

**Cabinet**

**17 July 2012**

**Report of the Cabinet Member for Corporate Services**

**Financial Strategy Refresh**

**Purpose of report**

1. This report provides an update to the Financial Strategy given the continued and rapid changes to the Local Government funding. It also provides an outline plan to the 2013/14 and 2014/15 budget process.

Introduction

2. The challenges facing all public sector organisations are very significant and these difficult financial times are certain to continue in coming years as the Government seeks to deliver upon its aspiration of reducing the public sector share of total GDP.
3. York has responded well to the challenges to date with strong financial management practices, successful delivery of efficiencies and a firm economic base when compared with many other local authorities.
4. However, to continue to deal with the challenges effectively will require the Council to have a clear long term year strategy in terms of how it wants to shape the City through its financial strategy, and deliver Council priorities. The general direction and operation of the Council will also need to be considered, with significant change required in a number of services.

Key Priorities

5. It is imperative that the financial strategy supports the Council's priority objectives, as outlined in the Council Plan. In particular it should be the enabler to ensure the economic prosperity of the city and the provision of an effective and fair society which has sound public services. Key priority themes to drive the financial planning process forward are set out below:
  - Creating and growing a successful Economy for York.
  - Protecting Vulnerable Groups.
  - Ensuring that York residents receive effective provision of vital public services such as Housing and Transport.

6. The effects of a poor economy and a reliance upon government funding are seen very clearly across the country at present, where the impact of public spending cuts are falling the most severely.
7. Delivering the Council priorities at a time of difficult financial challenge, will require long term approaches to ensuring a sustainable local funding base, driving out efficiency and changing how services are delivered. It will however also require significant reductions in many areas of service delivery to ensure sufficient resources for the key priority areas.

### Funding Issues

8. The Councils key funding sources are Government grant (general and specific), Council tax, fees and charges, and there is also the potential in the future to grow business rates. There are many issues that will affect these areas, and these are considered briefly below:
  - i) Local Business Rates – with the proposed localisation of business rates it was felt that there may be significant opportunity to seek to grow business rates and for the Council to receive significant benefit. The current guidance from Government regarding this scheme however sets out that 50% of all growth will be passed to central government, and York (as an area with a high level of business rates) will also pay over a further 42% of any remaining gains. Whilst therefore there are still benefits to growing business rates, the scheme as designed is not as favourable as it potentially could have been.
  - ii) Council Tax currently accounts for £75.7m of the Council's net budget. It is unavoidable that the overall contribution from Council Tax in coming years will impact on the overall level of reductions that will be required in Council services. In the last two years the Government has sought to keep Council Tax levels frozen. The implications of a declining council tax base that does not keep pace with inflation will inevitably mean more severe public spending reductions. York's Council tax is still amongst the lowest of all unitary councils and is approximately 9% below the average for unitary councils (equivalent to some £7m). The medium term plan currently assumes for Planning purposes only, increases in council tax of 2% and 1% over the next two years. These will clearly need to be considered as part of the budget process.
  - iii) Fees and Charges are levied on a range of services provided by the Council, and we receive significant income from our Assets. Exploiting new opportunities for generating income and providing high quality services which the customer is willing to pay for will be important in the future. This may require a more commercial approach to some of the Council's fee charging services. It may also require capital investment to

ensure facilities offer the highest standards and a fundamental review and an ongoing focus/prioritisation of the assets the Council holds.

- iv) Government Grants – the current value of the general Government grant is £46.5m. This is expected to reduce over coming years in real terms. A number of specific grants are anticipated to be rolled into this general grant from 2013/14, and this will include changes in Council Tax benefit grant. Along with these changes in grant funding, the Government is currently considering potential changes in the grant funding formula, all of which make predictions of overall grant settlements in future years difficult.
- v) The proposed changes in Council Tax Benefit will have a significant impact on the Council. Funding from Government is set to reduce by 10% and the Council is required to design a local discount scheme for residents who currently receive Benefit. This scheme will be finalised throughout the rest of 2012 and will be implemented on 1 April 2013. The Government have made it clear in their most recent guidance (Localising Support for Council Tax – A statement of intent) that local authorities must carry out consultation on any new scheme. This consultation must comply with the Best Value Statutory Guidance published in September 2011. It is recommended that the council should comply with this guidance to mitigate the risk of a judicial review. The final specific details of the scheme to be consulted upon are agreed by the Cabinet Member for Corporate Services. A draft plan is attached at Annex A of this report.

#### Investment and Cost Pressures

- 9. As part of the budget approved in February, the Council created an Economic Infrastructure Fund. This provides for some £28m of Council funding, plus external grant funding that increase the value of the fund. The allocation of this resource to key priority projects will be a significant contributor to achieving priorities and ensuring a sustainable economic base in the long term.
- 10. Alongside consideration of resources and investment in its priorities, the Council needs to continue to focus upon achieving efficiency, innovation, exploring new ways of working and delivering key projects. The Delivery and Innovation Fund, established in the 2012-13 budget, provide resources to assist with new ways of working. In order to support the delivery of these efficiencies, the Council has approved a new Procurement Strategy, Workforce Strategy, and is continuing to invest in new technology. A key priority for coming years will be to maximise the efficiency of our whole Asset portfolio.
- 11. Whilst the impact of public spending reductions is significant, the Council also faces growing demand for many services. In particular the demographic

trends in relation to adult care have and will continue to create significant financial pressure. It will be important to seek to constrain these growth pressures, otherwise the implications on other areas of service provision will be extreme.

### An Effective Strategy

12. The importance of managing the different issues and challenges set out above cannot be overstated. This represents a huge challenge for the Council, especially as it comes on the back of major reductions in spending in recent years. However, it is a challenge that the Council has demonstrated an ability to deliver. We have delivered on £21m of efficiencies in 2011/12, there is a clear Council plan in place, and the Council's financial management is recognised as being highly effective. In addition, the framework of ensuring an effective organisation is in place, through how we procure services, our ways of working, our investment in staff, and the investment in technology. There remain many areas where we can continue to develop and improve but this existing framework provides the platform for the Council to meet the ongoing challenges.
13. A successful strategy will ensure that:
  - there is investment in the economic infrastructure to create sustainable long term economic growth,
  - there is continued innovation and efficiency in how services are delivered,
  - there is investment in the facilities it runs ensuring the highest standards for customers,
  - there is a high degree of self reliance upon its own income sources – ensuring the highest level of local choice and decision making,
  - there is an effective provision of public services ensuring a high quality of life and protecting vulnerable people, creating a city people choose to live and work in, and in turn providing the sources of funds to achieve this.

### **Medium Term Strategy**

14. A two year budget covering the period 2012-13 (approved) and 2013-14 (agreed in principle) was approved by Council in February 2012. Table 1 highlighting the key aspects is shown overleaf:

	2012/13	2013/14
<u>Expenditure</u>	£m	£m
Pay & Pensions	1.60	1.83
T. Management & Capital	1.07	1.38
Waste	0.75	0.75
Contingency & Reserves	0.50	1.00
Delivery & Innovation	1.00	1.50
Other Pressures	3.83	3.83
<b>Total Expenditure</b>	<b>8.87</b>	<b>10.29</b>
<u>Income</u>		
Council Tax	2.55	1.51
General Grant	-5.04	0.00
Other Income	0.50	0.00
<b>Total Income</b>	<b>-1.99</b>	<b>1.51</b>
<b>Savings Identified</b>	<b>-10.74</b>	<b>-8.78</b>
<b>Budget Gap</b>	<b>0.00</b>	<b>0.00</b>

Table 1: February 2012 Approved Budget

15. The financial plan is continually evolving and the latest growth requirements for 2013/14 and 2014/15 are outlined in Table 2 below. Members are reminded that these plans will be refined further throughout the year:

	2013/14	2014/15
<u>Expenditure</u>	£m	£m
Pay & Pensions	1.32	2.50
T. Management & Capital	0.55	1.50
Waste	0.75	0.75
Contingency & Reserves	1.00	1.00
Delivery & Innovation	1.50	1.00
Service Based Pressures	3.07	4.07
<b>Total Expenditure</b>	<b>8.19</b>	<b>10.82</b>

Table 2: 2013/14 & 2014/15 Current Growth Requirements

16. The total amount of savings agreed in principle for 2013-14 was £8.78m and Table 3 shows the breakdown of the savings by directorate:

	2013/14
<u>Directorate</u>	£m
Adults, Children & Education	3.79
City Strategy	1.03
Communities & Neighbourhoods	2.73
Customer & Business Support Services	0.95
Office of the Chief Executive	0.12
Corporate	0.16
<b>Total Expenditure</b>	<b>8.78</b>

Table 3: 2013/14 Savings by Directorate

17. A thorough review of these savings is currently underway and where Directorates identify potential shortfalls in achievement they will be expected to identify compensating savings. This review will be submitted to the Director of Customer and Business Support Services by the end of July 2012 and will then be updated on a monthly basis as part of the budget process.

#### Summary Position

18. Taking the various issues above into account, the following summary position is presented in Table 4 below:

	2013/14	2014/15
	£m	£m
Expenditure Increases	8.19	10.82
Savings Approved	-8.78	0.00
Changes in Government Funding	2.00	2.00
Council Tax	-1.41	-0.70
<b>Net Position</b>	<b>0.00</b>	<b>12.12</b>
<b>Additional Savings Required</b>	<b>0.00</b>	<b>-12.12</b>

Table 4: 2013/14 Savings by Directorate

### **2013/14 and 2014/15 Budget Planning Process**

19. Overall the budget process is considered to have worked well for 2012-13 and delivered a very sound budget. The two year budget was seen as positive and this will continue. The following sections set out a summary of the process for the year coming year.

### June/July 2012

20. Review of the 2013-14 savings will be undertaken and options for alternative savings identified where required. The outcome of this exercise will be reported to CMT and Members by the late July/early August and will feed into the first budget meetings in September.
21. Targets for meeting the 2014-15 savings requirement will be allocated to Directorates and proposals will be formulated over the summer. A full set of budget savings for 2014-15 will be presented at budget meetings in September.

### September/October/November 2012

22. There will be budget review meetings with Cabinet members during September, October and November 2012. These will consider 2013-14 savings, 2014-15 savings and any requirements for growth.

### December 2012

23. Final proposals will begin to be put together, leading to the presentation of new 2 year budget to Council in February.
24. It should be noted that there will be continued engagement with Trade Unions via Directorate JCC's and the Corporate JCC and that the consultation and equalities processes are being refreshed.

### **Analysis**

25. The analysis of the financial position of the council is included in the body of the report.

### **Consultation**

26. None specific to this report, however the overall process will involve consultation with a variety of groups and organisations.

### **Corporate Priorities**

27. The information and issues included in this report demonstrate progress on achieving the priorities set out in the Council Plan (2011-15).

### **Implications**

28. The implications are:
  - Financial - the financial implications are dealt with in the body of the report.
  - Human Resources - the impact of delivering savings is having considerable implications in terms of managing the HR issues. The Council is seeking to manage the process of reducing staffing number as effectively as possible, through use of Voluntary Redundancy and working with the Trade Unions.

- Equalities - there are no specific equality implications to this report, however equalities issues are accounted for at all stages of the financial planning and reporting process. Equality Impact Assessments will be completed for individual budget proposals and summary information will be available for the budget review meetings with Cabinet members during September, October and November. The individual EIAs will then be used to complete an overall assessment of the cumulative impact of the budget on all the communities of interest.

### **Risk Management**

29. The risk management processes embedded across the council continue to contribute to managing the risk issues associated with major projects and key areas of service delivery.

### **Recommendations**

30. Members are asked to:

- a. Agree to the refreshed Financial Strategy and the outline budget planning process for 2013-14 and 2014-15;

*Reason: To ensure the Council meets future financial challenges and produces a sound, prudent budget for 2013-14 and 2014-15.*

- b. Approve that formal consultation including public consultation in line with Best Value Statutory Guidance is undertaken with regard to implementing a new scheme to reflect the changes to council tax support (Paragraph 8 vi and Annex A) and that the final scheme details for consultation are agreed with the Cabinet Member for Corporate Services.

*Reason: To ensure that the council complies with the Government guidance as set out in the DCLG document Localising Support for Council Tax – A statement of intent and to ensure that all stakeholders including customers of the scheme are provided with the opportunity to provide feedback.*



<b>Authors:</b>	<b>Cabinet Member &amp; Chief Officer Responsible for the report:</b>		
Ian Floyd, Director for Customer & Business Support Services, Ext 1100  Debbie Mitchell, Corporate Finance Manager, Ext 4161	Councillor Julie Gunnell, Cabinet Member for Corporate Services  Ian Floyd, Director for Customer & Business Support Services		
Andrew Crookham, Principal Accountant, Ext 2912	<b>Report Approved</b>	√	<b>Date</b> 4 July 2012
<b>Wards Affected:</b> <i>All</i>			
<b>For further information please contact the authors of the report</b>			

Annex A – Consultation Plan Council Tax Support