City of York

Draft Finance Strategy 2007/08 to 2009/10

1. Background

1.1. The Budget Strategy

For many years public organisations have set their budgets on a short term and essentially ad hoc basis. Overall funding projections generally only addressed one year's needs and underlying principles were developed and applied through historic precedence and expediency.

In many respects this position has begun to change with three year projections taking an increasingly key role in budget planning. Indeed, the importance of such a role has been recognised by the Department for Communities and Local Government's (DCLG) implementation of multi year funding settlements; the setting of three year indicative budgets; and the requirement on the authority to provide predictive council tax levels covering the same period.

These changes require significant changes in the way in which the council sets its budgets. The inaugural Financial Strategy which was considered by the Executive in July 2005 looked to change the traditional Medium Term Financial Forecast (MTFF) to a more robust document which established a base against which current and future needs could be assessed. This, the council's second Financial Strategy, aims to build upon this base. In order to achieve this there will need to be a clear understanding of the framework within which calculations will be made, in particular the council's budgetary policies need to become more explicitly defined and overtly accepted at a strategic level.

The introduction of a formal Financial Strategy placed the council at the forefront of such developments and by its continued development the authority will remain well placed to deal with the forthcoming challenges posed by the introduction of a three year budget cycle and external review such as the revised CPA requirements.

There has also been work done to develop the Council's response to the Efficiency Agenda and this financial strategy, for the first time, introduces a three year efficiency review programme. The Efficiency Agenda is becoming an increasingly important issue at both a national and local level as the DCLG are currently looking at how it will develop and play a part in the funding allocations leading up to the Comprehensive Spending Review 2007 which will be published next Summer. The Efficiency Agenda has recently been highlighted by Sir Michael Lyons who is preparing his report into local government finance. A recent quote from Sir Michael at the CIPFA conference in June 2006 was

'Local Government should seize the efficiency agenda from national government and agencies and make value for money a core local priority taking control of rationing scarce resources'

The developments included within the Finance Strategy should leave York well placed to be at the forefront of this agenda.

1.2. Current Budget

Following the one off use of reserves and balances the council's net budget for 2006/07 totals £97.769m and is deployed as shown below. Within this 'ring fencing'[1] applies to two areas, the Housing Revenue Account (HRA) and Education.

	2006/07		
	Gross Income	Gross Expenditure	Net Expenditure
	£'000	£'000	£'000
Children's Services	-115,728	138714	22,986
Adult Social Services	-27,443	59025	31,582
Highways	-764	11001	10,237
Planning & Economic development	-5,294	8090	2,796
Recreation and Tourism	-4,610	15978	11,368
Environmental Health	-740	2351	1,611
Refuse Collection and Disposal	-1,245	9235	7,990
Housing	-56,855	58176	1,321
Other Services	-43,852	59041	15,189
Other Levies	0	572	572
Contingency Provisions	0	2982	2,982
Corporate Finance	-5,741	-4199	-9940
Capital Programme Running Costs	0	301	301
Total Budget Requirement	**-263,544**	**361313**	**98,995**
Transfer from Reserves & Balances	-1,272	46	-1226
Net Budget Requirement	**-264,816**	**361,359**	**97,769**

Table 1 – Detailed Budget Breakdown 2006/07

1.3. How We Compare to Others

Annex B outlines that since its creation in 1996 York has had one of the lowest levels of Council Tax and Government Grant in the country. As shown in Figure 1 the authority spends less per head of population than any other Unitary Authority[2].

[1] Ring fencing, or hypothecation, places restrictions on the transfer of funding into or out of defined service areas. In this respect the Housing Revenue Account must be completely self financing whilst a minimum level of spend is specified for aspects of Education (primarily schools).

[2] The impact of DSG has transferred £74.523m from general to specific grant reducing the net budget requirement and hence net spend per person.

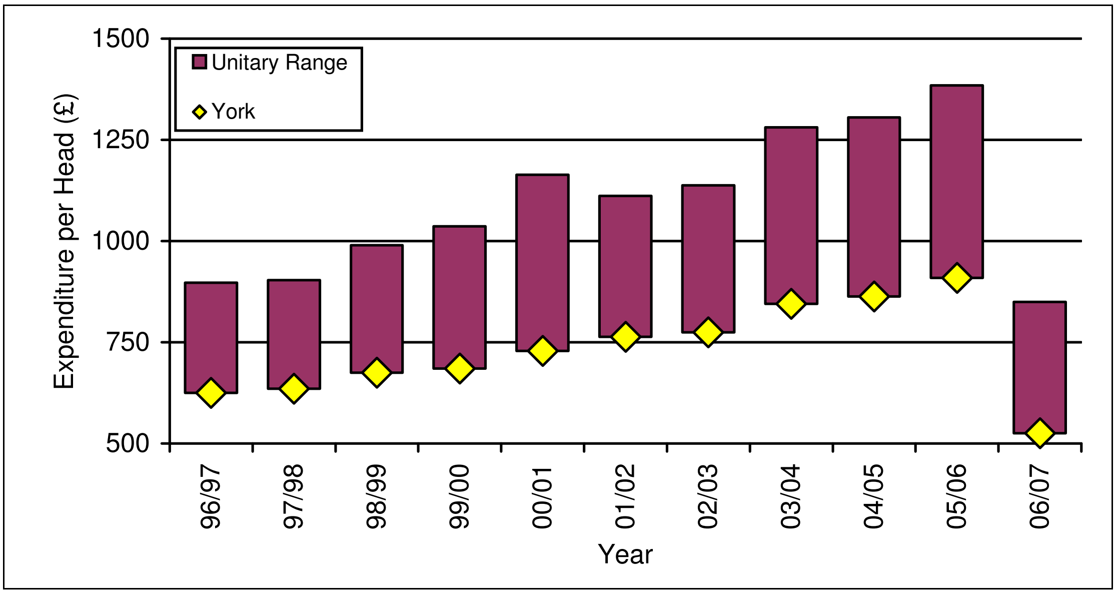


Figure 1 – Comparative Spend per Head 1996/97 to 2006/07

This low funding and expenditure base has a fundamental impact on the way in which the council operates. Since its creation York has had to operate lean services and continually deliver real efficiencies to balance its financial resources with the high quality services which residents and visitors expect. Its success in doing so is amply demonstrated by the council's performance under the Comprehensive Performance Assessment scores where, as a 3 Star authority[3], York continues to rank amongst the best performing councils in the country.

1.4. The Medium Term Financial Forecast (2007/08 to 2009/10)

The financial position to 2009/10 is shown at Annex A and summarised at Table 2.

[3] Under the CPA councils are ranked to provide an assessment of the quality of their provision based on a range of 0 to 4 stars (4 being highest). As a three star authority York is deemed to be a high performing council.

	2007/08 £'m	2008/09 £'m	2009/10 £'m
Unavoidable Growth – Recurring	6.061	5.367	5.746
Unavoidable Growth – One-Off	0.395	0.295	0.295
Contingency	0.8	0.8	0.8
Total Unavoidable Growth	**7.256**	**6.462**	**6.841**
Funding Adjustments	0.539	0.497	0.656
Increase in Government Grant	1.192	0.436	0.436
Increase in Council Tax	2.728	3.167	3.326
Increase in Funding	**4.459**	**4.1**	**4.418**
UNDERLYING BUDGET GAP	**2.797**	**2.362**	**2.423**
Growth Addressed via Reprioritisation	7.291	1.646	1.321
OVERALL BUDGET GAP	**10.088**	**4.008**	**3.744**

Table 2 – Projected Budget Gaps 2006/07 to 2009/10

This shows that once likely council tax increases are taken into account and before any additional growth requirements are identified the council will need to identify savings and reductions in spending pressures of £2.797m in 2007/08 just to balance its budget against existing commitments. In addition to this reprioritisation of up to £7.291m is required to support additional pressures and desirable developments. In order to make funds available for such expenditure will require the council to reduce net budgets elsewhere.

Table 2 also demonstrates the scale of the future challenges facing York demonstrates the need for a clear commitment for remodelling the way the authority works to become ever more efficient in the way it operates. Even without making funds available for potential reprioritisation the council faces underlying cost pressures of £7.582m over the life of the finance strategy. Such pressures can only be met by continuing to drive out efficiency savings.

2. Budget Requirements

2.1. Historic Context

2.1.1. Council Tax Levels

Figure 2 shows the changes in base council tax levels since York's creation in 1996 compared to average council tax levels in similar authorities. Over this period York's council tax has grown by 87.3% compared to the average increase for unitary councils of 85.2%, an increase from £528.90 in 1996/97 to £939.77 for 2006/07. In this regard York is truly average, ranking 20th out of the 42 councils created in April 1996, the increases for whom vary from 43% at North Lincolnshire to 129.7% at Rutland.

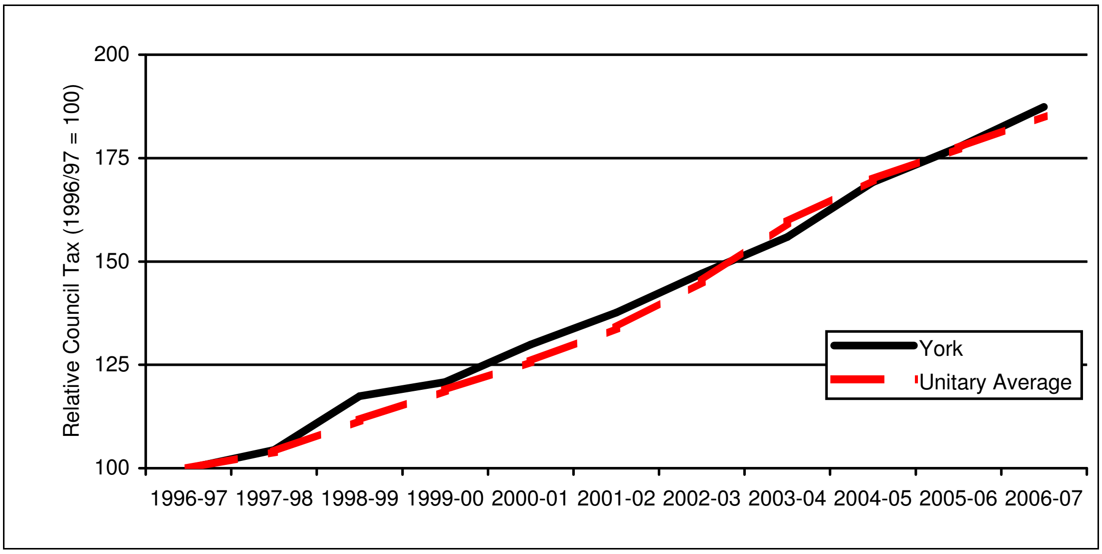


Figure 2 – Relative Growth in Unitary Council Tax 1996/97 to 2006/07

Alongside this in every year since 1996 there has been an increase in the number of residential properties in the city. As a result in April 2006 there were 82,384 properties compared to 73,984 in 1996, a growth of 11.4%. It is anticipated that such growth is likely to continue across the life of the finance strategy.

Table 3, which summarises the analysis of property banding changes, shows the distribution of increased properties by Band. The focus of such increases in bands D to H has resulted in a marginal increase in the city's average Council Tax Band.

Band	Number of Properties 1996/97	2006/07	Increase Number	Percentage
A	9,660	10540	880	9.1%
B	22,455	23789	1,334	5.9%
C	22,522	24584	2,062	9.2%
D[4]	10,105	12153	2,048	20.3%
E	5,779	6806	1,027	17.8%
F	2,285	3005	720	31.5%
G	1,100	1413	313	28.5%
H	78	94	16	20.5%
Total	**73,984**	**82392**	**8,408**	**11.4%**

Table 3 – Increases in Residential Property 1996/97 to 2006/07

In the same period the number of Band D equivalent properties has also increased from 59,467 in 1996/97 to 65,819 in 2006/07. Should previous trends be continued then, as exemplified in Table 4, over the medium term these figures will continue to grow by approximately 600 properties per annum.

	2006/07	2007/08	2008/09	2009/10
Number of Band D Equivalents	65,819	66,542	67,113	67,751
Band D Increase from Prior Year	700	723	591	618

Table 4 – Projected Property Increases 2006/07 to 2009/10

2.1.2. Government Grant

Government grant is a cash contribution to local authority revenue expenditure and is made up of a combination of National Non-Domestic Rate income and Revenue Support Grant. In order to balance its budget, the council must add to government grant by raising council tax, through the use of reserves and other income sources.

From 1996/97 to 2005/06 total government funding to York has increased from £78.6m to £108.9m. However with the introduction of direct schools funding in 2006/07 such funding fell to £37.15m with £74.45m transferring to the Dedicated Schools Grant (DSG). DCLG have indicated that in 2007/08 York's funding will be £38.34m.

2.1.3. Comparative Funding and Expenditure

As Annex B shows, York has had one of the lowest levels of Council Tax and Government Grant in the country. As a result it has spent less per head of population than any other Unitary Authority. In the current environment it is probable that this position will not materially change in the medium term.

[4] 2006/07 figure includes 312 Band D equivalent crown properties which are not included on the normal council tax property base.

Against such a background the council's financial strategy needs to ensure that resource levels are at least maintained and ideally improved.

2.1.4. 2006/07 Budget

As shown in Table 5 the net budget requirement for 2006/07 was £98.995m.

Table 1

Expenditure Requirements	**2006/07 £000**
Net Expenditure Budget for 2005/06	**167,855**
Less: One-off Funding for non-recurring items	-1,472
Net Revenue Budget for 2005/06	**166,382**
Less: Expenditure on Direct Schools Grant	-74,523
Starting Expenditure requirement for 2006/07	**91,859**
Unavoidable and Corporate Non-Schools Expenditure Pressures	9,892
Recurring Directorate Pressures -	3,263
Non-Recurring Directorate Pressures -	1,100
Total Expenditure Pressures	**14,255**
Directorate Savings Proposals	-5,192
Corporate Saving Proposals	-1,927
Total Saving Proposals	**-7,119**
Revised Projected Budget Requirement for 2006/07	**98,995**

Table 5 – 2006/07 Net Budget Requirement

In setting the budget the council had to address a number of key issues including:

- Increasing demands on social care;
- Changes in waste management and proposed increases in landfill tax;
- Increases in staff pay agreed nationally for all local government staff ;
- Large increases in gas, electricity and road maintenance materials;
- Planning for the impact of job evaluation and equal pay.

2.2. Changes to National Funding

Every two years the government announces a Comprehensive Spending Review which sets out its spending plans for the following three years. Therefore, the first year of a spending review replaces the last year of the previous one, although the government often chooses to make changes. The Spending Review details the national FSS totals for the three year period. This allows us to make a reasonably accurate estimate of the authority's expected level of FSS and funding over the spending review period. This is then adjusted each year for any known transfers in or out, e.g. new responsibilities or transfers of specific grant to FSS.

In 2006/07 the ODPM introduced the first ever two year funding settlement covering 2006/07 and 2007/08. From 2007/08 this approach will be built upon with a three year settlement being announced covering the years 2007/08, 2008/09 and 2009/10. From this point onwards settlements will fall into line with the three year comprehensive spending review announcements. This should help facilitate forward planning by providing fixed grant settlements three years in advance. Ultimately it is anticipated that local authorities will be required to publish three year revenue and capital budgets on an annual basis; and will also be expected to demonstrate the impact on council tax for the same period.

As the 2006/07 settlement also provided figures for 2007/08 there is a high degree of certainty in the funding projections for the first year of the MTFF. However this certainty is not inherent in the 2008/09 and 2009/10 funding figures which have been calculated upon projected values based around 2007/08 allocations and potential developments. Actual allocations are unlikely to be available until the provisional funding settlement is announced in November or December 2006.

2.3. Funding Estimates for 2007/08 to 2009/10

As explained earlier, grant levels for 2007/08 are taken from the 2006/07 settlement which the ODPM have indicated will remain unchanged when the provisional grant settlement is announced in November or December 2006. As the government has not yet published any firm spending intentions for 2008/09 or 2009/10 funding has been increased in line with current projections[5]. The resultant allocations are outlined at Table 6.

Government Grant[6]	**2006/07 £m**	**2007/08 £m**	**2008/09 £m**	**2009/10 £m**
Announced	37.15	38.34		
Projected			38.78	39.22

Table 6 – Anticipated Grant Levels 2006/07 to 2009/10[7]

Figures for 2006/07 and 2007/08 were announced as part of the 2006/07 finance settlement. Indications are that little or no growth will be given in grant for 2008/09 and 2009/10. As a result, except for the gradual elimination of formula damping, these figures represent an estimated cash freeze on overall grant.

[5] Where appropriate these figures have also been adjusted for issues such as grant transfers.
[6] Excludes DSG
[7] From 2006/07 these figures exclude Schools FSS which, from April 2006, will become a direct grant.

2.4. Growth

2.4.1. Need and Scope

In any year all areas of the council will face spending pressures that are, to a greater or lesser extent, outside of their control. While such pressures are part of the normal operating framework for the council, broader funding constraints mean that efforts must be taken to control growth. This means that under certain circumstances growth pressures will have to be self funded from efficiencies achieved within the individual service area.

2.4.2. Unavoidable Growth

In setting the budget the following inflationary assumptions / allowances are made:

- Costs arising from national pay agreements are met in full;
- Cost pressures arising from contract charges are met in full. However such increases may result in consideration of reductions in volume to contain budgetary pressures;
- Appropriate inflation will be applied to utility charges;
- No general inflation will be provided on supplies and services heads and efficiency savings will need to be made to contain such costs to existing budgets.

In addition certain items of growth are also unavoidable and need to be factored in. Table 7 shows the levels of known unavoidable growth for both 2006/07 and the next three years. A detailed breakdown of these details is shown at Annex A.

	2006/07 £'000	**2007/08 £'000**	**2008/09 £'000**	**2009/10 £'000**
Unavoidable Growth	7,965	7.256	6.462	6.841

Table 7 – Unavoidable Growth 2006/07 to 2009/10

2.4.3. Potential Reprioritisation

While service managers have little control over much of the growth dealt with above in other areas, such as the impact of legislative change and emerging local priorities, choice does exist and procedures need to be in place to ensure that the council's scarce resources are prioritised appropriately.

Clearly this is best undertaken in association with other strategic requirements and as a result work is underway to link this area with the service planning process.

Table 8 shows the levels of potential prioritisation that has currently been identified. A detailed breakdown of these details is shown at Annex A.

	2006/07 £'000	2007/08 £'000	2008/09 £'000	2009/10 £'000
Potential Reprioritisation	4,363	7.291	1.646	1.321

Table 8 – Potential Reprioritisation 2006/07 to 2009/10

However the figures for 2008/09 and 2009/10 need to be treated with a degree of caution for two key reasons:

The council is highly unlikely to be able to meet many of the repriorisation requests for 2007/08 and some will therefore filter through as additional demands in 2008/09 and 2009/10.

Reprioritisation occurs for a number of reasons such as changing local demands, emerging local priorities and new national requirements. Forecasting such demands is difficult and hence at this stage it is impossible to include such initiatives in the costs shown.

As such at this time these future year figures are likely to be understated .

2.4.4. Growth Contracts

It has to be recognised that under certain circumstances growth may be unavoidable and / or desirable. Where appropriate[8] services will be required to support requests for additional funding with details of:

- An option appraisal detailing the different funding streams and delivery models considered in reaching the decision to request additional funding;
- An analysis of how the additional funding would help to support the delivery of council priorities (or statutory requirements);
- A breakdown of the current budgets held for the area(s) concerned;
- A breakdown of the proposed budget for the area(s) concerned;
- An analysis of the service improvements that would be delivered via the additional investment. These could include:
    - Increased cash income to the council;

[8] This would normally exclude growth for issues such as pay awards, general inflation, salary increments and external levies.

- Enhanced performance linked to specific and measurable performance indicators;
- Expected improvements to performance that are difficult to quantify under a performance indicator regime;
- Enhanced credibility under external scrutiny (for example public perception or audit inspection).

Such details will be documented within a growth contract and subject to formal monitoring. Where appropriate such monitoring will assist in identifying the need for corrective action to address performance problems.

2.4.5. Contingency

Unlike many authorities York does not attempt to budget for uncertain and / or unquantifiable future events. Instead, as part of the budget process, details of such events are collated and an assessment made of both their likely size and cost. This weighted cost is then set against the budget as a contingency item.

It should be noted that the contingency operates to deal with on-going budgetary pressures and can only be released subject to executive approval. Where such pressures are one-off in nature these will, subject to sufficient resources being available, be met from reserves.

As an on-going item the budget only requires an increase from the uncommitted level of contingency at year-end to the newly determined level. Figure 3 details the historic levels of contingency.

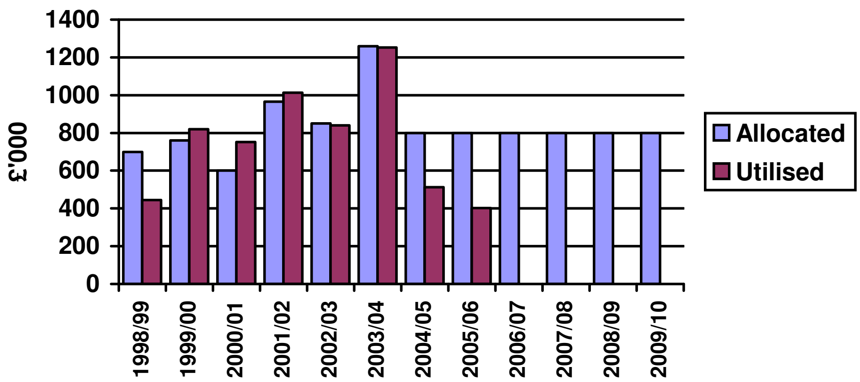


Figure 3 – Contingency Levels and Usage 1997/98 to 2005/06

For the basis of the MTFF the allocation for contingency has been set at £800k per annum.

2.4.6. Cumulative Saving Requirements 2007/08 to 2009/10

As outlined at Annex A the initial forecast for 2007/08 identifies that the initial budgetary requirement will be £10.088m higher than the resources identified above.

The first element of this shortfall is the base shortfall in funding which exists based upon committed current growth and saving requirements. This represents the level of savings required to balance the budget if no additional growth is adopted. As Table 2 demonstrates for 2007/08 this basic level of saving is calculated at £2.797m

In addition to this there is also a degree of discretionary growth which is requested for approval. If this growth is to be delivered then additional savings must be made to allow resources to be reprioritised to these new areas.

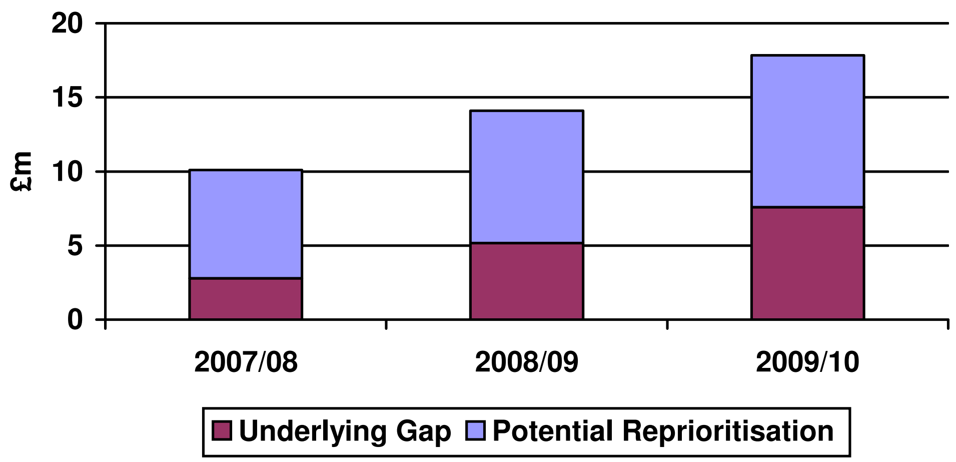


Figure 4 – Cumulative Savings Requirement 2007/08 to 2009/10

Figure 4 demonstrates that by 2009/10 the council faces a requirement to reduce its expenditure by at least £7.582m and, if it is to meet the potential need for reprioritisation, then these savings will need to be increased by another £10.528m to up to £17.84m. History has however shown the council to be resilient in delivering such savings whilst maintaining the standards of the services it provides and there is no reason to believe that this will not continue to be the case. Key elements of the framework , which includes the decisions that will be necessary to return the council to a balanced budget, are contained in the next chapter.

3. Balancing the Budget

3.1. Introduction

In attempting to balance the budget the council has a number of actions it can take. This can be categorised in terms of:

- Controlling Growth
- Challenging Reprioritisation
- Service Level Savings
- Efficiency Programme Projects
- Reserves
- Capital and Treasury Management
- One Off Funding Streams
- Procurement
- Council Tax

3.2. Controlling Growth

As identified at Annex A in 2007/08 the council faces gross expenditure pressures totalling £14.547m of which £7.291m represents potential reprioritisation with the balance being created by unavoidable growth items (£7.256m). Even factoring in a council tax increase of 4.5% the council faces an overall budget gap of £10.088m in 2007/08 alone.

Due to the scale of the overall budget gap every effort will need to be taken to identify whether funding is truly required and if so what level of resource is appropriate.

3.3. Challenging Reprioritisation

At this stage of the process the opportunities for reprioritisation represent an ideal position for investment in services if there were no constraints on council funding. However, this is not the case and work now needs to be undertaken to review and prioritise all such areas against relevant criteria including statutory pressures, local priorities and comparative performance

3.4. Service Level Savings

3.4.1. Directorate and Service Efficiency targets

In the current financial climate it is likely that as part of the process to deliver a balanced budget the council will have a year on year requirement to secure efficiency savings. Indeed, as Table 2 shows the underlying budget gap means that just to stand still the council will need to find savings of £2.797m just to stand still. Any reinvestment in, or reprioritisation of, resources could increase this figure by over £7m. In terms of closing any budget gap a decision will need to be made about the extent of savings that will be required from all or some service areas. Whilst often criticised as a blunt mechanism such an approach is effective at spreading the burden of savings across all service areas. In developing proposals to deliver efficiency savings the following principles will be applied:

- Minimum annual efficiency requirements will be established corporately and applied at a service plan level;
- Additional directorate level efficiency requirements may also be established. Such requirements will exist to allow better targeting of savings at a Directorate level;
- A de minimis level will be established under which details will not normally be provided for central review;

As outlined earlier need to be determined for the efficiency aspect of the savings requirements. Proposed levels for these three sets of criteria are detailed in Table 9.

	2006/07	2007/08	2008/09	2009/10
Efficiency Requirement per Service Plan	4%	3%	2.5%	2%
Additional Directorate Efficiency Requirement	1%	2%	2.5%	3%
De Minimis Level for Reporting Efficiency Components	£2k	£5k	£10k	£10k

Table 9 – Proposed Efficiency Requirements 2006/07 to 2008/09

These figures represent an acceleration of the move away from service level to directorate level targets contained in the 2006/07 to 2008/09 Finance Strategy. If the proposals for the establishment of a formal efficiency review programme (detailed later in the report) are successful then these figures will need to be revisited and it may be possible for them to be reduced. Ideally such adjustments will start to occur as part of the 2008/09 budget process.

3.4.2. Invest to Save

The council set up a venture fund in 1997/98 with a balance of £4m. Departments make bids for funding on an annual basis. The bids are considered by the venture fund panel that recommends to members whether they should be approved. There have been loans of approximately £3m made from the Venture fund since its set up. The Venture Fund is used for various types of projects including invest to save, purchase of capital assets and restructures. Of the £3m that has been loaned out, £1.2m has related to invest to save projects. Successful projects have included work as diverse as facilitating school amalgamations to supporting benefit uptake.

3.5. Efficiency Review Programme

3.5.1. Background and Objectives

One of the key challenges for the finance strategy over next three years is how the council intends to engage in delivering service efficiency improvements. Such work not only has to deal with hard cash savings but also need to deliver qualitative service improvement which can change the customer experience or release resources for other emerging priorities. Indeed in many instances these service improvement drivers (akin to the need for Gershon non-cashable efficiencies) may be of a much higher priority than the need to deliver cash savings. In order to do this the finance strategy proposes the development of a medium term programme of planned efficiency projects.

Developing such a programme will also provide an opportunity to change the way the council approaches several, currently disparate strands of activity. Creating links between these will mean a more forward looking, strategic and joined up approach. The broad objectives for the programme are to:

- Identify opportunities for efficiency based transformation of services;
- Deliver service improvements/improve service efficiency and /or quality (strong customer focus);
- Achieve significant financial savings reducing the need for service focussed percentage budget reductions;
- Measure the benefits of change that will lead to the achievement of efficiency targets and meet CPA expectations;

The efficiency review programme has strong links to the budget process in that any cashable savings that arise from efficiency reviews will go towards meeting the budget gap in the year of realisation. However, while strongly linked to the budget this is only one driver. Improving efficiency should be an integral element of the organisation's culture, and something that every manager and their team should be constantly looking to improve irrespective of whether a budget target exists.

Therefore the efficiency review programme should be a stand alone set of projects that are phased over an agreed timescale that could go beyond the annual budget cycle. They will be monitored and delivered to increase the council's efficiency in running its services whilst, where appropriate, contributing to the annual budget deficit. The ultimate aim as far as the budget process is concerned is to get to a stage whereby the annual budget gap is addressed mainly by targeted efficiency reviews driving both cash savings and wider service improvement.

3.5.2. Internal Drivers for Change

(a) Moving from Top Slicing to Strategic Review

York has successfully operated a top slicing approach to the budget process for many years but despite its success in many areas, service managers have found recent budget cycles increasingly difficult. The 2006/07 to 2008/09 Finance Strategy recognised the need to develop an alternate approach and proposed a gradual switch to project based reviews, an approach which this years strategy looks to accelerate.

(b) Focus on Priorities

The proposed change would also provide an opportunity to better focus efforts on emerging priorities. Work that is being done by PIT on Improvement Statements could also be used to inform this profile of the authorities services which could also act as a tool for identifying potential review areas.

(c) Examining High Cost Services

As in previous years work has been undertaken to benchmark the costs of services in York to those in other Unitary authorities. The information to do this has been obtained from both the Audit Commission and the Chartered Institute of Public Finance and Accountancy (CIPFA)[9]. Where service areas are not covered by either the Audit Commission or CIPFA information (primarily in central services such as Resources and Chief Executives but also in Directorate administration and support) alternate data sources have been used. However it should be noted that while informative benchmarking only provides broad comparators and an understanding of the broader context in which services are provided is important prior to conclusions being reached.

(d) The Strategic Compass

The 2005/06 to 2008/09 Finance Strategy detailed the development of a Strategic Compass which would compare cost and quality measures as a driver to identifying potential areas worthy of examination. Due to the lack of match between cost and performance data this approach has proved more difficult than expected and so has not been utilised for

[9] The results are mainly from the year 2004/05 with a few being based on estimates for 2005/06. In both instances the financial information is based upon data provided by the relevant service area.

analysing services. This area of analysis needs to be developed further in the future.

3.5.3. External Drivers for Change

As with other council's York faces a plethora of initiatives that we are having to respond to, the list below (many elements of which are addressed elsewhere in the finance strategy) contains those that effect the focus of this report in terms of financial strategy, efficiency and performance.

(a) Comprehensive Performance Assessment (CPA)

The area within the CPA framework that has a direct impact on the financial strategy and efficiency is the Use of Resources (UoR) and the sub category of Value for Money (VFM). In the 2005/06 assessment in these two areas the council scored a 3, which is classed as 'good'. This maintained our level from the previous assessment and is a notable achievement as the CPA assessment has got harder and it is the first time the Value for Money area has been covered. One of the key elements which the council must address to retain this status in the future is its approach to reviewing the efficiency of its services. While the current budget process has served the council well both in terms of delivering a balanced budget but also by delivering against our efficiency targets this will become harder over time and the Audit Commission have indicated that they will place significant emphasis on seeing a strategic review based approach to efficiency in addition to the achievement of the targets.

(b) Efficiency Agenda

The efficiency agenda (formerly known as the Gershon agenda) is now just over a year old and as figure 5 demonstrates the council is on target to meet the Government's three year efficiency target one year early (a position which mirrors the national picture). However while overall local government performance is well ahead of the national target not all authorities are performing at this level and as such York remains amongst the best performing councils in terms of delivering real efficiencies.

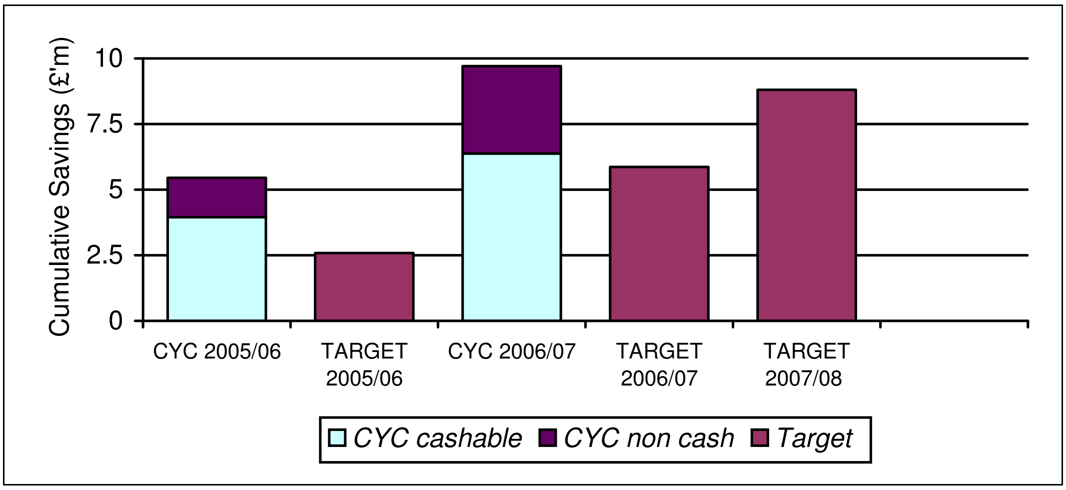


Figure 5 Efficiencies achieved against target

The budget process at York is such that it highlights in some detail the various initiatives to produce savings to meet the budget savings targets. This means that there is adequate information to judge whether a saving put forward in the budget also meets the efficiency saving criteria. This process has highlighted enough 'cashable' efficiencies to reach the national targets giving York a distinct advantage over authorities who budget at a higher but less detailed level.

In addition 'non-cashable' efficiencies are identified by Strategic Finance and the Performance Improvement Team (PIT), analysing the performance indicators and look for areas of estimated improvement. Where these have been achieved without additional budget growth then they are classed as a non-cashable efficiency and added to the efficiency target.

The DCLG have stated that the efficiency agenda will continue at least until 2011 (although in what form which has yet to be decided). Early indications are suggesting that the target could be as high as 5% and will be taken into account when deciding local government funding over this period via the Comprehensive Spending Review in summer 2007.

(c) Three year Government Grant Settlements (section 2.2)

(d) Control of council tax through capping/nomination (section 3.10.2)

(e) External Service Inspections (Annex C)

3.5.4. The Way Ahead

The basic principle behind the efficiency programme is that it should be an umbrella for encompassing things in several plans and strategies that at some stage all link back to improving efficiency and performance, for example the strategic procurement plan, budget related projects and service improvement statements.

Preliminary work is underway to identify those areas that could be reviewed as part of an efficiency review programme. This work has looked to map existing reviews, identify high cost services and to collate details of other areas where efficiency focussed reviews could improve quality, reduce resource requirements or deliver budget savings.

In addition to these corporate reviews Departmental Management Teams are also been looking to identify areas where they feel there is scope for an efficiency review. Such projects will be included in the efficiency programme in their own category of 'Departmental Projects' providing for the first time a comprehensive list of current and potential reviews. This is a transitional process that will develop over the coming months and years. We cannot expect to move overnight from our current approach to the budget to producing a balanced budget from efficiency reviews. Some of the potential projects are large scale and will take time to complete whereas others are smaller and could provide some quick wins.

3.5.5. Managing the programme

Management and monitoring arrangements of the efficiency programme are are the responsibility of the Director of Resources in his role as Champion for the Service Improvement Statement "*Improve efficiency and reduce waste to free-up more resources*". As an element of this role he will be responsible for both developing a managed programme that has a timetable of specific, targeted reviews, and for delivering support arrangements in terms of who can provide advice and assistance to support the process from the areas of performance improvement, internal audit and corporate finance.

3.6. Funding from Reserves

3.6.1. Level of Reserves

As with any organisation there is a need for the council to maintain sufficient reserves to deal with any unforeseen events and this decision is guided by the professional judgement of the responsible financial officer (currently the Director of Resources). The actual level of reserves are affected by spending decisions that happen as part of the budget, and as the result of over / under spending throughout the financial year

The council has always recognised that budget should not rely on one-off funds to support recurring expenditure, but that instead such funds should be used to support one-off expenditure. In 2006/07 £1.1m of expenditure is being utilised in this manner. This decision has enabled the council to reduce its council tax for 2006/07 by 1.9%.

As a result of this expenditure and other commitments it is anticipated that the council's reserves at the 31st March 2007 will be £5.573m, £661k lower than those held at the 31st March 2006. A breakdown of these reserves is shown at Table 10.

	2005/06 Projected Outturn £'000	2006/07 Budget £'000
General Fund	5,347	3,185
Venture Fund	852	1,479
Commercial Services	300	300
Total	**6,499**	**5,110**

Table 10 – projected reserves

Due to their low level it is no longer prudent to assume that any one-off expenditure will be met from reserves As such the MTFF for 2007/08 to 2009/10 only assumes that pre-committed expenditure of £395k in 2007/08 (£295k for 2008/09 and 2009/10) will be met from reserves with other such reprioritisation being met from general revenue savings.

Under prevailing CPA guidance, a recommended prudent level of reserves for this Council should be 5% of the net non-schools revenue budget. For 2005/06 this was approximately £5.25m. While a risk based model is currently being developed, it is prudent to retain the current 5% target. Using this approach provides a minimum level for reserves at the 31st March 2007 of £4.95m, fractionally below that projected to be held.

3.6.2. Linkage to Time Limited Schemes

It is not unreasonable for some reserves to be utilised in setting the council's budget. Indeed the use of reserves is a useful mechanism for smoothing expenditure over time and reducing volatility in the council's funding streams. But above all reserves should be utilised in meeting one-off rather than on-going liabilities. However in order to utilise reserves the following criteria should be met:

- The expenditure supported must be strictly time limited (i.e. have a clear end date). If covering a number of years an assessment must be done on the availability of reserves to support future years expenditure;

- The total level of expenditure from reserves should not result in the minimum reserves threshold being breached.

Traditionally reserves have been utilised to fund one-off expenditure. However due to the level of balances now available this position cannot be maintained. As such it is now proposed to only fund committed expenditure from reserves with other one-off funding being met from on-going revenue resources.

Current commitments from reserves are shown in Table 11.

	2006/07	2007/08	2008/09	2009/10
	£m	£m	£m	£m
Minimum Reserves Threshold	4.95	5.17	5.34	5.60
Committed One-Off and Time Limited Funding	1.100	0.395	0.295	0.295

Table 11 – Current Commitments from Reserves 2006/07 to 2009/10

3.7. Capital and Treasury Management

In 2006/07 the Council received Supported Capital Expenditure of £10.9m. For 2007/08 onwards this is expected to reduce to £8.1m per annum and to be primarily targeted at Transport, Housing and Education. In addition to this we also expect to make Prudential borrowing of £0.5m in 2006/07 and 2007/08 for the Highways Repairs & Renewals project and £1.6m for 2008/09 for projects across a range of areas.

The council reinvests the capital receipts which it receives in capital expenditure. Consequently we need to take into account the loss of interest on these capital receipts as part of our additional financing. The council intends to fund £9.7m of expenditure from capital receipts in 2006/07 and subsequently £5.7m in 2007/08 and £3.4m in 2008/09.

Table 12 shows the additional financing for borrowing for the capital programme on the revenue budget assuming an interest rate of 4.75%.

	2007/08	2008/09	2009/10
	£'000	£'000	£'000
Additional Financing for Borrowing (Capital Programme)	414.0	298.0	405.0
Minimum Revenue Provision	430.0	369.0	419.0
Minimum Revenue on LGR SCA	(180.0)	0	0
Total	**664.0**	**667.0**	**824.0**

Table 12 – Revenue Implications of Capital Expenditure 2006/07 to 2008/09

At the beginning of 2005/06, the Council had long term borrowing of £80.4m and short term investments of £14m. Assuming a balanced budget it is anticipated that the level of investments will remain constant at between £10m and £20m, with long term borrowing increasing in line with the capital programme. This would be an increase of £9m to £10m per annum. Based on the assumption that any maturing loans within the portfolio are re-borrowed this would give anticipated average long term borrowing of £95m in 2006/07, £105m in of 2007/08 and £115m in 2008/09.

The average rate on the current debt portfolio was 4.69% at 31 March 2006. Assuming we borrow new debt of £10m and reborrow any maturing loans each year at a rate of 4.75% plus, the average debt rates will be 4.56% for 2006/07, 4.60% for 2007/08 and 4.65% for 2008/09. This would result in average interest paid of £4.33m in 2006/07, £4.83m in 2007/08, £5.35m in 2008/09.

The average balance available for investments was £27.6m during 2005/06 although this had fallen to £18m by the year end. This balance produced interest income of £1.3m at an average rate of 4.6%. If an average balance of £20m is assumed for the next 4 years and our forecast average interest rate of 4.25% is maintained, there would be interest income of £0.85m per year. Table 13 summarises this information.

£ million	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Average Long Term Borrowing	104.7	115.4	131.4	141.5
Average Interest Rate Applied	4.54%	4.57%	4.71%	4.79%
Interest Paid on LT Borrowing	4.8	5.3	6.2	6.8
Average Short Term Investments	38.0	41.0	36.0	35.0
Average Interest Rate Applied	4.25%	4.75%	5.0%	5.0%
Interest Paid on ST Investments	1.6	1.9	1.8	1.75

Table 13 – Revenue Implications of Borrowing & Revenue Activity

3.8. One-Off Funding Streams

In a number of circumstances (for example external grants) the council is provided with funding which is linked to specific projects that have a clear end date. While such funding is often a useful addition to the council's resource base the following broad issues should be taken into consideration during any application and deployment process:

- Funding should only be sought where a successful application would complement the council's priorities. Where funding is provided in low priority areas, or for schemes contrary to on-going council objectives, careful consideration should be given prior to acceptance[10];

- Under normal circumstances funds should be viewed as one-off expenditure and hence care should be taken not to commit to expenditure that occurs after the funding stream has ended.

Three additional non-earmarked streams of funding also exist, the Local Authority Business Growth Incentive Scheme (LABGI), the Local Public Service Agreement 2 (LPSA2) and Local Area Agreements (LAA).

- LABGI is a scheme whereby the council can keep locally the increase in business rates generated if growth exceeds a certain level. In 2005/06 the council failed to reach the required level of growth to trigger additional funding and at this stage it is uncertain whether the threshold will be attained in either 2006/07 or 2007/08 and hence what level of funding will be delivered. Because of this uncertainty the overall position is monitored but no anticipated income is included in the overall budget.

[10] If managing or match funding the scheme involves diverting core resources from high priority to low priority then whilst the overall resource base may increase the impact may be to make the council do less of what it actually wishes to do.

- LPSA 2 is the second round of projects where a dozen or so projects or areas of improvement are identified and agreed with government. To assist with this the government allocates pump priming funding to the council and where targets are met also pays a one-off reward grant. While LPSA 2 falls within the life of the finance strategy (it commenced late 2006 and concludes late in 2009) agreed commitments on pump priming and reward grant means alongside the possibility of not all targets being met (and hence reduced reward grant being payable) means that no allowance for such income is included in the MTFF.

- The LAA will amalgamate the LPSA 2 into a wider programme of work against a range of national priorities. It will also provide the council with the ability to pool a range of funding streams to address local rather than national leads. The LAA is currently being developed and it is anticipated it will be in place towards the end of 2006. Again no allowance has been made for any impact on the overall budget.

3.9. Procurement

3.9.1. The Procurement Strategy

The council is currently in the process of developing a comprehensive strategy that will define the framework within which all procurement activity will be undertaken. Once formally adopted, the procurement strategy will become a key component of the way in which the council will look to control costs and maximise the value it receives from its non-pay expenditure on goods, services and works.

As part of its development work on procurement, a review has been undertaken of a number of areas that could result in reduced costs to the council. These are addressed below.

3.9.2. Corporate Contracts

The Corporate Procurement team have examined the council's contracting activity and developed a Contract Register/Database. This will ensure that new contracts are competitive, opportunities for leveraging the Councils spend is identified, contracts are adequately managed and value for money is obtained. The main aim of this is to hold centrally a summary of the contracting activity across CYC as a whole. The database gives an effective quick glance impression of the status of all the contracts held within each Directorate of the council.

In addition to analysing the contracting activity of the council over the next five years, it also supports forward planning of work enabling managers and departments to plan in advance for contracts that are nearing the end of their life span and identifying opportunities where contracts can be grouped and better deals negotiated.

3.9.3. Internal Spend Analysis

Work is also underway to analyse the council's non-pay expenditure. Once this work has been completed it will be translated into a programme of reviews focused on reducing expenditure through the negotiation of corporate framework contracts, rationalisation of the supply base and better procurement practice. Savings from such projects will feed into the Financial Strategy.

3.9.4. Procurement Co-Ordination and Management

The Procurement team is responsible for overseeing spend on everything from stationery to PFI schemes and other forms of partnership. As such, it supports staff to better understand procurement processes such as tendering, sourcing suppliers and negotiating and managing contracts. Another vital part of the team's role is to ensure that all procurement complies with the council's financial and contract procedure rules and EU public procurement directives.

The team arrange face-to-face meetings with key 'local buyers' within directorates and inform these via two groups, these being the 'Procurement Community' and 'Procurement Forum'.

The Procurement Community is an email group of officers who need to be kept informed on procurement matters. The Procurement Team issue regular information notes to this group to keep them informed.

The Procurement Forum is made up of representatives from each directorate/business area who are responsible for spending the council's money on goods, services and works. The Forum is responsible for considering procurement issues at a more strategic level.

The team's approach to procurement is very important as it has the potential to achieve substantial savings for the council, which can be redirected to front line services or used as part of its budget strategy. It can also have a big impact on the local economy through offering opportunities to local companies, and minimising the council's adverse impact on the environment.

3.10. Council Tax

3.10.1. Impact on Budget

The level of council tax and the level of annual council tax increases are both affected by the balance between central and local funding. Traditionally the ratio of central to local funding was around 75:25. This ratio gave rise to a “gearing” effect which meant that an increase of 1% in budget requirement resulted in a 4% increase in council tax. This meant that comparatively small spending pressures resulted in considerably large increases in council tax.

From April 2006 this position changed. The transfer of schools funding to a direct grant meant that the council’s net budget reduced by approximately 75% with the council tax representing approximately 60% of the authority’s net expenditure. While this has a nominal affect on gearing in reality the overall position is unchanged. Schools funding is now matched by government grant in a similar way to the restrictions which applied when passporting was in place.

3.10.2. Capping

Once the above actions have been taken into account the only remaining route for the council to pursue in support of its funding is through increases in the council tax. As has previously been addressed, whilst the council tax is theoretically subject to local determination central government capping means that large rises are unlikely to be possible.

The Secretary of State for Local Government has statutory powers to limit the annual level of council tax increases should budget requirements be judged to be excessive. The principles for measuring excess must be clearly stated. The government exercised its capping powers against certain councils for both 2004/05 and 2005/06 financial years. Most notably for York in 2006/07 the council has been nominated for capping purposes and as a result restrictions will be placed upon the scale of the council tax increase which can be made in 2007/08. The changing criteria used by DCLG to determine whether capping should be considered are illustrated in Figure 6.

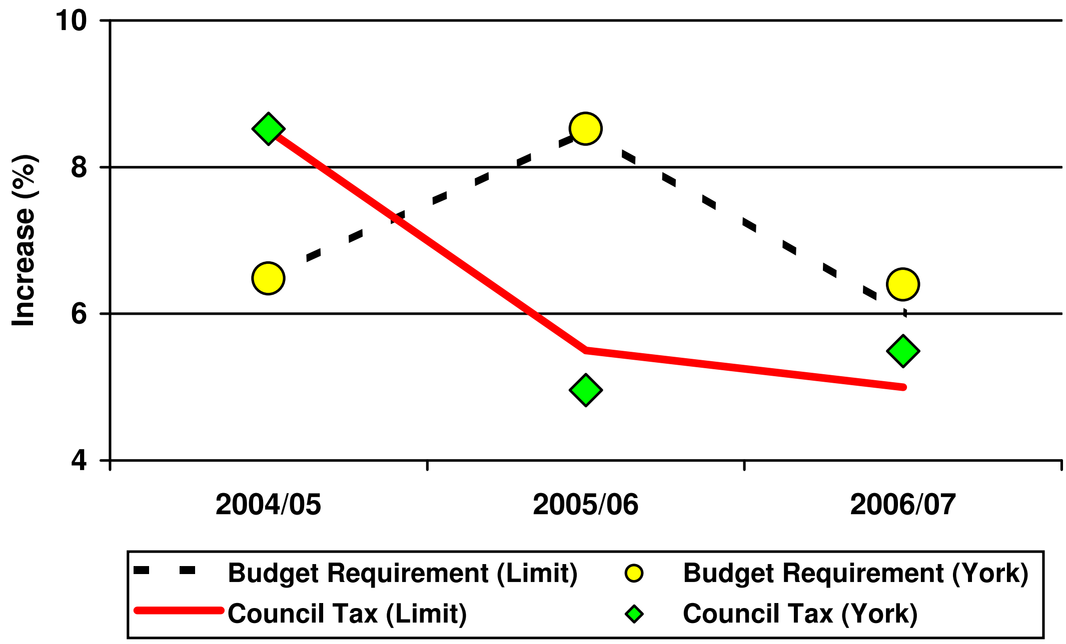


Figure 6 Capping Criteria 2004/05 to 2006/07

Capping criteria are not announced in advance but the government made it clear that average council tax rises for 2005/06 and 2006/07 should be no higher, on average, than 5%. However in practice these similar statements represented very different interpretations. In 2005/06 council tax increases of up to 5.5% were deemed acceptable (York's council tax increase was 4.96%) but in 2006/07 this position had changed to the extent that no increase over 5% would be allowable (York's increase was 5.49%). As a result of this changing interpretation the council has found itself subject to nomination in 2007/08.

While nomination does not have a direct cash impact it does affect the council's ability to increase council tax for 2007/08 by nominally reducing the budget against which such increases are considered; essentially putting an additional 0.5% for capping purposes onto any increase made by the council. For example if the authority were to make a 4.5% increase in 2007/08 the calculation for DCLG purposes would record it as a 4.99% increase, fractionally below the anticipated capping limit.

As part of its assessment of what level of increases should be made the council will need to pay due regard to the continued operation of capping constraints in future years. The impact of this on future council tax levels is addressed at 3.10.4.

3.10.3. Consultation

As part of the 2005/06 and 2006/07 budget processes the council undertook comprehensive public consultation on the potential scale of council tax increases and the resultant impact on service levels. It is anticipated that such exercises will remain an integral part of the council's future budget process. To do so will require:

- Firm indications to the public on the range of increases the council is considering;
- The early publication of firm spending proposals;
- Accessible details of the implications of setting lower or higher levels of council tax;
- Arrangements to count and analyse results.

In addition to its major public exercise the council will continue to undertake consultation with representatives from business and the voluntary sector. Due to increased certainty on funding for the 2007/08 budget process the council should be in a position to undertake such work at an earlier stage than ever before.

3.10.4. Modelling Future Council Tax Levels

As outlined at Annex B York is the lowest spending unitary authority and under the current local government funding financing systems is likely to remain so for the foreseeable future. In order to ensure that its position is not further eroded it would be prudent to adopt a policy of setting medium term council tax increases at a level immediately below the anticipated capping limits laid down by central government. Indeed the council's ability to set an increase above this level may be severely curtailed by national policy.

If guidance for 2005/06 and 2006/07 is replicated from 2007/08 onwards then this would mean setting council tax increases of just below 5% per annum which, as shown at 3.10.2, for York would be the equivalent of a 4.5% increase. As a result the model currently pre-supposes increases in council tax of 4.5% in 2007/08 with increases of 5% per annum for subsequent years. However, it must be noted that this does not reflect a political decision to set such increases merely an interpretation of potential increases available under the existing national arrangements.

It should be noted that the above council tax levels are purely indicative and will be influenced by a number of factors including political decisions (local and national), levels of external funding, the extent of success in securing savings over the three years and the effects of council tax revaluation. If previous predictions concerning the total numbers of properties are accurate then, as shown in Table 14, the total contribution from these annual council tax increases will be as shown.

	2007/08	**2008/09**	**2009/10**
Number of Band D Equivalents	66,205	66,796	67,414

Council Tax Increase	4.5%	5.0%	5.0%
Contribution from CT Increase	2.728m	3.202m	3.392
Contribution from New Properties	0.696m	0.597m	0.656m
Cumulative Contribution	3.424m	3.799m	4.048m

Table 14 – Council Tax Contribution to Budget Gap 2006/07 to 2009/10

It is important to note that the increased income arising from additional properties does not represent totally new money. The increased property base brings with it additional service demands in areas such as waste collection and social care. In addition York's government funding includes a calculation adjusting for assumed property growth that has a negative impact on grant.

4. Stewardship

4.1. Key Risk Factors

In developing the Financial Strategy work has also been undertaken to develop an understanding of the potential risks the council faces in maintaining its financial position over the medium term. When this list has been finalised work will be undertaken to identify appropriate mitigating actions and those responsible for monitoring and addressing them. Once completed this work will be appended to the finance strategy.

4.2. The Monitoring Cycle

The Transforming York project introduced an integrated budget and performance monitoring cycle in two rounds per year. The decision to move from 3 to 2 rounds allows more time for more detailed performance monitoring to take place during the year. Combining performance and financial monitoring adds a further dimension to the management information that will be produced and hence the greater the understanding of the council's current performance should lead to more informed decision making about the corrective action that is needed. From April 2006 it is also intended to switch the capital and treasury management monitoring cycles to the same timetable.

4.3. Statement of Internal Control

The Accounts and Audit Regulations 2003 imposed a new legal requirement on all local authorities to publish a Statement of Internal Control (SIC) as part of their Statutory Accounts. This requirement represented a further development in the ongoing process of improving corporate governance arrangements within local authorities.

The SIC forms an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of the corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC represents the final stage of the ongoing review of governance arrangements and internal controls throughout the relevant period.

The purpose of the SIC is to demonstrate and/or provide:

- Openness and accountability to the public;
- Assurance to stakeholders;
- A framework for improving the adequacy and effectiveness of corporate governance arrangements;
- Evidence for CPA.

CIPFA issued guidance on the processes which needed to be established by local authorities to maintain and review their systems of internal control and risk management. Whilst Councils were encouraged to be fully compliant with the requirements of the Accounts and Audit Regulations 2003, CIPFA recognised that it was unrealistic to expect authorities to have all the necessary arrangements in place for the accounting year 2003/04. As with most Councils, an interim SIC was therefore prepared for 2003/04.

Since the publication of the 2003/04 SIC, CIPFA has issued further guidance which includes detailed advice on the processes which Councils should have in place to support compilation of the SIC and the governance and risk management arrangements necessary to support it.

This new guidance reaffirms the view that the SIC is a corporate document which requires input from those people throughout the Council who are responsible for governance, including:

- The Leader and Chief Executive;
- Directors and managers who have responsibility for decision making, the delivery of services and the ownership of risks;
- The S151 Officer and the Monitoring Officer, who both have specific statutory responsibilities;
- Members;
- Other staff who are responsible for elements of the control environment (for example the Head of Performance Improvement and the Audit and Fraud Manager).

Furthermore, the guidance details the sources from which assurance can be obtained and the evidence necessary to support disclosure in the SIC and satisfy statutory requirements. The SIC has to provide details of the overall governance and control framework and identify any significant control issues. The external auditors have a responsibility to review the disclosures in the SIC and ensure that they are consistent with their knowledge of the Council. Under the new Audit Commission Code of Audit Practice, which will apply to the audit of 2005/06 accounts onwards, there will be a requirement on auditors to give a formal conclusion on whether local authorities have put in place 'proper arrangements to secure economy, efficiency and effectiveness in the use of resources'. One of the key sources of assurance that the auditors will be considering in discharging their responsibilities in this area will be the system of internal control as reported on in the SIC.

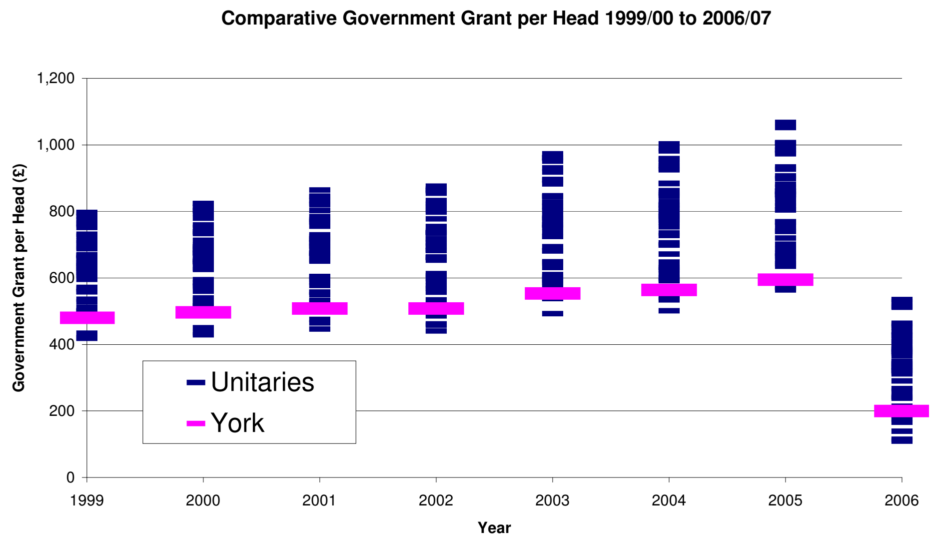
Annex A- Medium Term Financial Forecast 2007/08 to 2009/10

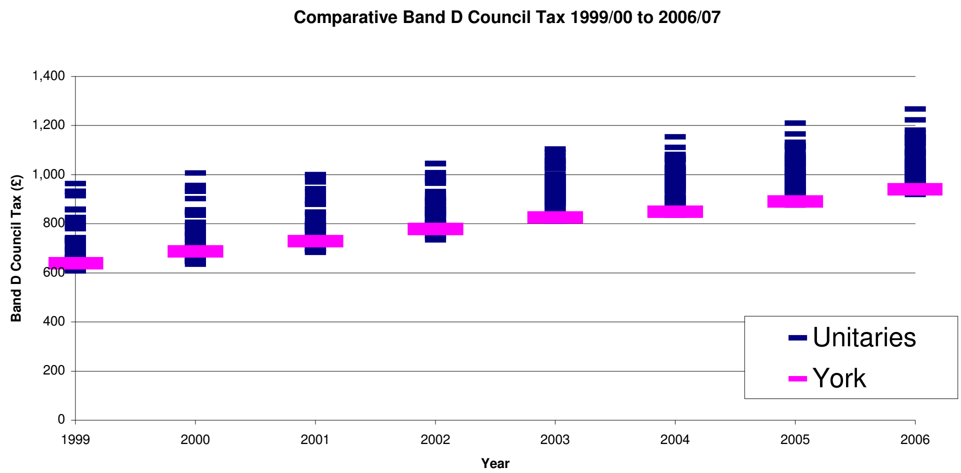
		2007/08 £000s	2008/09 £000s	2009/10 £000s
	UNAVOIDABLE PRESSSURES - RECURRING			
	Employment Costs			
CORP 1	Pay Increases for APT&C @ 2.50%	1,694.0	1,794.9	1,840.0
CORP 2	Employers' LGPS Contributions	50.0	50.0	50.0
CORP 3	LEA Teachers' Pensions 0.6% increase from 01.01.2007	15.0	0.0	0.0
CORP 4	Pay Increments	626.0	592.0	582.0
CORP 5	Job Evaluation	1,250.0	500.0	0.0
CORP 6	Price Inflation (2.3%)	680.0	692.7	721.0
CORP 7	Utility Price Inflation	300.0	300.0	300.0
CORP 8	Environment Agency and Drainage Board increased levies	27.3	28.7	30.1
CORP 9	Additional financing for borrowing (capital programme)	414.0	298.0	405.0
CORP 10	Revenue implications of capital programme	100.0	100.0	100.0
CORP 11	Minimum Revenue Provision - New Borrowing	331.0	238.0	324.0
CORP 12	Minimum Revenue Provision - Commutation adjustment	99.0	131.0	95.0
CORP 13	Minimum Revenue Provision - Local Govt Re-org	(180.0)	0.0	0.0
CORP 14	Rent reviews on admin accom	51.0	76.0	33.0
CORP 15	2009/10 Insurance contract	0.0	0.0	200.0
CORP 16	Full year effect of prior year growth	48.0	0.0	0.0
CORP 17	Full year effect of prior year savings	(91.4)	(5.0)	(5.0)
CS 1	Highways & Street Ops Prudential Borrowing	46.0	46.0	250.0
LCCS 1	Edmund Wilson Fitness Gym - recurring cost until new or refurbished pool is delivered	120.0	0.0	0.0
NS 1	Landfill Tax	250.0	250.0	250.0
NS 2	LATS Permits	0.0	228.9	524.4
NS 3	Increased Rates bill at new Depot	150.0	0.0	0.0
NS 4	Waste Management - growth in property base	36.0	36.0	36.0
NS 5	Container & bin replacement - lease purchase	45.0	10.0	10.0
	TOTAL RECURRING UNAVOIDABLE GROWTH	**6,060.9**	**5,367.2**	**5,745.5**
CORP 18	Contingency	800.0	800.0	800.0
	COMMITTED ONE-OFF EXPENDITURE			
LCCS 2	Contribution to 2010 Mystery Plays (yrs 2 - 4)	20.0	20.0	20.0
NS 6	Waste Strategy (Yrs 3 - 5)	250.0	250.0	250.0
RES 1	FMS Project (Yr 3 of 3)	100.0	0.0	0.0
RES 2	Housing Benefit Venture Fund Repayment (Yrs 2 - 4)	25.0	25.0	25.0
	TOTAL COMMITTED ONE-OFF EXPENDITURE	**395.0**	**295.0**	**295.0**
	TOTAL UNAVOIDABLE GROWTH	**7,255.9**	**6,462.2**	**6,840.5**
	FUNDING			
FUND A	Removal of one-off funding for non-recurring unavoidable items	(1,100.3)	(395.0)	(295.0)
FUND B	Use of Reserves - unavoidable one-off pressures	395.0	295.0	295.0
FUND C	Council Tax Surplus	133.0	0.0	0.0
FUND D	One-off 06/07 growth funded from base	231.0	0.0	0.0
FUND E	Non-ring fenced DfT Grant - Road Safety Initiatives	185.0	0.0	0.0
FUND F	Estimated annual increase in Government Grant	1,191.7	436.0	436.0
FUND G	Increased contribution from Commercial Services	0.0	0.0	0.0
FUND H	Increase in Council Tax (4.5%,5%,5%)	2,727.8	3,167.3	3,325.7
FUND I	Additional Properties	696.0	597.0	656.0
	Revised Annual Funding	**4,459.2**	**4,100.3**	**4,417.7**
	UNDERLYING BUDGET GAP	**2,796.7**	**2,361.9**	**2,422.8**
	Total Reprioritisation Opportunities (Detail overleaf)	**7,291.0**	**1,646.0**	**1,321.0**
	OVERALL BUDGET GAP	**10,087.7**	**4,007.9**	**3,743.8**

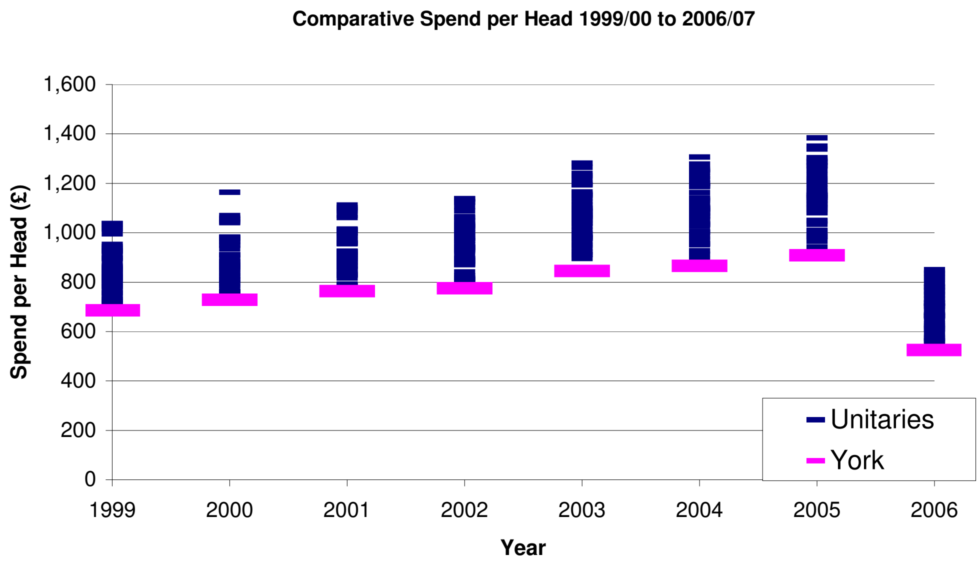
Ref		2007/08 £000s	2008/09 £000s	2009/10 £000s
	GROWTH FUNDED THROUGH REPRIORITISATION			
CEX 1	Adjustments to 06/07 Marketing savings targets re monthly Your City	52.0	0.0	0.0
CEX 2	Adjustments to Print Unit savings targets- Best Value Review	26.0	0.0	0.0
CEX 3	Adjustments to 04/05 Marketing staff advertising & temps budget savings targets	11.0	0.0	0.0
	TOTAL CEX GROWTH	**89.0**	**0.0**	**0.0**
CORP 19	IT Development Plan	500.0	500.0	500.0
	TOTAL CORPORATE GROWTH	**500.0**	**500.0**	**500.0**
CS 2	Local Development Framework	350.0	0.0	(350.0)
CS 3	Highways Resurfacing and Restructuring - Revenue Growth due to reduced funding from Cap. Programme	250.0	250.0	250.0
CS 4	Highways & Street Ops - maintenance inflation c. 5% pa	200.0	200.0	200.0
CS 5	Road Safety initiatives - funded by DfT grant (ref. F)	185.0	13.0	(14.0)
CS 6	Shortfall in income from Planning Enquiries	150.0	0.0	0.0
CS 7	Building Control - reduction to income surplus	100.0	0.0	0.0
CS 8	York Central - additional costs on consultation/options	100.0	(30.0)	(20.0)
CS 9	Revenue implications of the Local Transport Plan	60.0	60.0	60.0
CS 10	Land Charge - income pressures due to deregulation	50.0	0.0	0.0
CS 11	Science City - change of status to Ltd Co - part fund CEO Post	50.0	0.0	0.0
CS 12	Reduction in Markets income due to reduced occupancy	20.0	0.0	0.0
CS 13	Regional Activities - Economic Development	15.0	0.0	0.0
CS 14	Sale of Shambles' car park - Loss of income	0.0	70.0	0.0
	TOTAL CITY STRATEGY GROWTH	**1,530.0**	**563.0**	**126.0**
HASS 1	Adult Social Services - addressing current service pressures	1,400.0	0.0	0.0
HASS 2	Supporting People - continued reduction in govt funding	500.0	250.0	250.0
HASS 3	Transitions - from Children's budget	200.0	200.0	200.0
HASS 4	ESCR/ISIS replacement	200.0	(75.0)	0.0
HASS 5	Fair Price for Care - to pay all providers of residential and nursing care an defined price rates	150.0	150.0	150.0
HASS 6	Preserved Rights Grant - cut in govt grant	120.0	0.0	0.0
HASS 7	Meeting CSCI standards on staffing at EPH's	100.0	0.0	0.0
HASS 8	Active Health - continuation of sickness monitoring pilot	62.0	(62.0)	0.0
HASS 9	Appointeeships - where social care customers lack the capacity to manage their money	60.0	30.0	30.0
HASS 10	Training & Development - CPD	50.0	0.0	0.0
HASS 11	General Social Care Council - Registration for non social care workers	50.0	(50.0)	0.0
HASS 12	Delivering the Health & Social Services White Paper - Policy, Planning & QA	40.0	0.0	0.0
HASS 13	Assistant HR officer post - previously agreed as one-off only	32.0	0.0	0.0
HASS 14	Howe Hill rent restructuring - to follow same formula as other council homes	30.0	0.0	0.0
HASS 15	Adult Soc. Servs. - change to regulations & increased workloads	30.0	0.0	0.0
HASS 16	easy@york business change manager - Housing & Adult Services	30.0	(30.0)	0.0
HASS 17	PCT cost shunting issues	25.0	20.0	15.0
HASS 18	Increase in number of Criminal Record Bureau/POVA checks	20.0	0.0	0.0
HASS 19	Increase in Occupational Health costs	20.0	0.0	0.0
HASS 20	Trade Union facility time (2.5 days @ Scale 6) - Adult Soc. Servs.	13.0	0.0	0.0
HASS 21	Single Assessment Process IT	10.0	0.0	0.0
HASS 22	Conversion of an Elderly Persons Home to an Elderly Mentally Ill facility	0.0	100.0	0.0
	TOTAL HOUSING & ADULT SOCIAL SERVICES GROWTH	**3,142.0**	**533.0**	**645.0**
LCCS 3	Children's social services - addressing current service pressures	355.0	0.0	0.0
LCCS 4	Improving Library Standards to meet national standards via increased opening and more books	250.0	0.0	0.0
LCCS 5	DSG retained budgets shortfall	160.0	0.0	0.0
LCCS 6	Locality planning for Children's Services - appointment of 3 locality co-ordinators	150.0	0.0	0.0
LCCS 7	End of Children's Trust grant	100.0	0.0	0.0
LCCS 8	Seat belts for school buses	100.0	0.0	0.0
LCCS 9	Improving Youth Service Standards to match national REYS standards set by OFSTED - based on minimum spend per head	100.0	0.0	0.0

Ref		2007/08 £000s	2008/09 £000s	2009/10 £000s
LCCS 10	School Improvement Partners (DfES requirement for changes to support to schools)	60.0	0.0	0.0
LCCS 11	LEA Standards Fund cash freeze	50.0	50.0	50.0
LCCS 14	Criminal Records Bureau - increase in number of checks (LCCS)	20.0	0.0	0.0
	TOTAL LEARNING, CULTURE & CHILDREN'S SERVICES GROWTH	**1,345.0**	**50.0**	**50.0**
NS 7	2 additional kerbsider vehicles - operating costs	216.0	0.0	0.0
NS 8	Trading Standards - additional burdens	50.0	0.0	0.0
NS 9	Public Toilets - contract cleaning costs	26.0	0.0	0.0
	TOTAL NEIGHBOURHOOD SERVICES GROWTH	**292.0**	**0.0**	**0.0**
RES 3	Benefit subsidy "loss" on placement of homeless people	226.0	0.0	0.0
RES 4	Adjustment to 06/07 Procurement savings targets	132.0	0.0	0.0
RES 5	Public Services - development of corporate customer standards	35.0	0.0	0.0
	TOTAL RESOURCES GROWTH	**393.0**	**0.0**	**0.0**
	TOTAL REPRIORITISATION OPPORTUNITIES	**7,291.0**	**1,646.0**	**1,321.0**

Annex B Comparative Funding & Expenditure 1999/00 to Date







Annex C - The Comprehensive Performance Assessment

(i) Key Lines of Enquiry – Use of Resources

How well does the council manage and use its financial resources?

<u>1. Financial Management</u>
How well does the organisation plan and manage its finances?
- How are the organisation's budgets and capital programme linked to its priorities?
- How effectively does the organisation manage its asset base?
- How effective are the organisation's arrangements for reporting and monitoring performance against budgets?

<u>2. Financial Standing</u>
Is the organisation financially sound?
- How well does the organisation manage its spending within the available resources?
- Does the organisation maintain adequate and not excessive levels of reserves and balances?

<u>3. Internal Control</u>
How effectively does the organisation safeguard its financial interests?
- How effective are the organisation's internal controls, including those in relation to partnerships?
- How well does the organisation manage risks?
- How well does the organisation limit its vulnerability to fraud and corruption?

<u>4. Value for Money</u>
Does the council deliver good value for money?
- How well does the council currently achieve good value for money?
- How well does the council manage and improve value for money?

(ii) Principles for Judging Value for Money

The key principles that will underpin our approach to judging value for money are as follows:

- The audit commission will look to judge value for money primarily from a community-wide perspective rather than the view of individual service users (which will be looked at in service inspections where these are carried out);

- Costs alone do not reflect value. Local context and quality of service are important and will be taken into account in arriving at value for money judgements;

- Where possible the audit commission will look at gross costs, as net costs can mask high spending if income is also high;

- Long-term costs and benefits will be taken into account, not just immediate costs;

- Numerical data on costs and performance provide a starting point for questions, not answers;

- Value for money judgements need to allow for local policy choices (within a national policy context) about priorities and standards of service;

- Judgements should address current performance in achieving value for money outcomes, how well value for money is managed and improved over time and the extent to which a long-term approach is taken.