacity to invest was a critical part of the budget deliberations.
7. Specific details of future years (2017/18 onwards) savings proposals will be covered in future budget reports.

### **2015/16 outturn position**

8. In a separate report elsewhere on this agenda, the Finance and Performance 2015/16 outturn report details an underspend of £876k. The report identifies a range of budget pressures, some of which will continue into 2016/17. The most significant risk is in relation to adult care and in particular the Better Care Fund.
9. As part of the budget approved in February 2016, considerable investment was made in priority services to ensure sufficient resources to deliver statutory and priority services. The most notable example was additional funding for Looked After Children, with the inclusion of £1.9m growth.
10. There is continued pressure on budgets from an increase in costs in elderly care due to an increase in demand and more complex needs. Other factors that will affect the council include inflationary increases, continued pressure on many of the council's income budgets and implications of the capital programme.
11. Whilst devolution of business rates presents opportunities for the council, there are also associated risks with business rates appeals.
12. The Better Care Fund (BCF) is a £12m pooled budget between CYC and Vale of York Clinical Commissioning Group (VYCCG), and is a

government initiative to transform local health and social care services so that they work together to provide better joined up care and support. A significant proportion of the pooled budget is earmarked to be spent on protecting adult social care services. There are significant challenges in the health sector, and this brings with it significant financial risks for the Council.

## **Council Priorities**

13. As outlined in the Financial Strategy report, by 2019/20, the Council will be self funded from council tax and business rates. Therefore, it is critical that the Council continues to support Economic growth, recognising the significant financial benefits in the form of retained business rates, and creation of jobs.
14. The budget process ensures that there is a strong link between the capital and revenue budgets to support the delivery of Council Priorities.
15. In shaping the budgets of recent years, the approach was to deliver a prudent and balanced budget, whilst protecting the needs of vulnerable people.
16. Some significant areas of investment approved in the last 12 months are included below.
17. In July 2015 the new administration amended the 2015/16 budget to include the following investment:

### Children and Young People

- Children & Young People's Services £50k - to enhance work with community partners and the continuation of the Shine magazine.
- Extra support to review and help to boost the attainment of pupils from disadvantaged backgrounds for 1 year £25k

### Environment

- Additional city wide cleaning programme £25k for one year
- Increase Recycling Promotion Budget for 2 years £30k
- Reverse savings proposals for charging for green bin collection £1,000k
- Extend Green Waste provision (2 additional rounds) £64k

### Transport and Planning

- Additional Planning Enforcement Officer £35k
- Extra support for local and rural bus travel and subsidies £75k
- Increase Highways capital 250k - to create a Highways, Road Adoption and Drainage Hotspot Fund.
- Additional Investment in gritting £60k

### Economic Development and Ward Committees

- Extra support for local small businesses £30k - to cut red tape and bid for council contracts
- Additional Investment for Ward Grants as part of new Ward Committee system £75k
- Investment and Review of Community Centres £70k

### Corporate

- Customer Services £80k- improving response times by additional staffing and improvements to customer support systems.
- Democracy, decision making and transparency £100k - To bring forward new arrangements for governance and democratic support.

18. Significant investment included in the 2016/17 to 2019/20 Financial Strategy includes the following:

### Adult Social Care and Health

- Mental Health Services £100k – additional investment
- Adult social care £788k- to address budget pressures relating to Haisthorpe House and the Whittlestone legal judgement
- Additional investment of £26k for one year to ensure that substance misuse advice can continue to be offered at York Carers Centre ahead of a review and the move towards greater service integration

### Children and Young People

- Children's Social Care £1,930k – to address budget pressures in Children Looked After (CLA) budgets

### Environment

- An additional £35k to fund the ongoing cost of maintenance for 70 new litter and dog bins across the city
- Additional investment of £150k for one year (with a further £150k in 17/18) to support the Pride in York local delivery of environmental projects, grounds maintenance and build capacity in the voluntary sector.
- Drainage – Strategic Flood Risk Assessment £60k 1 year funding

### Transport and Planning

- Additional investment of £20k for one year to support the building of greater capacity in planning enforcement work
- Additional investment of £50k for one year to support the remodelling of bus subsidies
- Additional investment of £30k for one year to support the continuation of elements of the Local Sustainable Transport Fund programme.
- Additional Investment in gritting £115k
- Neighbourhood Plan Assistance £33k – direct funding support to communities who wish to develop a Neighbourhood Plan.
- Local Plan £350k - to support delivery of the Local Plan for 1 year

### Housing and Safer Communities

- Community Safety Hub Officers £234k – to fund officers to cover additional enforcement around dog fouling, street drinking, licensing infringement, noise enforcement and a reactive service for Street Services to deal with fly-tipping, graffiti, litter and weeds.

### Corporate

- Increase in Contingency £195k in 16/17– Due to potential costs arising due to flooding, and risks associated with adult care funding

## Medium Term Planning

19. The CSR 2015, announced in November 2015, set out government spending plans for the length of this parliament.
20. The settlement funding assessment (SFA), comprises revenue support grant (RSG) and a business rates baseline. Provisional figures were provided for the year 2017/18 to 2019/20 which confirms that central government support to local authorities will continue to be reduced in coming years.
21. The 4 year settlement includes a reduction of £19m in SFA over the period from 2015/16 to 2019/20. Until further details emerge in relation to business rates devolution and additional burdens it is difficult to put this figure into context. The scale of savings that will be required in the future will be driven by potential further government funding reductions and the outcomes of the devolution agenda, alongside the extent to which spending pressures affect the council.
22. The table below sets out the SFA settlement from 2016/17 to 2019/20.

	16/17 £m	17/18 £m	18/19 £m	19/20 £m
RSG	14.892	8.580	4.934	1.947
Business Rates Baseline	24.303	24.781	25.512	26.327
<b>Total SFA</b>	<b>39.195</b>	<b>33.360</b>	<b>30.446</b>	<b>28.274</b>

SFA Settlement figures

23. Estimated savings required are in the region of £23m over the period from 2016/17 to 2019/20.

## Financial Strategy 2017/18 to 2021/22

24. The Council's budget process has successfully managed the significant financial challenges, and delivered significant investment into Council Priorities such as Economic Development and Protecting Vulnerable People.
25. Recent audit reports on treasury management, accounting systems and budget savings have also highlighted the good arrangements in place in Financial Management.

26. The process for the Financial Strategy 2017/18 to 2021/22 will build upon the work already undertaken to identify the strategic direction and transformational approach for each service area, as set out in Paragraph 4.
27. Over the coming months, there will be a series of meetings with Executive Members to review savings proposals and any requirements for growth. Final proposals will be compiled in December 2016, to present to Budget Council in February 2017.

### **Update on Funding Sources**

28. An update on the significant areas of funding is provided below, including the latest announcements from Government.

#### Council Tax Funding

29. The flexibility to charge a further 1.99% in addition to the 2% referendum threshold will remain in 17/18. The additional 2% social care precept must be used entirely to fund adult social care. A 2% increase generates additional income of approximately £1.5m for the Council.

#### Business Rates Current System

30. The settlement funding assessment (SFA), comprises revenue support grant (RSG) and a business rates baseline. Revenue Support Grant (RSG) will be phased out by 2019/20 and will be replaced by a system which allows local government to retain 100% of business rates.
31. As a reminder of the current system, business rates receipts are shared between central and local government. However, receipts of business rates in each individual local authority area may or may not match the amount the government believes the authority needs to spend, so, at the outset of the scheme in April 2013, amounts were equalised through a system of 'tariffs' and 'top-ups', according to need. Authorities that collect more than the government believes they need to spend pay over a 'tariff' to government and those that collect less receive a 'top-up' to make up the difference.
32. Tariff authorities that are successful in growing their rates are also liable for 'levies' which scale back the rewards of growth – by as much as 50% in some cases.
33. The scheme allows groups of authorities to join together to form business rates pools. Pooling allows groups of 'tariff' and 'top-up' authorities to gain financial advantage by enabling levy payments to be

paid to the pool rather than central government. City of York Council is a member of the Leeds City Region (LCR) Business Rates Pool.

34. City of York Council is a tariff authority and pays a levy of 48.57%. Effectively, the council to keep c.25p of growth after shares have been paid to Central Government and the LCR business rates pool.
35. The levy payable to the pool from the Council in 15/16 will be £2.3m. This equates to approximately 70% of the amount paid into the pool.

#### Business Rates Review

36. A review of the retained rates system was deemed necessary by the Government to address the high risk local authorities face from the appeals system, the revaluation due in 2017/18 and the reset of the baseline in 2020/21. In addition the Government has also announced a review of needs, which may effect the allocation of top ups and tariffs.
37. A Steering Group has been formed to advise Ministers on the process required to set up and operate a 100% rates retention system, including the timing and implementation of reforms. This will include the design of the system, the review of local authority needs and new service responsibilities.
38. There is likely to be a consultation document in July 2016, but since the review is so wide ranging it could take some time to complete and the outcome may have a significant effect on funding.
39. It is implied that there will not be levies on growth in the future. As a tariff authority, this would benefit City of York Council. If this was the case, the incentive for operating a pool may disappear unless there were some other financial benefits. However, there is potential that the new system may be regional or be linked to local devolution deals to help manage risk and volatility.
40. Councils will have increased powers to reduce business rates to boost growth or give elected city regional mayors the power to levy a premium (infrastructure levy) on business rates to fund infrastructure projects.
41. As part of the reform, additional responsibilities will transfer to local government, potentially the administration of housing benefits for pensioners and funding of public health.



### Social Care Funding

42. Additional funding will be available for the Better Care Fund (BCF) by 2019/20 which should increase budget available for adult social care.
43. The Better Care Fund nationally will grow from £3.8bn in 2015/16 to £5.3bn by 2019/20 and will encourage the integration between Health and Adult Social Care as more budget is pooled for use across the health and social care sector. This needs considering in the wider context of the Health and Social Care Economy in York as both the health commissioner and main provider are currently carrying significant deficits. Their plans to address these deficits may well impact on the social care budget.
44. Phase Two of the Care Act is still due for implementation in April 2020 which, as it stands, will cap the amount people contribute to the cost of their care. This will significantly reduce the income the Council gets to support the services it provides and commissions.

### Schools Funding

45. The Educational Services Grant (ESG) provides funding for central education services to the local authority and academy schools. Government has announced that total national ESG funding will reduce from £815m in 2015/16 to £215m by 2019/20. For the local authority this has meant an initial ESG allocation for 2016/17 of £1,909k, a reduction of £200k compared to 2015/16. York's allocation is then expected to reduce by a further £1,543k to £366k by 2019/20. The actual pace of this future reduction is yet to be announced, although as a significant proportion of the ESG (£77 per pupil out of the total £92 per pupil) transfers to academy schools then the reduction in funding for the council will accelerate as more schools convert to academy status.

### New Homes Bonus (NHB) Grant

46. The New Homes Bonus was introduced to provide an incentive for local authorities to encourage housing growth in their areas. NHB funding is currently provided over a 6 year period and is not ring fenced.
47. A further round of funding was announced in December 2015, totalling £1,030k per annum. The total funding available in 2016/17 is £4.6m. £2.6m is used to fund ongoing expenditure.
48. Consultation is underway to change the operation of New Homes Bonus (NHB) funding from 2017/18. The expectation is that there will be a reduction in NHB of at least £800m nationally to fund social care, so it is

likely that the grant to the Council will reduce. Funding may reduce from a 6 year to a 4 year period.

49. Future payment may also be linked to delivery of a Local Plan. This represents a risk to the Council, if the Local Plan is not finalised payment of the grant may be deferred or reduced.
50. Should the operation or value of NHB grant change significantly, the funding of ongoing expenditure will be subject to further consideration. It is envisaged that any change is likely to be implemented alongside other changes, such as business rates retention.

### Capital Receipts

51. The Government have announced greater flexibility for Council's in how they make use of capital receipts – money received when an asset such as a building is sold. Councils are currently only allowed to spend such money on capital projects. The new flexibility allows money from asset sales (excluding Right to Buy receipts) to be used on the revenue costs of reform projects, subject to certain conditions, including publication of a 4 year Efficiency Plan.
52. In 16/17 we propose to use this flexibility for up to £1.2m of capital receipts which will be used to fund the Older People's Accommodation project. This project aims to provide suitable accommodation, ideally in a community setting, for the city's older residents including those with complex care needs, those with dementia and those moving out of, or diverted from moving to, existing Council-run Older People Homes which are no longer fit-for-purpose.

### **4 Year Settlement and Efficiency Plan**

53. Under the usual process the Government confirm funding (SFA) figures provisionally in late December, and final figures are announced in early February preceding the financial year to which funding relates. Subsequent years figures remain provisional and are subject to change in future announcements. This means that future funding figures, in this case from 2017/18 onwards, can reduce but the Council would not receive the final figure until February 2017 for 2017/18 funding.
54. Under the current process the uncertainty of funding can present problems for the Council to plan over the medium term, as assumptions are required to predict the level of funding. It is also difficult to manage the uncertainty in the budget timetable as ideally decisions ought to be finalised by early January, but are often subject to last minute revisions or amendments at Budget Council following the final announcement.

55. To combat these problems, the Government have offered councils that wish to take it up a 4 year funding settlement if they publish an Efficiency Plan before 14<sup>th</sup> October 2016.
56. The government have confirmed that any Council which takes up the offer will not see a reduction in the settlement figures already announced. This will mean that if the Council take up the offer there would be no further reduction to the funding settlement figures included above in Paragraph 20.
57. A 4 year settlement will improve stability and aid medium term planning. The majority of other Councils have indicated that they will take up this offer.
58. In order to qualify for the 4 year funding settlement and benefit from the flexibility in the use of capital receipts, it is recommended that Members approve the Efficiency Plan, which is included in Annex 1.

## **Specialist Implications**

### **Financial**

59. The financial implications are contained within the body of the report.

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

60. The impact of delivering savings will continue to result in a reduction in posts. The HR implications of change are managed in accordance with established council procedures. As part of the budget process consultation with trade unions and affected staff will continue to be undertaken and every opportunity will be explored to mitigate compulsory redundancies, such as vacancy controls, flexible working, voluntary redundancy / early retirement and extended redeployment. Where consideration is being given to the transfer of services to another provider TUPE will apply which will protect the terms and conditions of employment of transferring staff.
61. A programme of support for staff who are going through change is in place which will help staff adapt to changes to the way they will need to work or to prepare for a move into a new role.

### **Equalities**

62. There are no specific equality implications in this report, however equality issues are accounted for at all stages of the financial planning and reporting process.

## Legal

63. There are no legal implications to this report.

## Crime and Disorder

64. There are no crime and disorder implications to this report.

## Information Technology (IT)

65. There are no information technology implications to this report.

## Property

66. There are no property implications to this report.

## Other

67. There are no other implications to this report.

## Contact Details

### Author:

Ian Floyd  
Director of Customer and  
Business Support Services

### Chief Officer Responsible for the report:

Ian Floyd  
Director of Customer and Business Support  
Services

Debbie Mitchell  
Finance Manager

Report  
Approved

Date 15 June 2016

Sarah Kirby  
Principal Accountant

### Specialist Implications Officer(s)

HR – Mark Bennett

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

All

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

Background Papers:

Financial Strategy 2016/17 to 2020/21

Capital Strategy 2016/17 to 2020/21

Treasury Management Strategy 2016/17 to 2020/21

**Annex:**

## Annex 1 – Efficiency Plan 2016/17 to 2019/20

Glossary of abbreviations used in the report:

BCF – Better Care Fund

CLA – Children Looked After

CSR – Comprehensive Spending Review

ESG – Educational Services Grant

HR – Human Resources

LCR – Leeds City Region

NHB – New Homes Bonus

RSG – Revenue Support Grant

SFA – Settlement Funding Assessment

TUPE – Transfer of Undertakings (Protection of Employment) Regulations  
2006

VYCCG – Vale of York Clinical Commissioning Group