

Report of the Executive Leader

Recommendations of the Executive on the Council's Capital Programme Budget for 2011/12 - 2015/16, the Financial Strategy 2011 - 2017, including the Council's Detailed Revenue Budget Proposals for 2011/12 and the Council's Treasury Management Strategy Statement and Prudential Indicators for 2011/12 - 2015/16

Purpose of Report

- 1 This report presents to Council for approval the recommendations of the Executive in respect of the Capital Programme Budget for the period 2011/12 to 2015/16, the Revenue Budget proposals for the 2011/12 Financial Year and the integrated Treasury Management Strategy Statement for the period 2011/12 to 2015/16. This report must be read in conjunction with the reports of the Director of Customer and Business Support Services presented to the Executive meeting on 15 February 2011, circulated to all Members on 4 February 2011.

Background

- 2 On 15 February 2011, the Executive met to consider the Revenue and Capital Budget recommendations contained in reports tabled by the Director of Customer and Business Support Services. The following reports were considered:
 - a Financial Strategy 2011-2017 including detailed revenue budget proposals for 2011/12
 - b Capital Programme Budget - 2011/12 to 2015/16
 - c Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16.
- 3 Members have previously received copies of these reports and may also refer to them by following the link on the Budget Council agenda.
- 4 A decision list from the Executive meeting, incorporating their recommendations to Council on the above reports, was published on 16 February 2011.

- 5 This report relates to the Executive's recommendations in respect of the Capital Programme Budget for 2011/12 to 2015/16, the revenue budget (Financial Strategy 2011- 2017) and the Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16. The recommendations in this regard are set out in paragraphs 15, 16, 17 and 18 below.

Executive Amendments to the Capital Budget Proposals

- 6 At their meeting on 15 February, the Executive recommended the inclusion of five additional schemes and the rescheduling of one in the capital programme, namely:
- £700k towards a building insulation programme in the HRA capital programme, including the fitting of double glazed windows, to commence in 2011/12
 - £1m in 2012/13 to be utilised in conjunction with the environment Agency for the provision of the Leeman Road flood defences
 - £50k p.a. from 2011/12 to 2015/16 for street lamppost replacement programme, additional to the £80k p.a. included in the LTP line
 - £100k p.a. from 2011/12 to 2015/16 to fund an energy generation project
 - £166k for 2011/12 for structural highways maintenance
 - reschedule the Yearsley Pool energy solution from 2011/12 to 2012/13
- 7 The effect of these changes on the programme is illustrated in Annex 1 to this report, which is a revised version of Annex B to the original report of the Director of Customer and Business Support Services.

Executive Amendments to the Revenue Budget Proposals

- 8 At their meeting on 15 February, the Executive agreed the following amendments to the Director of Customer and Business Support Services' recommendations on the budget presented in his report, the combined effect of which would be to maintain the net expenditure and keep a council tax freeze:
- reverse saving CSTS43 / SCTED04 Welcome to Yorkshire in the sum of £34k
 - reduce saving ACES12 review of young people's service from £200k to £100k
 - add growth of £40k for winter maintenance budget for ward committees
 - add growth of £98k for a jobs fighting fund
 - add growth totalling £29k for the revenue impact of new schemes introduced into the council's capital programme
 - reduce CORG04 - corporate contingency by £301k from £400k to £99k
 - provide funding of £657k from council reserves to fund one-off investment in highways maintenance

Consultation

- 9 The Council's budget has been widely consulted upon. Please refer to the relevant paragraphs in the reports of the Director of Customer and Business Support Services.

Options

- 10 Options open to Council are to approve the Executive's recommendations, or alternatively, to approve any amendments that may be moved by other Members of Council.

Corporate Priorities

- 11 The Council must set a balanced budget every year in order to manage its business and deliver its services effectively.

Specialist Implications

- 12 There are no known implications in relation to the following in terms of referring the Executive's recommendations to Council:

- Human Resources (HR)
- Equalities
- Legal
- Crime and Disorder
- Information Technology (IT)
- Property

- 13 Implications in respect of setting the budget are contained in the reports to Executive, which have been published and made available to all Members. Members' attention is drawn in particular to the legal advice and the statutory advice of the Section 151 Officer set out in the Financial Strategy report, which is reproduced verbatim below:

Legal

- a The Council is required to set a Council Tax for 2011/12 before 11 March 2011. It may not be set before all major precepts have been issued or before 1 March 2011, whichever is the earlier. This decision is reserved to Council and cannot be taken by the Executive or delegated to officers, although the Executive has to recommend a budget to the Council. These comments are intended to apply to both the Executive meeting and the subsequent Council meeting. Before setting the level of the tax, the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies and any amounts required to be transferred between funds. The tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the revenue account, and any other

expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.

- b In addition, following the implementation of the Local Government Act 2003, 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 is also obliged to report to the Council if in relation to the previous financial year it appears that a controlled reserve is or is likely to be inadequate. A controlled reserve is one where the Secretary of State has, by regulation, defined the appropriate minimum level of reserve. The s151 officer must report the reasons for that situation, and the action, if any, which he considers it would be appropriate to take to prevent such a situation arising in relation to the corresponding reserve for the financial year under consideration. No Regulations defining controlled reserves have been made.
- c 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. A failure to follow these principles would open the Council to judicial review.
- d 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.
- e 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.
- f 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.

- g 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 13b above.
- h 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, specified in the Local Government and Housing Act 1989. The law in relation to the council's borrowing has been changed by the Local Government Act 2003. The previous regime of capital controls was abolished and the Council is now required to set prudential indicators in line with capital investment plans that are prudent, affordable and sustainable.
- i In setting the council tax for the next financial year and in agreeing the council's budgetary requirements, the Council also needs to take into account the fact that the Government still has power to cap local authority budgets under the Local Government Act 1999. The government may either set a maximum amount for the budget in the forthcoming year or put an authority on notice to set a maximum budget in the next financial year. If the government proposes to cap the council, the council will be given a short period to put its case. If the cap is then confirmed in the current year, this could require the authority to revisit its budget decisions and would be likely to require rebilling of council tax.
- j 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 an Executive 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.
- k The importance of setting a balanced budget cannot be over emphasised. Members have a duty to consider this seriously and to endeavour to reach a decision which, if not in accordance with the advice of the s151 officer has at the very least taken his advice conscientiously into account. Members are also required to act reasonably and this duty extends to their conduct in

the meeting agreeing the Budget. Members should endeavour to agree a balanced budget and the level of council tax. The immediate consequence of the Council being unable to set a balanced budget would be that the council tax could not be set. 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. If the Council could not set a balanced budget by the statutory deadline then a report under section 114 would have to be issued. This would then act to prevent the Council entering any new agreements which may involve the incurring of expenditure until such time as the Council had met to consider the report.

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

- a 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
- b The proposals in this budget give a balanced budget for 2011/12 and give consideration to the financial years 2012/13 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. Full scrutiny of the budget proposals for 2011/12 has taken place and I believe that a proper risk assessment of a range of issues has been conducted.
- c 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.
- d 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. 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 2010/11 have been addressed through significant additional investment. There is an area of risk in that no provision is included in the budget for any pay award in 2011/12, and clearly if there was to be a pay award the council would need to address this issue. There are no proposals that significantly affect terms and conditions of staff, for whilst such negotiations are ongoing it is not considered proper or prudent to include such proposals prior to full discussion/consultations being undertaken.

- e 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.
- f 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. There is likely to be a need for reductions in the scope and level of services provided by all public sector organisations in coming years, and this needs to continue to be planned for at an early stage. 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.
- g In terms of reserves, there are no proposals contained within this report that use reserves. It is particularly important that there is continual review of reserves. The scale of pressures on the 2010/11 budget are placing a potential further call on reserves, though overall I believe that the council will come in on budget for 2010/11 and this is reflected in the budget monitoring report presented to Executive at this same Executive meeting. There remains a risk that I may need to advise Members of the need to consider increasing reserves at some point in the medium term dependent upon risks. The current recommended minimum reserves are £6,095k and assuming the current budget is achieved on budget, the estimated level of reserves at end of March is £6,752k. I strongly advise Council not to reduce levels of reserves below the minimum level, and consider that having some "headroom" in the minimum reserves would be advantageous.
- h 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.

- i The government have announced that they will again consider capping councils who they feel are raising council tax levels excessively. The capping criteria they use are based on budget growth and council tax increases. The government have set aside money to fund councils who set a zero council tax increase a sum equivalent to a 2.5% increase, but the budget growth capping criteria is still a threat. They do not publish the criteria they will use until after we will have set our budget.
- j Based upon the receipt of the council tax freeze grant I would advise that Members should be setting a nil council tax increase due to the financial benefits of this in relation to the Council Tax Freeze Grant. In reaching their final decision Members need to consider that if the council were capped it would bring with it reputational damage and potential costs of re-billing which are estimated at £170k.
- k 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.
- l 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.

Risk Management

- 14 The risk management issues relating to the budget setting process are contained in the reports of the Director of Customer and Business Support Services to the Executive, which have been published and made available to all Members.

Recommendations

Capital Budget

15 The Executive recommends that Council:

(i) agree to the revised capital programme of £175.318m, that reflects a net overall increase of £18.891m (as set out in the 'growth' column of Annex A **with the amendments totalling £2.616m set out in (d) and (e) below**). Key elements of this include;

a) the bids recommended in paragraph 114 (table 5) totalling £7.205m, **subject to the following amendment:**

- the timing of Yearsley Pool energy solution moved to 2012/13 from 2011/12 to permit thorough investigation of necessity and appropriate technology

b) the schemes funded from external resources in paragraph 122 (table 8) totalling £3.629m

c) the revised prudential borrowing profile for the IT development plan in paragraph 126 (table 9) totalling £3.750m that shows a decrease of £250k per annum in years 11/12 - 14/15 and an extension of the programme by £750k in 2015/16 containing specific schemes

d) the use of HRA balances to fund HRA capital schemes as set out in paragraph 130 (table 10) totalling £5.691m **subject to the following amendment;**

- the inclusion of £700k (including work at The Glebe) towards a building insulation programme, including the fitting of double glazed windows, to commence in 2011/12 to bring the increase in the HRA capital programme to £6.391m

e) **the inclusion of the following new/amended schemes totalling £1.916m with a revenue implication of £29k in 2011/12:**

- £1.000m in 2012/13 to be utilised in conjunction with the Environment Agency for the provision of the Leeman Road flood defences
- an additional £50k p.a.(to the £80k p. a. already included in the LTP line) allocation for the street lamppost replacement programme from 2011/12 to 2015/16, totalling £250k
- £100k p.a. from 2011/12 to 2015/16 to fund an energy generation project which will exploit modern technologies such as photovoltaic cells and which is aimed at providing an additional revenue stream, through the sale of energy, by utilising the availability of new "feed in" tariffs, totalling £500k
- an additional capital investment in structural highways of £166k for 2011/12.

ii) Note that the revenue implications of the above amendments in 2011/12 are £29k, to be reflected in the revenue budget proposals

- iii) note the overall funding position identified in the report, which highlights a current shortfall in resources over the next five years, which the Council will need to address through increased revenue contributions in the medium term;
- iv) approve the full restated programme as summarised in Annex A totalling £175.318m (£172.702m plus £2.616m amendments) up to 2015/16.

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

Revenue Budget

- 16 The Executive recommends that Council approve the budget proposals outlined in the report of the Director of Customer and Business Support Services and set out in detail within the financial strategy, in particular:

- (i) the net revenue expenditure requirement for 2011/12 of £125,728k (£123,900k after deducting the grant assistance to keep the council tax rise to zero), as set out in Annex 1;
- (ii) the housing revenue account proposals outlined in Annex 6;
- (iii) the dedicated schools grant proposals outlined in the report;
- (iv) the revenue growth proposals of £9,394k on-going for 2011/12, plus one-off growth of £442k, outlined in Annex 3, **subject to the following amendments**;

a) reduce growth proposals by £301k as follows:

- CORG04 - Corporate contingency reduce from £400k to £99k

b) include new growth proposals totalling £824k as follows:

- one-off investment in highways maintenance of £657k to be funded from reserves
- Winter maintenance budget for ward committees in the sum of £40k
- Jobs fighting fund in the sum of £98k
- Revenue impact of capital programme amendment for street lighting in the sum of £5k
- Revenue impact of capital programme amendment for photovoltaic scheme in the sum of £9k
- Revenue impact of capital programme amendment for highways maintenance in the sum of £15k

resulting in revised figures of £9,260k for ongoing growth in 2011/12, plus one-off growth of £1,099k.

- (v) the revenue savings proposals of £21,170k for 2011/12 outlined in Annex 4, **subject to the following amendments**;

a) reduce saving proposals by £100k as follows:

b) ACES12 - reduce saving for review of young people's service from £200k to £100k to help sustain the Urbie bus, skatepark and Duke of Edinburgh schemes

(vi) reject saving proposals totalling £34k as follows:

- CSTS43 / SCTED04 Welcome to Yorkshire in the sum of £34k resulting in a revised figure of £21,036k.

(vii) use of prior year collection fund surplus of £1,000k;

(viii) in terms of the Council's reserves, the use in 2011/12 of £657k from general reserves for highways maintenance.

(ix) Note the medium term financial strategy projections that indicate the need for savings/efficiencies in future years of £10m per annum,

REASON: In order to set a balanced budget, taking into account the priorities and considerations identified by the Executive.

17 The effect of approving the income and expenditure proposals included in the recommendations would result in a £zero (0%) increase in the City of York element of the council tax. 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 24 February 2011.

Treasury Management Strategy Statement and Prudential Indicators

18 The Executive recommends that Council approve:

- (i) The proposed Treasury Management Strategy for 2011/12 including the annual investment strategy and the minimum revenue provision policy statement;
- (ii) The Prudential Indicators for 2011/12 to 2015/16 (Annex A);
- (iii) The Specified and Non-specified investments schedule (Annex D);
- (iv) The Scheme of Delegation and the Role of the Section 151 Officer (Annex F)

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 16/02/11

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

All

For further information please contact the author of the report

Background Papers

Reports to the Executive meeting held on 15 February 2011 as follows:

- i) Report of Director of Customer and Business Support Services re Financial Strategy and Detailed Revenue Budget Proposals 2011/12
- ii) Report of Director of Customer and Business Support Services re Capital Programme Budget 2011/12 to 2015/16
- iii) Report of Director of Customer and Business Support Services re Treasury Management Strategy

Annexes

- 1 Revised Capital Programme 2011/12-2015/16, incorporating Executive's recommended changes to the programme (this is an amended version of Annex B to the original report of the Director of Customer and Business Support Services)