

Cabinet

11 February 2014

Report of the Cabinet Member for Finance, Performance and Customer Services

FINANCIAL STRATEGY 2014 - 2019

Summary and Background

1. This report presents the financial strategy 2014-2019, including detailed revenue budget proposals for 2014/15 and 2015/16, and asks Members to recommend to Council approval of the proposals. Following on from extensive consultation with taxpayers, business and interest groups, the financial strategy delivers a balanced budget over a 2 year period with savings proposals totalling £23.4m (equivalent to 18% of the net budget over 2 years) and a proposed council tax increase of 1.9% in 2014/15 (subject to notification of the referendum limit). There are separate reports on the agenda covering the Rewiring Public Services transformation programme, the capital budget and the treasury management strategy.
2. Key issues included in the proposals are as follows;
 - Revenue savings of £10.743m in 2014/15
 - Building on the findings of the Delivering for the People of York Cabinet report, a further £12.655m of savings in 2015/16 comprising;
 - i. £3.854m of service prioritisation reductions
 - ii. £5.480m of reductions delivered by the Rewiring Public Services programme
 - iii. £3.321m of efficiency savings.
 - Growth of £2.5m in adult social care for 2014/15, following on from investment of £2.5m in 2013/14, to ensure continued priority investment in services to vulnerable people

- A reduced Start Up Funding Assessment (SUFA), equivalent to the old formula grant funding, of £5.7m in 2014/15 and total estimated grant losses of around £8m in 2015/16
- Ensuring a financially prudent budget through funding for the contingency budget and a contribution to increase general reserves, building on proposals set out in the previous two budgets (in line with advice from the Director of CBSS)
- Ensuring a financially prudent budget by addressing known budget pressures, including likely pay awards and inflationary pressures
- Establishing in 2014/15 ongoing revenue funding for the implementation of the Living Wage
- Building on the £100k revenue funding for the York Financial Assistance Scheme approved in 2013/14 with further investment of £100k in 2014/15
- Creation of a £50k budget provision from 2014/15 for business rate discounts to support economic growth
- £1m of funding in 2015/16 to support Strategic Transport investment
- A net revenue budget of £124.2m, which will be funded by:
 - i. Council tax income of £71.8m
 - ii. Government grant of £28.8m
 - iii. Retained Business Rates of £23.6m
- Alongside these proposals, elsewhere on the agenda the Capital Strategy Report details significant capital investment in Highways, the Museum/Art Gallery, ICT and Housing.

National Context and Funding Issues

3. York has the 9th lowest band D council tax, the 2nd lowest spend per head of population of any unitary council in England and the 9th lowest government funding per head in the country.
4. All aspects of the public sector are continuing to face challenging times in the light of the Government's commitment to reduce the national deficit as first outlined in the Comprehensive Spending Review (CSR) published in October 2010. As a result, in recent years the Council has

had to deal with very large reductions in funding, combined with a range of significant pressures.

5. To provide some context to this, set out in annex 10 are a number of tables which show the actual and forecast levels of savings delivered by the Council and the movements in grant funding. In summary, the Council:
 - has made £16.4m of savings over the period 2007/08 to 2009/10.
 - has made a further £74.2m of savings covering the period 2010/11 to 2015/16.
 - and has therefore made a total of £90.6m of savings over the 9 years covering 2007/08 to 2015/16.
 - has since the 2010 CSR (2011/12-2015/16) experienced government grant reductions of some £37.6m, or 46%. At the time of writing, the retail prices index has increased by 9.6% since April 2011.
6. £91m in savings represents a massive shift in spending and priorities, evidenced by investment in excess of £16m in Adult Social Care over the same period. In light of the longer term funding outlook, and referencing evidence bases such as the Barnet 'Graph of Doom' presented in earlier reports, it is expected adult care costs could account for 50% of the council's net budget by 2019/20.
7. Following on from the June 2013 Spending Review and Autumn Statement announced in December 2013, which highlighted further future reductions to local government funding, the provisional Local Government Finance settlement for 2014/15 was announced on 18 December 2013, and is the second released under the new funding system which includes localised business rates. Members are reminded that Formula Grant has now been abolished and replaced with a Start Up Funding Assessment (SUFA) and is comprised of Revenue Support Grant (RSG) and a business rates baseline.
8. The provisional SUFA for 2014/15 is £52.4m. This corresponds to a loss of £5.7m or 9.7%, compared to the funding received in 2013/14. Initial figures released for 2015/16 suggest that the SUFA allocation and other grants will reduce by around £8m, or a loss of upto 15%. Whilst no details were announced for any financial settlements beyond 2015/16, the clear indications are that central government support to local authorities will continue to be reduced in coming years.

9. The figures announced for York were broadly in line with the forecasts made within the council's financial strategy.
10. This report presents a 2 year budget that is fully balanced. The formal budget setting for 2015/16 will take place in February 2015.
11. Building on assumptions outlined in reports to Cabinet in July and November 2013, and the themes of the Delivering for the People of York Cabinet report from October 2013, the savings requirement set out in this report totals £23.4m over two years.
12. In relation to council tax, the proposals in this report are predicated on a 1.9% increase in the basic Band D rate in 2014/15.
13. However, the Chancellor of the Exchequer has announced that central government will be offering local councils the opportunity to extend the council tax freeze in 2014/15.
14. The offer pledges funding equivalent to a 1% increase on a notional taxbase that excludes the cost of discounts related to council tax support. Calculations show this to equal £778k which is closer to 1.1% on the taxbase used for council tax setting purposes. If Members were minded to accept the freeze, a further £559k in savings to those identified in this report would be required to reach a balanced budget for 2014/15.
15. Guidance received from DCLG states:

The grant for the 2014-15 freeze will be paid to participating authorities in the financial years 2014-15 and 2015-16 – so if an authority freezes in 2014-15, it will also receive a grant in 2015-16 in respect of the freeze decision taken in 2014-15.

Ministers have agreed that the funding for 2014-15 (including 2015-16) freeze grant should be built into the spending review baseline. This gives as much certainty as possible at this stage that the extra funding for freezing council tax will remain available.

Clearly, this shows the funding is guaranteed for at least two years, though continuance beyond 2015/16 would be a policy decision for the next government.

16. Furthermore, in a departure from previous years where referendum limits on council tax increases have been announced at the same time as the settlement, the Local Government Minister for DCLG speaking in

December 2013 indicated that the limit for 2014/15 would be announced “sometime in the new year”. At the time of writing, this had still not been announced and there remains a risk that the limit is lowered from the current assumed level of 2%, as used in previous years. Should that happen, and the limit be set below the 1.9% increase assumed in this budget and no further action taken, the council would have to conduct a referendum with local taxpayers, which would carry significant associated expenditure for holding the vote, and re-billing should that vote for an increase be lost. Members will be advised as and when the limit is announced and will then need to consider the relevant issues and options.

Local issues and challenges

17. Locally demand for council services continues to increase, with an ageing population and increased complex needs in respect of elderly care. There are also potential risks associated to welfare reform, in particular in relation to council tax support, which is now funded locally. Rising fuel costs, landfill tax and inflation are driving costs up and the economic downturn is putting pressure on many of the council’s income budgets. In shaping the budget these issues have been carefully considered to ensure we set a budget that is both prudent and protects vulnerable people. Ensuring that there is the capacity to invest has been a critical part of the budget deliberations.
18. The council established an independent Fairness Commission in 2011 to look into how to make the city a fairer and more equal place to live. Since then a number of key principles established by the commission have been implemented, including;
 - Making reducing income inequalities a core value in decision making, for example by paying a living wage.
 - Building social factors into procurement and contracting to promote good employment practice, enhance local supply chains, reduce inequalities and heighten opportunities for unemployed people in York.
 - Targeting investments and services to reduce inequalities and improve life chances in the most disadvantaged areas.
 - Promoting and prioritising sustainable economic growth that maximises opportunities and benefits to all people, including the most disadvantaged (e.g. jobs, wages and wellbeing).

Financial Overview and Medium Term Financial Forecast (MTFF)

19. Two budget strategy reports have been presented to Members since February 2013 in July and November. These reports have highlighted the challenges facing the council, and also set out the need to ensure the council continues to invest in growing the economy given the financial benefits that economic prosperity brings. Ensuring the council grows its income sources and avoids the costs of deprivation remain factors in the council's financial strategy. In recent months the budget strategy has been developed, not just as a result of government funding announcements, but also in response to October's Delivering for the People of York Cabinet report, which outlined a change in emphasis in how the council will deliver its services in future. The following section on principles that have shaped the budget will provide more detail on the findings of that report and the challenges these present for the council in the coming years.
20. In order to meet these challenges and so that necessary capacity can be provided for priority services, it has been determined the council will have to deliver £23.4m in savings over the next two years (£10.7m in 2014/15 and £12.7m in 2015/16 respectively).
21. The third finance and performance monitoring report elsewhere on this agenda identifies that whilst there are currently a number of pressures in 2013/14, it is expected that the council will outturn within the approved budget by the end of the financial year.
22. Against this developing background, work has been ongoing for many months to develop the budget, and to identify savings to meet the £23.4m target. During this process, proposals for 2014/15 that were identified this time last year have been assessed and various assumptions have continued to be refined. At the same time, proposals for 2015/16 that will be delivered by efficiency, prioritisation and the Rewiring Public Services programme have also been formed. Proper assessment has taken place in terms of the need to invest additional funds in some areas, to be clear about unavoidable costs and to create a budget that very much recognises the need to be both prudent and create capacity to deliver. These issues are covered further in this report.

Principles that have shaped the budget

23. At a time of significant reductions in grants and rising demand it is absolutely essential to set a prudent, stable and achievable budget. The

council has again set out a two year budget which will enable longer term investments and savings to be developed and implemented, providing a stable, sustainable financial basis for the delivery of services to customers. Whilst year 2 (2015/16) will need to be revisited in light of any potential change in assumptions, the 2 year budget set out is fully balanced based upon known factors and a prudent approach to assumptions regarding potential additional costs.

24. This budget round has been extremely challenging, following on from the delivery of nearly £41m savings over the last three years. As well as responding to a momentous shift in expenditure and major reductions in government funding, the Delivering for the People of York report, presented to Cabinet in October 2013, set out a new direction of travel in terms of how the council will provide its services in the future, in particular in response to the findings of the Peer Review and Big York and Staff surveys conducted during 2013. The key theme of the report was to outline steps the council will take to enable itself, residents and communities to work together as equal partners to meet their future needs and priorities.
25. In terms of the Financial Strategy, the report highlighted strengths in the council's approach to meeting financial challenges, but suggested two key points that would better equip the council to meet future challenges:
 - i) There should be better alignment of budgets with council priorities by shifting emphasis from broad reductions across all areas of spend.
 - ii) Increased demand alongside a reducing funding base necessitates a more transformational approach.
26. Therefore the budget strategy for 2015/16 and beyond sets out plans for a three strand process comprising:
 - i) Council Wide Efficiency: general reductions across all areas aimed at continual cost reductions, increased income, and with a focus on avoiding front line reductions.
 - ii) Prioritisation: expenditure reductions based upon the overall assessment of the service relative to the council's key priorities, and the changing nature of service delivery. This recognises that in many areas service provision will have to reduce significantly, in light of the financial challenges facing the council.
 - iii) Rewiring Public Services: to ensure that priority services are fit for the future and meet the current and future needs of residents. The

focus will be on delivery of services in a fundamentally different way.

27. A further recommendation of the Delivering for the People of York report was to improve resident engagement, including broadening the approach to consultation on the budget. From November 2013, the council conducted events in all wards, a number of supermarkets, online, at West Offices and with the York CVS (Council for Voluntary Services). The views of over 1,800 people were received on a number of themes such as things that the council could do better, and which services were seen as priorities for residents.
28. The key messages from the events were that the council:
 - i) should concentrate on its statutory duties,
 - ii) can't afford to be the very best at everything, given its low funding base,
 - iii) needs to be clearer about what help it needs from the city to deliver services.
29. This reinforces the issue that the council has to date largely protected its services. In the future, the council will face the much tougher decisions, like others have already made, as our funding continues to be reduced.
30. The events also highlighted that services related to health, social care and education and skills were of the highest priority with clean streets, well maintained footpaths and transport to and from work just behind. Of lower priority were services such as leisure and those surrounding the visitor economy, where residents felt they should come first.
31. These views have been used to help shape the prioritisation strand of the 2015/16 proposals, and more details on all of the consultation events can be found in annex 8.
32. In terms of investment, the council spends a significant amount of its budget on protecting vulnerable people through its social care services. In 2013/14, the gross cost of adult care was £75.1m compared to total council tax income of £69.7m. This budget proposes specific additional growth in adult social care of £2.5m in 2014/15. We have placed vulnerable people at the heart of our thinking in considering what savings can be made over the two years and that is why these care services will not be subjected to prioritised reductions in 2015/16. This does not mean that there will be no impact – such significant budget reductions will inevitably affect all services and all residents to some extent.

However, we have taken long term approaches to the development of future services that will ensure we can still respond to the needs of the most vulnerable members of our communities now and in future. We are already focussing on prevention and early intervention to prevent escalation of needs and costs for adults and children.

33. In these challenging times, protecting the needs of the most vulnerable people in York requires us to make difficult decisions and balance a range of competing needs.
34. In recent years the council has significantly reduced its senior management, and transformed its core back office functions. These have saved some £12m. Further savings will be made in coming years, but the scale of reductions are such that the majority of savings have to fall in other areas.
35. Alongside the revenue budget, set out in the separate capital strategy report are proposals for further major investment in a variety of schemes. These continue the councils approach to prioritise investment in the economy, housing, transport, and to invest to save. In addition, the council is making a significant investment in ICT, recognising that the need for high quality technology will be crucial to delivering services in the most effective manner in the future, particularly in relation to Adult/Children's Services and Customer Services.

Budget analysis

36. The budget setting process has taken into account the following issues, (which are considered in more detail in following paragraphs);
 - i. Consideration of the 2013/14 position.
 - ii. A review of the original 2014/15 assumptions set out in the report to Cabinet in February 2013.
 - iii. Consideration of reductions in grant funding.
 - iv. Consideration of unavoidable cost increases, priority areas, how to create the capacity in priority areas and creating the capacity to allow for service improvement and innovation.
 - v. Consideration of proposals to balance the budget in 2015/16 including efficiencies, prioritisation and Rewiring Public Services.

- vi. Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the Director of CBSS as s151 officer.
- vii. Ensuring there is a strong link between the capital and revenue budgets and that the delivery of priorities fully considers the two budgets hand in hand.

2013/14 position

- 37. As outlined earlier in the report, and in a separate report elsewhere on this agenda, the latest finance and performance report identifies a range of budget pressures with the expectation that these will be contained within the approved budget by the end of the financial year.
- 38. The most significant pressures in 2013/14 have occurred due to increasing service demand for independent residential & nursing care and direct payments along with pressures on budgets related to children under the care of the council. A detailed analysis of these pressures has been conducted and additional resources have been allocated (as set out below) for areas where it was considered essential to invest.

Review of 2014/15 assumptions

- 39. The outline 2014/15 budget was set out in the report to Cabinet in February 2013. These assumptions have been reviewed and updated to reflect the latest information, overall funding position and progress of savings delivery. As a result of this review growth proposals and all savings have been assessed. Some savings proposals previously included in last years two year budget for 2014/15 have been removed and replaced by alternative proposals based on refreshed priorities. Members are reminded that this is consistent with the approach used in the last two budgets. Next year the 2015/16 proposals outlined in this report will be subject to the same process. The savings removed from the 2014/15 budget proposals, totalling £2,991k, are listed in annex 2a.
- 40. Annex 2b lists the new proposals that replace those removed in Annex 2a above. The proposals total £2,644k, £347k below those removed. This is due to refinements of other assumptions in balancing the budget.

Full year effects of previous council decisions

- 41. **Waste PFI project** - £750k in both 2014/15 and 2015/16 to create necessary budget capacity, as approved by Council in December 2010. There is a requirement to make this provision as part of the PFI scheme and the S151 officer has confirmed to the Government department the

Council has approved and is providing for this sum. Full financial close on the scheme has yet to be achieved, and a further report to members will be provided in the future to agree this.

Unavoidable cost increases, priority areas and creating capacity

42. The following paragraphs set out the areas where additional investment is being made;
43. **Pay and pensions costs** - £1,270k is included for pay costs in 2014/15. An assumption of 1% has been made for a pay award in 2014, which reflects the current anticipated national pay award. Capacity is also created to provide recurring funding for the Living Wage for permanent and casual employees. A further £520k in 2014/15 is included to cover increased pension costs following the recent triennial valuation of the pension fund.
44. **Treasury management and capital costs** - £1,054k in 2014/15 which includes the revenue costs of the current approved capital programme, plus any implications from the separate capital budget report elsewhere on the agenda.
45. As highlighted earlier in this report, **existing areas of service delivery** have also been assessed and areas identified where there is a need for additional investment to deliver council priorities, to ensure budgets are prudent and to protect vulnerable people. The specific allocations are as follows;
 - Adult social care **£2,500k** – following the same level of investment last year, demand for services continues to grow as the elderly population increases and high complex needs are experienced and so further investment is required for 2014/15. The service has implemented a range of cost control measures which seek to mitigate the increased costs, however an alternative model is required to ensure the service is fit for purpose in the coming years and the Rewiring Public Services report elsewhere on this agenda set out plans for this from 2015/16.
 - Contractual price increases contingency **£200k** – set aside for unavoidable contractual price increases in 2014/15, such as energy costs and Concessionary Fares.
 - Commercial waste income **£100k** – in addition to investment of £100k in 2013/14, whilst the commercial waste service makes a significant surplus to the council, it does not meet its budgeted level.

This is largely due to an increasingly competitive market place compared to historic income levels. It is necessary therefore to reduce the level of budgeted income further in 2014/15.

- York Financial Assistance Scheme **£100k** – the council became responsible for crisis loans and grants, previously administered by the Department for Works and Pensions (DWP), from 1 April 2013. Some £300k in grant will be provided by DWP in 2014/15 and assumptions set out in last year's budget report where investment from CYC of £100k in both 2013/14 and 2014/15 was required to meet demand driven by changes to the welfare system still remains. It should be noted that in 2015/16 the Government grant will no longer be provided.
- Business Rates discounts **£50k** – to provide initial funding in 2014/15 (financed from business rates growth) for creating a business rates discount fund, which will be used to support economic growth. Further details were set out in the report considered by Cabinet on 7 January 2014.
- Strategic Transport Fund **£1,000k** – investment in 2015/16 for the West Yorkshire Plus fund. The details of the fund were reported to Cabinet in May 2013 and at present the council's contribution is assumed at around £450k to £500k per annum. As the first year's contribution (2014/15) is financed from the EIF, which is one off, there is a need to plan for two years of revenue growth into the base budget for 2015/16. The final figures in relation to this contribution may be subject to change, but it is considered prudent to fully allow for two years at this stage.
- Demographic pressures **£325k** – prudent assumption of demographic pressures that are likely arise over the coming year that would require investment from April 2015.

Ensuring a prudent budget

46. **Contingency fund (£200k)** – given the financial risks facing the council, in particular in relation to the wider economic situation, it is recommended that following investment in previous years, a further provision is made for the contingency in 2014/15 to ensure the councils financial stability.
47. **Increase in general reserves (£200k)** – linked to increasing the contingency, and again following investment in previous years, it is

recommended that provision is made to increase overall reserves in 2014/15. This will provide a sound financial platform for the authority, and ensure it continues to maintain its overall financial health and is able to deal with any unforeseen events effectively. The Director of CBSS has recommended a minimum level of reserves of £6.4m. Further details are provided in paragraph 79 of this report.

Expenditure Pressures Summary

48. The expenditure pressures described above are set out in the following table;

Expenditure Changes	2014/15 £'000	2015/16 £'000
Full year effects of previous council decisions		
- Waste PFI	750	750
Unavoidable cost increases, priority areas and creating capacity		
- Pay Costs	1,270	1,200
- Increases in Pension Fund Costs	520	550
- Funding the Capital Programme	1,054	1,200
- Adult Social Care	2,500	0
- York Financial Assistance Scheme	100	0
- Prices Contingency	200	200
- Commercial Waste	100	100
- Business Rates Discounts	50	50
- Strategic Transport Fund	0	1,000
- Demographic Pressures	0	325
Ensuring a prudent budget		
- Contingency fund	200	0
- General reserve contribution	200	0
Total Expenditure Changes	6,944	5,375

Table 1 – Summary of expenditure pressures

49. Members will recall that a Delivery and Innovation Fund (DIF) was created in the February 2012 budget. This funding was set at £1m in both 2012/13 and 2013/14. This fund will be maintained at the current

level in 2014/15. The table below sets out the budget amount, and approved commitments for the period 2013/14 to 2015/16.

Delivery & Innovation Fund	2013/14 £000's	2014/15 £000's	2015/16 £000's
Budget	1,000	1,000	1,000
Unspent from Previous Year	315	306	
Commitments	-1,009	-48	
Proposed Allocations (para 48)	0	-650	
Proposed Savings (para 49)	0	0	-500
Unallocated	306	608	500

Table 2 – DIF Summary

50. As part of this budget, two specific new proposals for use of the DIF are proposed, as set out below;

- Waterworld – £450k required in order to continue the operation of Waterworld in 2014/15 prior to the conclusion of the procurement of leisure facilities.
- Adult Care – £200k additional investment is required to support the Adult Care strand of the Rewiring Public Services programme. This is critical to ensuring the council can tackle its most significant financial risk effectively. The funding would be used to support development of joint working with other organisations and supporting the introduction of the better care fund.

51. Furthermore, the prioritisation proposals elsewhere in this report seek to reduce the value of the DIF by £500k in 2015/16.

Funding Changes

52. 2014/15 will be the second year under the new local government finance system, including the localisation of business rates. Formula Grant has been replaced by the SUFA which comprises of RSG and a business rates baseline.

53. The 2014/15 figures in Table 3 overleaf can be assumed to be final figures, however the final funding figures for 2015/16 will not be formally announced by the government until December 2014.

54. Table 3 shows the two main components that make up the council's net funding changes, that is, council tax and money provided by central government in the form SUFA. It is important to note that the funding

changes for year 2 are notional and have been determined by the Director of CBSS, as chief finance officer, for planning purposes. They include a forecast for changes in grant, council tax income, and retained business rates growth. It should be noted that the forecast for the loss in grant in 2015/16 is of the order of £8m. The precise assumptions will need to be revisited during the forthcoming financial year.

55. The first line of Table 3 shows the net £5.650m reduction in SUFA that the council will receive from central government as part of its continued programme of Local Government funding cuts, and is inclusive of a 2% RPI uplift in the business rates baseline. Unlike previous years where the reduction in grant has been complicated by the movement of specific grants into this funding baseline, this figure represents a straight comparison to the funding the council received in 2013/14.
56. The second line of Table 3 shows the additional funding available via council tax in 2014/15. The table shows that in applying the recommended 1.9% increase on the revised taxbase of 61,574.84, the council will receive additional income of £2.058m from council tax in 2014/15. The taxbase is calculated by the Director of CBSS each year and represents the total number of Band D equivalent properties in the city. In 2014/15, this has grown by approximately 630 properties due to a number of factors including new homes and changing patterns in the types of discounts taxpayers are able to apply for. Overall, each 1% increase in the Band D tax rate would provide an additional £700k in new income. It is for members to determine the overall council tax level, having due regard to all of the issues in relation to the council tax freeze grant and overall levels of council tax.
57. In summary, for 2014/15 the council has net reduced funding available of £3,592k compared to that received in 2013/14. Table 3 also shows a provisional funding reduction of £6,697k in 2015/16. This comprises the reduction of £8m in government grants as announced in the December 2013 settlement and notional increases from council tax and business rates funding.

	2014/15	2015/16
Funding Changes	£'000	£'000
- Net Reduction in SUFA	5,650	6,697
- Net Change in Council Tax	-2,058	
Net Funding Changes	3,592	6,697

Table 3 – Funding changes

58. Taking into account these funding changes and their impact on the council's net budget, table 4 summarises the funding available from council tax, business rates and government funding for 2014/15 and 2015/16 (provisional).

	2014/15 £'000	2015/16 (Provisional) £'000	Change £'000
Council Tax	71,768		
RSG	28,768	117,489	-6,697
Business Rates Baseline	23,650		
Net Budget	124,186	117,489	-6,697

Table 4 – Net budget composition for 2014/15 and 2015/16

Other Changes in Income

59. The outcomes of the June 2013 Spending Review also included announcements of a number of changes to specific grants the council will receive in 2014/15 and 2015/16. A further round of New Homes Bonus funding was announced in December 2013, totalling £559k per annum, the use of which will be considered during 2014. The most significant reduction will be applied to the Education Services Grant which funds central services provided to schools. A number of other grants including Benefits administration and Lead Local Flood authorities have also been affected. In total, these grants will be reduced by £507k in 2014/15 and £583k in 2015/16.
60. Figures for 2014/15 also include a prudent estimate of £300k retained income from the localisation of business rates. Members are reminded that of every pound of business rates growth, the council only keeps c.25.5p after shares have been paid to Central Government and the Leeds City Region business rates pool.

Savings and Income Generation

2014/15 and 2015/16 Efficiency Proposals

61. As well as the refinement of savings proposals for 2014/15 originally identified in February 2013, highlighted earlier in this report, and totalling £10,743k, directorates have identified over £3.3m in efficiencies to contribute towards the 2015/16 savings target. These proposals, outlined in annex 3, include increases in income, reductions in administration costs and removal of vacant posts. Table 5 overleaf summarises the savings to be delivered by each directorate.

62. The broad approach to efficiency in 2015/16 has been to set each directorate a target of 2%. However this has been revised in two particular cases to reflect the overall budget approach as follows;

- Customer and Business Support Services – reflecting that most of the services are not ones that are capable of significant disinvestment (i.e. they are required to support the effective running of the organisation) a higher efficiency target has been set out, reflecting general savings/income across all areas of the directorate.
- Health and Wellbeing – a significantly reduced target has been proposed, reflecting the scale of transformational savings the directorate needs to deliver.

Savings	2014/15 £'000	2015/16 £'000
- Children's Services, Education and Skills	-1,390	-485
- City and Environmental Services	-2,222	-547
- Communities and Neighbourhoods	-1,791	-658
- Customer and Business Support Services	-1,619	-1,109
- Health and Wellbeing	-2,801	-465
- Office of the Chief Executive	-170	-57
- Corporate Savings	-750	0
Total	-10,743	-3,321

Table 5 – 2014/15 Savings and 2015/16 Efficiency Proposals

Prioritisation

63. Prioritisation which will deliver over £3.8m of budget reductions in 2015/16. As stated earlier in this report, in response to the findings of the Delivering for the People of York report, this strand of the budget strategy will seek to reduce budgets in areas of spend which do not match the council's priorities. These savings will not be easy and will lead to a reduction in employees in some cases. Narrative on the principles behind prioritisations and a summary of the proposals for this strand can be found in annex 4. Table 6 below provides a summary of reductions by priority:

Prioritisation	2015/16 Saving £'000
- Create Jobs and Grow the Economy	-75

- Protect Vulnerable People	-448
- Build Stronger Communities	-780
- Get York Moving	-1,075
- Protect the Environment	-386
- Core Capabilities	-1,090
Total Prioritisation	-3,854

Table 6 – Prioritisation Reductions by Priority

Rewiring Public Services

64. The Rewiring Public Services programme report elsewhere on the agenda provides detail on how a number of key council services will deliver just under £5.5m in savings in 2015/16. Table 7 below summarises what each project aims to deliver.

	2015/16 £'000
Rewiring Public Services	
- Adult Care	-3,000
- Business Efficiency	-300
- Children's and Youth Services	-980
- Customer Services & Resident Engagement	-450
- Place Based Services	-750
Total Rewiring Public Services	-5,480

Table 7 – Rewiring Public Services Summary

65. Table 8 below summarises the total savings and income generation delivered; £10,743k in 2014/15 and £12,655k in 2015/16.

	2014/15 £'000	2015/16 £'000
Savings and Income Generation		
2014/15 Savings and 2015/16 Efficiency	-10,743	-3,321
Prioritisation	0	-3,854
Rewiring Public Services	0	-5,480
Total Savings and Income Generation	-10,743	-12,655

Table 8 – Savings and Income Generation Summary

Summary of Budget Changes

66. The following table shows the budget position after taking account of the expenditure and funding changes outlined in tables 1, 3 and 8.

Summary	2014/15 £'000	2015/16 £'000
Total expenditure pressures	6,944	5,375
Total net funding changes	3,592	6,697
Total changes in income	207	583
Total savings and income generation	-10,743	-12,655
Budget gap	0	0

Table 9 – Budget position summary

Fees and charges

67. Detailed proposals for any changes to fees and charges are attached at annex 5. The proposals have taken account of such factors as current retail price indices, possible impact on customer numbers, knowledge of business and current market conditions and benchmarking exercises. Any increased income from this review of charges is included within the overall list of savings attached at annex 3.

Council Tax and the Collection Fund

68. The existing components of the current (2013/14) band D council tax for a CYC resident are shown in Table 10 below. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council	1,143.81
North Yorkshire Police Authority	204.55
North Yorkshire Fire Authority	62.10
TOTAL	1,410.46

Table 10 - Make Up of 2013/14 Council Tax

69. As referred to earlier in this report, the recommendation made in these papers is that from April 2014 the CYC element of the council tax will increase by 1.9%, resulting in a band D council tax of £1,165.54. Table 11 overleaf shows the impact on each property band of the proposed 1.9% increase on the basic CYC element of the council tax.

	2013/14 Basic Tax by Band	2014/15 1.9% Increase	Annual Increase	Weekly Increase
Band	£'s	£'s	£'s	p's
A	£762.54	£777.03	£14.49	28p
B	£889.63	£906.53	£16.90	33p
C	£1,016.72	£1,036.04	£19.32	37p
D	£1,143.81	£1,165.54	£21.73	42p
E	£1,397.99	£1,424.55	£26.56	51p
F	£1,652.17	£1,683.56	£31.39	60p
G	£1,906.35	£1,942.57	£36.22	70p
H	£2,287.62	£2,331.08	£43.46	84p

Table 11 – Impacts of proposed 1.9% increase on CYC basic council tax

70. The collection fund is the ring-fenced account where all council tax is credited. This account can either be in surplus or deficit at the year-end, depending on whether the authority has managed to collect more or less than it originally anticipated and the growth in property numbers. This year, a prudent assumption has been made to not declare a surplus and therefore no income from this is included in the budget assumptions.

Precepts

71. In addition to the council tax to be charged by the City of York, the overall charge must include the precepts from the North Yorkshire Police, Fire Authority and parish councils. Due to the timing of this report these precepts are not yet available but will be included in the report which is considered by full Council on 27 February.

- The Police and Crime Commissioner will make their precept and Council Tax charge decision during February 2014.
- The Fire Authority will be meeting on 12 February 2014 to determine its precept and council tax charge.

72. Table 12 demonstrates both the cash and percentage increase in 2013/14 for these which resulted in a total band D council tax for a York property of £1,410.46.

	2012/13 Charge £	2013/14 Increase (£)	Increase (%)	Council Tax
CYC	1,122.48	21.33	1.9%	1,143.81
Police	204.55	0	0	204.55
Fire	62.10	0	0	62.10
Total	1,389.13	21.33	1.5%	1,410.46

Table 12 – Headline Council Tax Figures for City of York Area

73. There are 31 parish councils within the City of York Council area. 28 out of 31 of these have notified the council of their precepts for 2014/15. There are wide variations in the parish precepts from a number of freezes to an increase of 30% in the individual precepts. It should be noted that each parish has been protected by the effects of the localisation of support for council tax and will be provided with a small grant that the council will pass on to ensure no local council is worse off under the new scheme.

National Non Domestic Rates (NNDR)

74. In April 2013 the two NNDR multipliers were 47.1p in the pound for normal properties and 46.2p in the pound for smaller properties (based upon the total rateable values of all properties held by a single owner). It has been provisionally announced that in April 2014 the multipliers will increase to 48.2p (by 2.3%) and 47.1p (by 1.9%) respectively.
75. The council is projecting provisional business rates income in 2014/15 of £93.794m, as well as retained growth of £300k above its business rates baseline.

Leeds City Region (LCR) Pool

76. Members are reminded that at Cabinet on 8 January 2013, they approved that the decision to join the LCR business rates pool would be delegated to the Leader of the Council, on the advice of the Director of Customer & Business Support Services. The decision was made on the 15 January 2013 to join the pool following consideration of the other member authorities projected business rates collection. During the summer of 2013, the decision was made by the Leaders of all pool authorities to continue the pool in 2014/15.
77. Current projections show that a modest amount of growth in business rates across the LCR pool will be able to be invested in the LCR Infrastructure Fund. However, caution should be raised that DCLG and

CIPFA are still finalising aspects of the accounting arrangements for business rates, in particular with regard to the treatment of backdated rating appeals which may have a significant impact on any reported growth. Members will be provided with an update on the pool in future monitoring reports.

Reserves

78. Table 13 shows the position on the general fund reserve which, it is anticipated, will be £6.746m by the end of 2013/14. Reserves stood at £11.4m in 2008 and have reduced in recent years. The projected reserves at the end of 2013/14 are based on the assumption that Members agree no usage of reserves as part of the final recommendations to Council. It should be noted that the figures below also assume that there will be no requirement to fund an overspend against the 2013/14 budget and that the recommended increase of a £200k reserve contribution is agreed.

	2013/14 Projected Out-turn £'000	2014/15 Budget £'000
General Reserve at start of year	6,296	6,746
Reserve contribution in budget	450	650
General Reserve at end of year	6,746	7,396
Prudent minimum reserves	6,400	6,400
Headroom (+)/Shortfall (-) in Reserves	346	996

Table 13 – Projected General Reserves

79. In line with best practice, the council has undertaken a review of risks and known commitments in order to determine its minimum general reserve level. In considering this, it has been determined by the Director of CBSS that a level of £6.4m remains an appropriate figure. However in light of the risks facing the council, in particular the scale of future reductions on top of those already made, it is considered that headroom should be increased above the minimum level. This would then allow, if needed, a draw on reserves without the immediate breach of the minimum level. If reserves were maintained at minimum levels, any use would immediately require the restatement back to minimum in the following year. This report contains a recommended £200k increase in reserve contribution for 2014/15 which, should it be accepted, will create £996k of headroom above the minimum level. This will provide an

element of flexibility which is essential in ensuring prudent financial management.

Medium term planning

80. Looking ahead beyond 2015/16 is difficult to do with any great degree of accuracy at this stage. Whilst there is a general election in May 2015 which may bring with it changes in emphasis in public spending, the need to reduce the national deficit is likely to be a key priority for whoever is in power and in which case, funding reductions for local government are likely to continue for a number of years to come. Therefore, we do expect that there will continue to be further reductions in government grants, currently running at around £5-£7m per annum.
81. Other factors that will affect the council will include potential increased costs in elderly care, inflationary pressures (e.g. fuel), implications of the capital programme and further potential restrictions on council tax increases. Ultimately the scale of savings that will be required in the future are likely to centre on the scale of government funding reductions, alongside the extent to which spending pressures affect the council. What is clear however is that further savings will need to be found, as reductions in funding are almost inevitable whilst the country seeks to deal with its budget deficit. In broad terms, based upon current assumptions of public spending reductions, it is estimated that in the years 2016/17 through to 2018/19 a further £30m will need to be saved (see Figure 1 below).

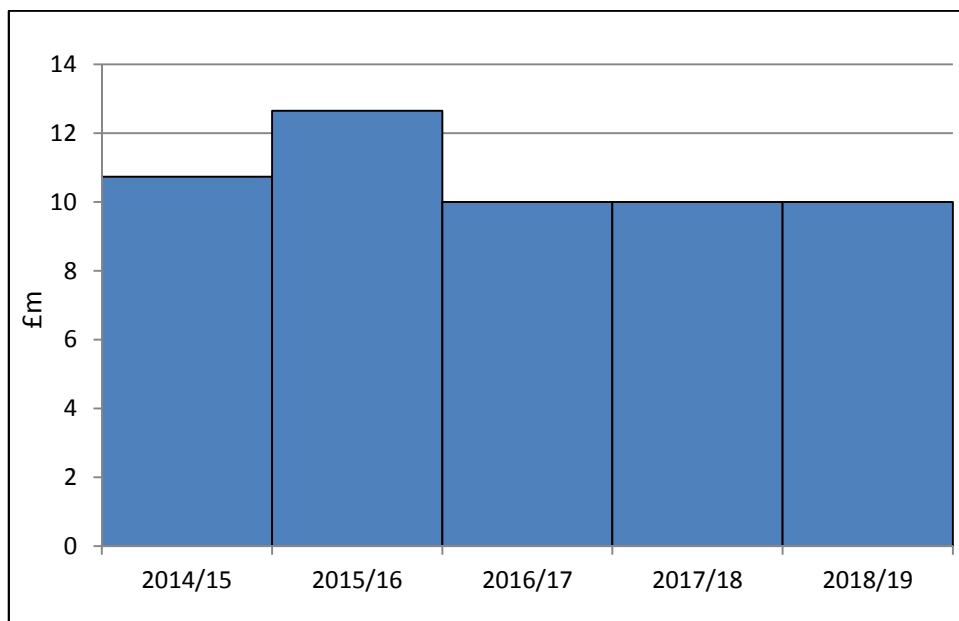


Figure 1 – Savings Requirement 2014/15 to 2018/19

82. Critical to the council's medium term planning has been the focus on economic growth, bringing in additional income and mitigating the costs associated with declining economic activity. This remains central and has shaped both the revenue budget, and in particular the capital strategy. Future financial strategies will need to continue to place economic growth at the forefront.

Housing Revenue Account (HRA)

Budget

83. Local Authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 stated that items of income and expenditure only relating to Council housing must be contained within the account. Thus the terms "ring fenced" or "landlord account" are now referred to, as transfers between the HRA and General Fund are normally prevented. Authorities have a duty to ensure that the HRA balances, to keep the budget under review and to take all reasonable steps to avoid a deficit.
84. The HRA budget at annex 6 results in an in-year surplus of £688k. Together with the budgeted brought forward working balance of £12,470k this leaves a working balance of £13,158k on the account. This balance is an improvement on that forecast in the HRA business plan and is committed towards the repayment of the debt allocation taken on through self-financing. The HRA business plan is currently being updated and will be brought to a future Cabinet meeting. This update will include a review of the underlying assumptions on which the business plan is based and of the overall working balance to ensure a prudent reserve is maintained on the account.

Rent Increase 2014/15

85. The rent increase is calculated following rent restructuring, which was introduced in April 2002, with the key aim of converging rents across all social housing providers whether local authority landlord or other registered provider. This involved a phased change in rents based on a formula for rent setting created by Central Government. This Government formula rent takes account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents are expected to converge. This process is known as rent restructuring and will mean that rents charged will move towards a Government set target rent. The Government expectation in the self financing settlement is that councils will continue

to follow rent restructuring policy and the settlement is based on future income levels assuming the policy is implemented as planned. The HRA business plan assumes that York will follow this policy and the expected effect on rent increases over the next 5 years is shown in table 14 below;

Year	Estimated Average Rent Increase (assuming RPI at 2.5%)	Estimated Average Rent Per week	Estimated Average Increase per week
2014/15	4.95%	£78.90	£3.72
2015/16	4.24%	£82.25	£3.35
2016/17	3%	£84.73	£2.48
2017/18	3%	£87.27	£2.54
2018/19	3%	£89.89	£2.62

Table 14 – HRA Rent Increases

86. The average rent increase for 2014/15, as shown in the table, will be 4.95%. This rent increase will be applied across council dwellings, hostels and Gypsy, Roma and Traveller Community sites.
87. It is proposed that in addition to the average rent increase to Gypsy, Roma and Traveller Community pitch rents a flat rate additional increase of £25 per week per pitch is also applied. This is to fund increased management of the sites.

Dedicated Schools Grant (DSG) and the schools budget

88. The DSG is ring-fenced for funding the provision of education for pupils in schools (maintained, PRUs, PVI nurseries or externally purchased places). As such it covers funding delegated to individual LA maintained schools, academies and PVI providers through the LMS & Early Years Funding Formula, plus funding for other pupil provision which is retained centrally by the LA (e.g. SEN, PRUs, Behaviour Support, Home & Hospital Tuition, School Contingencies etc.). It is distributed according to a formula that guarantees a minimum per pupil increase for each LA (0% in 2014/15).
89. The council itself cannot use the DSG for any purpose other than schools block funding, although with the permission of the York Education Partnership Board limited contributions are being made to the following areas:
 - Combined budgets supporting Every Child Matters objectives where

there is a clear educational benefit.

- Prudential Borrowing, where overall net savings to the Schools Budget have been demonstrated.
- Some SEN transport costs, again only where there is a net Schools Budget saving.

90. There are also strict limits (Central Expenditure Limits) on the amount of the DSG that the council can retain centrally to either fund pupil costs outside of mainstream schools, or use to provide targeted allocations during the financial year to maintained schools. The funding reform changes for 2014/15 have further tightened these regulations, significantly reducing flexibility.

91. To some degree the government has attempted to protect schools from the full effect of their spending reductions when compared to other parts of the public sector, and the remainder of local government services in particular. The key features of the Schools Settlement for 2014/15 are:

- Another one-year only settlement for 2014/15.
- Further changes to the system of allocating funding to schools and other providers for both mainstream and high needs pupils.
- A continued flat cash per pupil allocation for all of the LA's core school funding.
- Increased funding through the pupil premium for disadvantage.
- Increased funding for 2 year old nursery provision for disadvantaged pupils.

92. Annex 7 sets out further details of the budget proposals for the DSG and schools budgets.

Funding Available within the DSG

93. The funding available includes the estimated 2014/15 DSG allocation of £111,530k, the existing allocation of funding for post 16 pupils from the EFA of £5,174k, the estimated level of the pupil premium for York schools of £4,884k and reduced by an estimated £50k deficit balance carry forward of DSG from 2013/14.

Impact assessment of the 2014/16 budget proposals

94. The budget aims to tackle a variety of issues. Clearly it aims to be prudent and to set medium term plans which are set out in the report. However, a financial plan is also about how resources are allocated and what impact that allocation has upon a range of issues. The following sections explore the consultation feedback and the equalities impact.

Feedback from Consultation

95. An integral part of the development of the 2 year financial strategy has been to undertake enhanced and focused engagement with a diverse range of stakeholders, following on from the recommendations of the Delivering for the People of York report. This approach of discrete consultation streams delivering specific and relevant feedback on budget priorities has ensured that decisions on the strategy have been informed by the views of key groups across the community.
96. Annex 8 provides further detail on the different events and a summary of the feedback.
97. In accordance with constitutional practice Corporate Scrutiny Management Committee (CSMC) considered at its meeting on 13 January 2014 what level of budget it considered appropriate in the coming year to support scrutiny reviews. The Committee took into account existing levels of spend in 2013/14, some areas of likely spend in 2014/15 and the councils overall financial position. In the light of those considerations the Committee agreed to maintain the current funding level of £5k and not request any increase.

Equalities

98. A communities impact assessment (CIA) has been completed on the overall impact of the budget proposals and this is available at annex 11. This has been developed as a result of individual impact assessments for services which are undergoing changes. The impact assessment examines the benefits of recommended growth and considers risks associated with any savings proposals to ensure any negative impact for a particular group, sector or community is eliminated or counterbalanced. Where negative impacts have been identified, possible remedial actions have been shared with the relevant Cabinet member prior to the budget recommendations being finalised. Where a screening of the potential implications has identified it appropriate, a full CIA will be completed for individual proposals.

99. The risks will be dealt with through increasing expenditure in areas beneficial to all communities of interest, with growth of £2.5m being invested in adult social services in 2014/15.

100. Specific remedial actions to lessen the impact are outlined in the CIA. As overall remedial action the strategy will;

- Focus growth where it is expected to have a positive effect on older or disabled people and their carers.
- Protect those who have limited financial means.

Specialist Implications

101. This report has the following implications;

Financial

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

Human Resources (HR)

103. The council currently employs 3,300 non school staff. The budget proposals could result in the reduction of around 120 FTE posts in 2014/15. This is in line with previous indications of potential reductions. There are likely to be a similar number of post effected in 2015/16 with the specific implications becoming clear as the work on service reviews and transformation programme develops. The type of change affecting staff in 2015/16 is likely to be a mixture of post reductions and working for redesigned services, some of which may no longer be delivered by the council.

104. The HR implications of change is managed in accordance with established council procedures. As part of this process consultation with trade unions and affected staff will continue to be undertaken and every opportunity will be explored to mitigate compulsory redundancies, such as vacancy controls, flexible working, voluntary redundancy / early retirement and extended redeployment. Where consideration is being given to the transfer of services to another provider TUPE will apply which will protect the terms and conditions of employment of transferring staff.

105. A programme of support for staff who are going through change is planned which will help staff adapt to changes to the way they will need to work or to prepare for a move into a new role.

Legal

106. The Council is required to set a council tax for 2014/15 before 11 March 2014. It may not be set before all major precepts (i.e. precepts from the Police and Fire Authorities) have been issued or before 1st March 2013, 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.
107. 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.
108. 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.
109. 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.

110. 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.
111. 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.
112. 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.
113. 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 107 above.
114. 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.
115. The Government has exchanged 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. At the time of writing

this report, the Government have yet to announce the limit at which a referendum would be triggered. If the 1.9% increase proposed in this report exceeds the limit, and is carried by Council on the 27 February 2014, the council would need to hold a referendum on 22 May at the same time as the European Parliament elections. Subject to the result, the council would have to re-bill at the lower tax rate.

116. 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. 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.

Crime and Disorder

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

Information Technology (IT)

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

Property

119. There are no property implications to this report.

Other

120. There are no other implications to this report.

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

Introduction

121. 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 2014/15 and beyond), reserves and general robustness of the process.

Overall Assessment

122. The proposals in this budget give a balanced budget for 2014/15 and give consideration to the 2015/16 financial year and an overview of future years. The council has well established effective financial management, effective monitoring, and has received very favourable external audit reports in respect of its financial management. The council has managed expenditure within its overall budget in recent years, and the overall financial planning process remains sound. The consideration of a two year budget is in line with the council's prudent approach to long term financial planning.
123. Full scrutiny of the budget proposals for 2014/15 has taken place, in terms of their deliverability, and a proper risk assessment of a range of issues has been conducted.
124. 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 the 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. Where savings are not delivered, services are fully aware of the need to find compensating savings. In addition, proposals for 2015/16 will be subject to more detailed review during 2014.
125. 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 the impact of the capital programme, waste pfi (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. There is no planned use of reserves (which could present difficulties for

future years). In addition, there is funding through the Delivery and Innovation Fund which provides the capacity to assist in transformation and delivery of services, which will be crucial in responding to the financial challenges.

126. 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 2013/14 have been addressed through significant additional investment. In particular investment is provided for Adult Care. There is provision made for the expected 1% pay award.

Looking Ahead

127. Looking ahead there remains a range of very significant pressures for the future. It is almost certain that there will be 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.

128. 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

129. In terms of reserves, the proposals seek to make contributions to ensure reserves are 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.

130. I believe that the council will come in on budget for 2013/14 and this is reflected in the budget monitoring report presented to Cabinet at this same Cabinet meeting.

131. The recommended minimum reserves for 2014/15 are £6.4m. This is considered within the report. I strongly advise Council to ensure there is some headroom between minimum reserves and actual reserves. The budget proposals seek to achieve this.
132. 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

133. The government have yet to announce the percentage increase limit which will require any local authority who proposes a council tax increase above that to conduct a referendum. Last year, this level was set at 2%.
134. The government have also stated that they will continue with the system of Council Tax Freeze Grant in 2014/15, as they have done since 2011/12.
135. 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.
136. I also would highlight the separate capital strategy 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.
137. Last year I outlined that there were added risks to the budget due to the changes affecting the council regarding council tax support (previously

council tax benefits) and localisation of business rates. With regard to council tax support the risks include non collection, increased benefit claimants (with all the cost of such an increase falling on the council) and risks at a wider level in terms of the impact of wider benefit changes and associated knock on effects for council services. In respect of localisation of business rates, whilst this offers potential benefits, there are also risks. The details of the system still continue to be refined, and there remain a number of areas that concern local authorities. These include the fact that local authorities need to meet the cost of backdated appeals, which could be significant. In addition, clearly there are risks associated with any further downturn in the economy and especially the impact on some high street stores. Both of these issues highlight the direct financial impact on the council of the local economic situation, and the need for the council to ensure priority is given towards ensuring a successful economy.

138. 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.

Risk Management

139. A summary of risks attached to the budget is contained in annex 9. They will be monitored regularly throughout the year.

Recommendations

140. Members are asked to approve the average rent increase for 2014/15, as shown in table 14 and paragraphs 83 to 87, as 4.95%. This rent increase will be applied across council dwellings, hostels and Gypsy, Roma and Traveller Community sites. It is proposed that in addition to the average rent increase to Gypsy, Roma and Traveller Community pitch rents a flat rate additional increase of £25 per week per pitch is also applied. This is to fund increased management of the sites.

Reason: to ensure the ongoing financial stability of the HRA and allow work on improving the quality of the council's affordable housing to continue.

141. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2014/15. In doing so they should pay due regard to factors such as;

- Expenditure pressures facing the council as set out in the report
- Impacts of savings proposals set out in Annex 3 and 4
- Medium term financial factors facing the council as outlined in the report
- Projected levels of reserves as set out in the report
- Statutory advice from the Director of CBSS

142. In light of the considerations outlined in the paragraph above, members are asked to recommend to Council approval of the budget proposals as outlined in this report. In particular;

- The net revenue expenditure requirement of £124.186m
- A Council Tax requirement of £71.768m
- The revenue growth proposals as outlined in the body of the report
- The revenue savings proposals as outlined in Annex 3 and 4
- The fees and charges proposals as outlined in Annex 5
- The Housing Revenue Account budget set out in Annex 6
- The dedicated schools grant proposals outlined in Annex 7

Reason: To ensure a legally balanced budget is set

143. The effect of approving the income and expenditure proposals included in the recommendations would result in an increase in the City of York element of the council tax of 1.9%. It is intended that the total council tax increase including the parish, Police and Fire Authority precepts, will be agreed at the full council meeting on 27 February 2014.

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Report
Approved



Date 06 Feb 2014

Andrew Crookham
Principal Accountant

Specialist Implications Officer(s)

Legal – Andy Docherty
HR – Mark Bennett

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

All

For further information please contact the authors of the report

Background Papers:

Annexes:

- 1 – 2014/15 Budget Summary**
- 2a – 2014/15 Removed Savings**
- 2b – 2014/15 Replacement Savings**
- 3 – 2014/15 Saving and 2015/16 Efficiency Proposals**
- 4 – Prioritisation Context Paper and Proposals**
- 5 – Fees & Charges**
- 6 – HRA**
- 7 – DSG and Schools Budget**
- 8 – Budget Consultation Background**
- 9 – Risk Analysis**
- 10 – Background Information**
- 11 – Communities Impact Assessment**