
Budget Council

23 February 2012

Report of the Leader of the Council

Recommendations of Cabinet on the Council's Capital Programme Budget for 2012/13 – 2016/17, the Financial Strategy 2012 – 2017 and the Treasury Management Strategy Statement and Prudential Indicators for 2012/13 – 2016/17

Summary and Background

1. This report presents to Council the recommendations of Cabinet for approval in respect of the capital programme budget for the period 2012/13 to 2016/17, the revenue budget proposals for 2012/13 and 2013/14 and the treasury management strategy for the period 2012/13 to 2016/17. This report should be read in conjunction with the reports presented to Cabinet on 14 February.
2. On 14 February the Cabinet met to consider the revenue and capital budgets and the treasury management strategy. The following reports, copies of which Members have previously received, were considered;
 - i) Financial Strategy 2012 to 2017
 - ii) Capital Programme Budget 2012/13 to 2016/17
 - iii) Treasury Management Strategy and Prudential Indicators 2012/13 to 2016/17

Consultation

3. The Council's budget has been widely consulted upon. Please refer to the relevant section of the Financial Strategy report for further details.

Options

4. Options open to the Council are to approve Cabinet's recommendations or to approve any amendments that may be moved by other Members of Council.

Specialist Implications

5. Implications in respect of setting the budget are contained in the Cabinet reports. Member's attention is drawn in particular to the legal advice and the statutory advice of the Section 151 officer as set out in the Financial Strategy report and repeated in the following sections.

Legal

6. The Council is required to set a council tax for 2012/13 before 11th March 2012. It may not be set before all major precepts (ie precepts from the Police and Fire Authorities) have been issued or before 1st March 2012, whichever is the earlier. This decision is reserved to Council and cannot be taken by Cabinet or delegated to officers, although Cabinet has to recommend a budget to the Council. These comments are intended to apply to both the Cabinet meeting and the subsequent Council meeting.
7. Before determining the level of the tax, the Council must estimate its proposed revenue expenditure, taking into account amounts required by way of contingency, any need to raise reserves and any other amounts which the Council is legally required to transfer between funds. It must also estimate its anticipated income, any relevant transfer between funds and any proposed use of reserves. It must then calculate the difference between the two which is the council tax requirement.
8. The Council's Chief Financial Officer (under s151 Local Government Act 1972) is required to report to the Council on the robustness of the estimates made for the purposes of the calculations, and the adequacy of the proposed financial reserves. The Council must have regard to the report when making decisions about the calculations in connection with which it is made. The Chief Financial Officer has a statutory duty under section 114 of the Local Government Finance Act 1988 to issue a written report if he considers that a decision taken by the Council would be unlawful and likely to cause a financial deficiency.
9. In reaching decisions on these matters, Members are bound by the general principles of administrative law. Lawful discretions must not be abused or fettered and all relevant considerations must be taken into account. No irrelevant considerations may be taken into account, and any decision made must be one which only a reasonable authority, properly directing itself, could have reached. Members must also balance the interests of service users against those who contribute to the Council's finances. The resources available to the Council must be deployed to their best advantage. Members must also act prudently.

Members must also bear in mind their other statutory duties to have regard to certain matters when making decisions. In particular the “equalities duty” to have ‘due regard’ to the need to eliminate discrimination and to promote equality when making decisions and the need to consider any crime and disorder implications of the decision. A failure to follow these principles could open the Council to judicial review.

10. Members have a fiduciary duty to the council tax payers and others in the local authority’s area. This means that members must behave responsibly in agreeing the budget. Members have no authority to make anything other than a balanced budget.
11. Among the relevant considerations which Members must take into account in reaching their decisions are the views of business ratepayers and the advice of officers. The duty to consult representatives of non-domestic ratepayers on the Council’s expenditure plans is contained in Section 65 of the Local Government Finance Act 1992.
12. In considering the advice of officers, and the weight to be attached to that advice, Members should have regard to the personal duties placed upon the Director of Customer and Business Support Services as Chief Financial Officer. Members are obliged under the Code of Conduct to have regard to the advice of the Chief Finance Officer and Monitoring Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so. However, Members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities. In addition, if Members wish to re-instate savings recommended by the Director of Customer and Business Support Services in order to balance the budget, they must find equivalent savings elsewhere.
13. The Director of Customer and Business Support Services is required by Section 151 of the Local Government Act 1972 and by the Accounts and Audit Regulations 2003 (as amended) to ensure that the council’s budgeting, financial management, and accounting practices meet relevant statutory and professional requirements. He is in addition subject to the requirements set out in paragraph 8 above.
14. Members must also have regard to, and be aware of, the wider duties placed upon the council by various statutes governing the conduct of its financial affairs. These include the distinction between revenue and capital expenditure and the requirement to set prudential indicators in

line with capital investment plans that are prudent, affordable and sustainable.

15. The Government has removed the power to cap local authority budgets and replaced it with a system of local referendums where the Council has set an excessive Council tax increase. For 2012/13 an increase above 3.5% will be considered excessive.
16. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears and will not be voting on the decision for that reason. The Member concerned must not vote but may speak. If a Cabinet member has arrears outstanding for two months or more, they are prevented from taking any part in such a decision. The application of Section 106 of the 1992 Act is very wide and Members should be aware that the responsibility for ensuring that they act within the law at all times rests solely with the individual Member concerned.

Statutory Advice from the Director of Customer and Business Support Services/Comments

Introduction

17. The Local Government Act 2003 places responsibilities upon the council's Chief Finance Officer to advise the council on the adequacy of its **reserves** and **the robustness of the budget proposals** including the estimates contained in this document. This section also addresses the **key risks** facing the council in relation to current and future budget provision. The following paragraphs give my views on the budget (both 2011/12 and beyond), reserves and general robustness of the process.

Overall Assessment

18. The proposals in this budget give a balanced budget for 2012/13 and give consideration to the financial years 2013/14 to 2016/17. The council has taken many steps to try to put itself on a firmer long-term financial position, with longer term planning and improved budget monitoring. The inclusion of two year budget proposals significantly adds to this long term planning and ensures the Council is taking a very prudent, long term approach to meeting the challenges it faces.

19. Full scrutiny of the budget proposals for 2012/13 has taken place, in terms of their deliverability, and a proper risk assessment of a range of issues has been conducted.
20. There are significant savings contained within the budget proposals, reflecting the scale of the challenge facing the council. There should be no understatement of the scale of this challenge, both in terms of next year and beyond. Clearly, there are risks in the achievement of some of the proposed savings and, in assessing the risk of savings proposed, I cannot guarantee that every single proposal will be achieved. I do however consider the overall package to be prudent, and I am assured of the robustness of the projected savings, and the extent of rigour in their calculation. They do however represent a major challenge to deliver, one that will only be achieved through full commitment across the organisation. Very careful monitoring of the progress of the savings programme will be essential. A risk assessment related to the individual savings proposals has been conducted, and discussed with senior management.
21. I consider that the overall estimates in the budget are sound and that the proposals to achieve a balanced budget are achievable, albeit demanding. The council has made provision for a number of corporate financial pressures, such as impact of capital programme, landfill tax, pay and pensions implications. In addition the sums included in respect of contingency, and contributions to create some capacity in terms of reserves represent a very sound prudent approach. In addition, the inclusion of funding for "Delivery and Innovation" provides the capacity to assist in transformation and delivery of services, which will be crucial in responding to the financial challenges.
22. This overall package is a realistic approach in dealing with the financial pressures facing the council next year. In addition the major financial pressures being experienced during 2011/12 have been addressed through significant additional investment. In particular investment is provided for Adult Care, and Looked after Children. There is an area of risk in that no provision is included in the budget for any pay award in 2012/13, and clearly if there was to be a pay award the council would need to address this issue.

Looking Ahead

23. Looking ahead there remains a range of very significant pressures for the future. The Spending Review set out planned further reductions in government funding, and the major challenge facing the council in coming years will be to secure further savings and for cost pressures to be managed effectively. In doing so, the council will also need to provide capacity for additional investment in unavoidable costs and priorities.
24. Key to tackling these medium term challenges will be the need for the council to continue to review all areas of expenditure, and have clear medium term plans. In addition to continuing to find efficiencies, the council will need to consider the level and type of service it provides, as the scale of financial savings required in future years can not be met from true efficiency alone. Meeting the financial challenges facing the council in coming years will require the council to think very carefully about its core priorities, how it works with its partners and key stakeholders, and its overall provision of public services.

Reserves

25. In terms of reserves, the proposals seek to make contributions to restore reserves to above their minimum levels. This recognises that in difficult financial times, and alongside general uncertainty regarding the economy, it is advisable to ensure sufficient reserves are in place.
26. I believe that the council will come in on budget for 2011/12 and this is reflected in the budget monitoring report presented to Cabinet at this same Cabinet meeting.
27. The recommended minimum reserves are £6.1m and assuming the current budget is achieved on budget, the estimated level of reserves at end of March is £6.046m. I strongly advise Council not to reduce levels of reserves below the minimum level, and alongside this to ensure some "headroom" between the minimum reserves and actual reserves. The budget proposals seek to do this.
28. The decision on the adequacy of the level of reserves is linked to the general robustness of the budget process and the council's systems of budgetary control and risk management. These need to ensure that the council will not be exposed to any unforeseen major financial problem requiring the use of reserves to resolve. In considering the overall budget position, I have taken assurance over the recent track record of the

council to manage expenditure within budget, and the fact that in very recent times financial pressures have been identified early in the financial year and through concerted action across the council the position has been brought in line with budget. The council's strong financial management, and financial control, has been commented upon by external auditors recently.

Other Issues

29. The government have announced that they will require any local authority who proposes to raise it's council tax by 3.5% or more to conduct a referendum.
30. The government have also stated that they will continue with the system of Council Tax Freeze Grant in 2012/13, as they did in 2011/12. However, they have stated that this will be a one off for 2012/13 (whereas last year funding was committed for 4 years). As with last year, any authority that gets their proposed council tax increase down to 2.5% will then become eligible for the freeze grant which will then allow them to set a council tax of 2.5%.
31. It is for members to determine the level of council tax increase, and to decide whether to set a council tax increase that will trigger the council tax freeze grant, or to set a tax at a higher level. Members naturally need to consider the implications of the different options very carefully.
32. I also would highlight the separate capital programme report, and the issues that are set out within that. In particular, the capital plan has some significant implications in terms of the revenue budget in coming years, and both programmes will need to be carefully managed in terms of ensuring proper provision is made in the medium term. I would stress however that the overall balance in terms of capital investment, levels of borrowing, and revenue implications (and the impact on revenue expenditure) is something that is for Members to determine.
33. I am aware that as with all budgets there is the potential for amendments to be proposed/agreed which could change the overall package of proposals. In that respect, I would highlight that I would amend/add to my statement if a decision was proposed that lead to the council's reserves falling below the minimum level (assuming the current budget comes in line with budget). In addition, any other amendments I would consider against the scale of the overall budget and depending upon the extent of the amendment I may revise my statement. It goes without saying that

amendments that may reduce contingencies, or which set further savings targets, will inevitably add to the overall risk. That is not to say that such amendments would cause me to amend my statement as I would only do this if I considered the change in risk was significant.

Recommendations

Capital Budget

34. Cabinet recommends that Council;

- i) Agree to the revised capital programme of £187.364m that reflects a net overall increase of £53.641m (as set out in paragraph 32, table 9 and in Annex A 'growth' column of the Cabinet report). Key elements of this include:
 - a. Extension of prudential borrowing funded rolling programme schemes totalling £2.105m as set out in paragraph 10 table 2 and summarised in paragraph 32 table 9;
 - b. New schemes totalling £10.405m including increase in prudential borrowing of £2.595m as set out in paragraph 13 table 3 and summarised in paragraph 30 table 10;
 - c. Reduction of existing prudential borrowing funded schemes totalling £4.500m as set out in paragraph 15 table 4 and summarised in paragraph 32 table 9;
 - d. New externally funded and HRA funded schemes totalling £16.381m including HRA balances of £4.447m and including £500k of New Homes Bonus funding for replacement of street lighting as set out in paragraph 18 table 5 and summarised in paragraph 32 table 9.
 - e. Extension of the existing IT development programme totalling £750k in 2016/17 funded by prudential borrowing paid for from within existing revenue budgets as set out in paragraph 31, table 8 and summarised in paragraph 32, table 9.
- ii) Approve the re-profiling of £150k from future years to 2012/13 in relation to replacement of unsound lighting columns scheme as shown in Annex A to the Cabinet report.

- iii) Approve the full restated programme as summarised in Annex A totalling £187.364m cover financial years 2012/13 to 2015/16 as set out in paragraph 34 table 10 of the Cabinet report.
- iv) Approve the establishment of the Economic Infrastructure Fund (EIF) and the proposed priority themes of expenditure as follows:
 - a. Get York Moving including
 - Access York Park and Ride - £2.5m
 - Better Bus Fund - £2.0m see Annex C
 - b. Digital York
 - c. Reinvigorate York
 - d. Economic Inclusion York
 - e. Sustainable Economy York
- v) Approve Council funding to the EIF from £20m of prudential borrowing over the next 5 years, all of the New Homes Bonus funds (currently estimated at £8.5m) from 2012/13 onwards, except for £0.5m in 2012/13 which is allocated for Street Lighting replacement.
- vi) Agree that the Director of CBSS be authorised to take decisions on the financing of any expenditure, and profiling of any borrowing, in accordance with the overall financial framework agreed by Council
- vii) Agree that decisions on the actual schemes, and monitoring of such schemes will be considered through regular financial monitoring reports to Cabinet

Reason: To set a balanced capital programme as required by the Local Government Act 2003.

Revenue Budget

35. Cabinet recommends that Council;
- i) approve the budget proposals outlined in the Financial Strategy report, in particular
 - a. The net revenue expenditure requirement for 2012/13 of £122.235m

- b. The revenue growth proposals as outlined in the body of the Cabinet report
 - c. The revenue savings proposals as outlined in annex 2 of that report.
 - d. The housing revenue account proposals set out in annex 4 of that report.
 - e. The dedicated schools grant proposals set out in annex 5 of that report.
- ii) Agree that the governance/financial administration of the Delivery and Innovation Fund be in accordance with the Council's Venture Fund, specifically that the Director of CBSS (in consultation with the Leader) has the authority to make approvals of up to £100,000 and that any sums greater than this require the approval of Cabinet, and that further approval is given to reflect this decision in the Council's Financial regulations.
 - iii) Note that the effect of approving the income and expenditure proposals included in the recommendations would result in a 2.9% increase in the City of York Council element of the council tax.

Reason: To ensure a legally balanced budget is set and appropriate governance arrangements are in place for the Delivery and Innovation Fund.

Treasury Management Strategy Statement and Prudential Indicators

36. Cabinet recommends that Council approve;
- i) The proposed treasury management strategy for 2012/13, including the annual investment strategy and the minimum revenue provision policy statement
 - ii) The prudential indicators for 2012/13 to 2016/17 in the main body of the report (and Annex A to the Cabinet report)
 - iii) The specified and non specified investments schedule (Annex C to the Cabinet report)
 - iv) The scheme of delegation and the role of the section 151 officer (Annex E to the Cabinet report)

Reason: To enable the continued effective operation of the Treasury Management function and ensure that all Council borrowing is prudent, affordable and sustainable.

Contact Details

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**Report
Approved**

Date *15 February 2012*

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

All

For further information please contact the authors of the report

Background Papers:

Reports to Cabinet meeting held on 14 February 2012

Financial Strategy 2012 – 2017

Capital Programme Budget 2012/13 to 2016/17

Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17

Annexes: None