

Report of the Cabinet Member for Corporate Services

FINANCIAL STRATEGY 2013 - 2018

Summary and Background

1. This report presents the financial strategy 2013-2018, including detailed revenue budget proposals for 2013/14 and 2014/15, and asks Members to recommend to Council approval of the proposals. The financial strategy delivers a balanced budget over a 2 year period with savings proposals totalling £20m (equivalent to 16% of the net budget over 2 years) and a proposed council tax increase of 1.9% in 2013/14. There are separate reports on the agenda covering the capital budget and the treasury management strategy.
2. Key issues included in the proposals are as follows;
 - Revenue savings of £20m over the two years covering 2013/14 and 2014/15, which includes
 - i. £13.2m from service reviews, efficiency and procurement
 - ii. £1.3m from the full year effect of prior year savings
 - iii. £2.6m relating to service/budgetary reduction
 - iv. £0.3m of grant related savings
 - v. £2.5m from increases in income
 - Growth of £2.5m in adult social care for 2013/14, and planned further growth in 2014/15 of £2.5m to ensure continued priority investment in services to vulnerable people
 - Reduced formula grant funding of £3.9m in 2013/14 and estimated grant loss of around £5m in 2014/15

- Ensuring a financially prudent budget through funding for the contingency budget and a contribution to increase general reserves, building on proposals set out in February 2012
- 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
- A range of proposals in relation to alternative models of service delivery, working with other local authorities and developing new income streams
- A range of proposals that further consolidate services across the council and ensure efficiency opportunities from the move to West Offices
- Establishing additional ongoing revenue funding for the York Financial Assistance Scheme of £100k in 2013/14 and a planned further £100k in 2014/15
- A net revenue budget of £127.8m, which will be funded by:
 - i. Council tax income of £69.7m
 - ii. Government grant of £34.9m
 - iii. Retained Business Rates of £23.2m

National Context and Funding Issues

3. York has the 8th 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 7 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 £62.0m of savings covering the period 2010/11 to 2014/15.
 - and has therefore made a total of £78.4m of savings over the 8 years covering 2007/08 to 2014/15.
 - has since the CSR (2011/12 -2014/15) experienced government grant reductions of some £29m.
6. Given the Council's net budget over this same period (2007/08 to 2014/15) has been around £110-£120m, £78m in savings represents a massive shift in spending and priorities, evidenced by investment in excess of £14m in Adult Social Care over the same period.
 7. The provisional Local Government Finance settlement for 2013/14 was announced on 19 December 2012. This is the first settlement that reflects the changes enacted in the 2011 Localism Bill including the localisation of business rates and council tax support.
 8. The new funding system is predicated on a number of key themes:
 - i) The majority of the Local Government national expenditure control total comprises a **business rates aggregate** which equates to the anticipated amount of rates collected for a given year, and an additional amount of other government funding.
 - ii) The business rates aggregate is split in half, with 50% funding the localised rate retention scheme and the other 50% funding a new Revenue Support Grant (RSG).
 - iii) In order to transfer to the new system, each council is given a **start up funding assessment**, the equivalent of what they would have received under the old needs based Formula Grant system.
 - iv) This is split between a **baseline funding** level and an RSG allocation directly proportionate to the national split determined in ii).
 - v) An **individual business rates baseline** is also provided which equates to the council's proportionate share of the national total rates collected, after Government have taken their 50% share.
 - vi) Where a council's individual business rates baseline is less than their baseline funding, they will receive a **top up** payment to ensure they are not unfairly penalised.
 - vii) Where a council's individual business rates baseline is higher than their baseline funding level, they need to pay a **tariff**.

- viii) The Government wants to ensure that no local authority makes disproportionate gains so for any growth, the Government keep 50% and the remaining amount will be subject to a **levy** which will be paid into a central pot.
 - ix) The Government will establish a central pot collected from levies to fund **safety net** payments, should a local economic shock occur.
 - x) All business rates figures will be uplifted annually by RPI.
9. Taking this into account, the provisional settlement provided the council with a series of key figures for 2013/14:
- i) A start up funding assessment of £58.1m. This corresponds to a loss of £3.9m compared to the Formula Grant funding received in 2012/13 (10.3%).
 - ii) The start up funding assessment comprises of a £23.2m baseline funding level and a £34.9m Revenue Support Grant (RSG), a 40:60 split.
 - iii) An individual business rates baseline of £45.1m.
 - iv) This results in the council having to pay a tariff to Central Government of £21.9m.
 - v) As York is a tariff authority, a levy rate of 49% has been allocated on any new growth. This means that for every £1 of growth in the city, only 25.5p will be retained locally.
10. Initial figures released for 2014/15 suggest that the RSG allocation will reduce in between £5m and £6m, or a loss of 14-16%. Whilst no details were announced for any financial settlements beyond 2014/15, the clear indications are that the grant support to local authorities will continue to be reduced in coming years.
11. The figures announced for York were broadly in line with the forecasts made within the council's financial strategy.
12. This report presents a 2 year budget that is fully balanced. The formal budget setting for 2014/15 will take place in February 2014.
13. A previous report to Cabinet in July set out the financial challenges facing the council, along with an estimate that some £21m of savings would be required over the next 2 years in order to meet these challenges. Following refinement of some of the budget assumptions (e.g. pay award, future pressures) the revised savings requirement set out in this report totals £20m.

14. In relation to council tax, the Chancellor of the Exchequer has announced that central government will be offering local councils the opportunity to extend the council tax freeze in 2013/14. The Government has not confirmed whether this would be retained in the funding base in future years.
15. The offer pledges a 2 year grant which is equivalent to a 1% increase using the 2012/13 taxbase (c. £763k in York's case, which is worth closer to 1.1% using the new 2013/14 taxbase). If the freeze grant was to be accepted, this would increase the need to make further savings in 2013/14 by £537k as this report proposes a 1.9% increase in council tax. It should be noted that current RPI is 3% in December 2012. This grant will drop out in 2015/16 when the previous council tax freeze grant of £1.8m, accepted in 2011/12, will also drop out. We already therefore know that there will be a pressure in 2015/16 of £1.8m. If Council accepted the new freeze grant on offer, then when this grant drops out the pressure in 2015/16 would increase by £763k to £2.5m. Therefore, accepting the grant requires extra savings in 2013/14 of £537k (to get to a position which triggers the grant) and additional savings of £763k in 2015/16, thereby equating to a total additional savings requirement of £1.3m.
16. During December 2012, the Secretary of State for the Department of Communities & Local Government also announced that, as outlined in the Localism Bill, councils who propose council tax increases in excess of a provisional limit (this year 2%) will have to call a referendum to gain agreement to this increase, thus giving local taxpayers the opportunity to veto "excessive" council tax increases. Members are reminded that last years financial strategy, as reported to Cabinet in February 2012, highlighted that the financial plan assumed, for planning purposes, a council tax increase of 2% for 2013/14.

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 with increased benefit claims, in particular in relation to council tax benefit where all increased costs will have to be met by the Council under the new system of council tax benefits. 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. The Commission's final report was published in September 2012 and outlined a set of Fairness Principles in a report to Cabinet in November 2012. These principles reinforce the key priorities and core competencies and have already been adopted by the Council and many of its partners.
19. They include;
 - Make reducing income inequalities a core value in decision making, for example by paying a living wage.
 - Build 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.
 - Strive for excellence in York's organisations and the way they work together so that corporate social responsibility is the norm, services are delivered efficiently and effectively, and the city builds a reputation as a leader in tackling inequalities.
 - Empower and extend opportunities for disadvantaged groups and individuals.
 - Adopt a long term view and a preventative approach that acts now to prevent bigger problems in the future.
 - Take decisions and run services in an open and transparent manner, listening to and engaging with communities and customers, including the most disadvantaged.
 - Embed a creative and 'can do' culture that strives for new solutions and opportunities, even when there are difficult challenges and limited resources.
 - Exert influence outside York to address external factors that drive inequalities or restrict local action within the city.
 - Target investments and services to reduce inequalities and improve life chances in the most disadvantaged areas.
 - Promote and prioritise sustainable economic growth that maximises opportunities and benefits to all people, including the most disadvantaged (e.g. jobs, wages and wellbeing)
20. In addition, a report to December Cabinet set out the plans for implementing a Living Wage for all staff employed by the council from April 2013 along with a commitment to promote the Living Wage to all employers in the city. This means that the Council is leading the way in York and in the region in tackling in-work poverty and more than 500 individual members of staff will benefit.

21. During 2013/14 work will continue on embedding the expectations around a Living Wage in the Council's procurement activity. This is already part of the Procurement Strategy.

Financial Overview and Financial Forecast (MTFF)

22. A report to Cabinet in July 2012 outlined the potential need for the financial strategy to identify savings of around £21m across 2013/14 and 2014/15 on the assumption that the current programme of savings is delivered in 2012/13. The 3rd finance and performance monitoring report elsewhere on this agenda identifies that whilst there are currently a number of pressures in the budget, it is expected that the council will outturn within the approved budget by the end of the financial year.
23. Against this background work has been ongoing for many months to develop the budget, and to identify savings. During this process targets have been set for each directorate and various assumptions have continued to be refined. 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

24. At a time of significant reductions in grants 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 (2014/15) 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.
25. This budget round has been extremely challenging, following on from savings of £11m in 2012/13 and £21m in 2011/12. In fact, between 2010/11 and 2014/15 the Council will have delivered £62m of savings. To meet these challenges the council will ensure that the services we provide are cost effective and efficient, good quality and that they address the needs of the residents of York at a time when every pound spent must deliver real value. Of the £20m savings proposed, over £13m are coming from detailed service reviews, efficiency, and better procurement.

26. Following the results of the Big York Survey, where some 44% of residents agreed that the council should explore alternative ways of working. Included in the proposals are a number of examples of new and innovative ways of delivering services, such as:
- savings accruing from the shared internal audit company (Veritau),
 - a review of facilities management following the move into West Offices,
 - potential shared services in a number of areas,
 - the creation of an integrated Smarter York community delivery.
27. However with funding cuts of this magnitude it is not possible to meet all of this through efficiency and there still remain difficult decisions to be made. Many of the service reviews, whilst seeking to achieve efficiency, will potentially mean difficult choices in how services are delivered. This budget has been driven by the priorities set out in the Council Plan and in particular it sets out how we have sought to focus on the twin priorities of growing the economy and protecting vulnerable people.
28. The council spends a significant amount of its budget on protecting vulnerable people through our social care services. This budget proposes specific additional growth in adult social care of £5m over 2 years. We have placed vulnerable people at the heart of our thinking in considering what savings can be made. This does not mean that there will be no impact – such significant budget cuts 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.
29. In order to continue building our communities it is essential to work effectively with the voluntary and community sector (VCS) and though all council services and grants must deliver efficiencies and contribute to the savings targets, care has been taken to ensure that the budget reductions to the VCS are lower than the overall reduction in council budgets. Looking across all council spend with the VCS, overall budgets are being reduced by just 4% over two years compared to total council savings equivalent to 16% of the councils budget. Work is underway to ensure that this funding actively contributes to the delivery of the council's priorities.

30. 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. To protect services for children, for older people, and for disabled people, we need to generate income wherever it is appropriate to do so.
31. 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.

Budget analysis

32. The budget setting process has taken into account the following issues, (which are considered in more detail in following paragraphs);
 - i. Consideration of the 2012/13 position.
 - ii. A review of the original 2013/14 assumptions set out in the report to Cabinet in February 2012.
 - iii. Consideration of reductions in grant.
 - 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. Ensuring that the budget is robust and prudent and is based upon the strategic financial advice of the Director CBSS as s151 officer.
 - vi. 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.

2012/13 position

33. 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.
34. The most significant pressures in 2012/13 have occurred due to increasing service demand for independent residential & nursing care and direct payments along with an increase above forecasts in the number of 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 2013/14 assumptions

35. The outline 2013/14 budget was set out in the report to Cabinet in February 2012. 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 have been reviewed, alongside a detailed review of all savings. Some savings proposals previously included in last years two year budget for 2013/14 have been removed and replaced by alternative proposals based on refreshed priorities. Members are reminded that this is consistent with the approach outlined last year at this time whereby the 2013/14 proposals included in the 2 year budget were always subject to a more detailed review during the year. It should be noted that the proposals set out below represent only 15% of the total savings that were identified in February 2012. Next year the 2014/15 proposals outlined in this report will be subject to the same process. The savings removed from the 2013/14 budget proposals, totalling £1,312k, are listed in the following table;

D'rate	Proposal Description	Reason for Removal	2013/14 Impact
ACE	Small Day Services Review	Full saving deliverable from 2014/15	42
ACE	Learning Disability Services - LATC	Full saving deliverable from 2014/15	50
ACE	Older People - LATC	Full saving deliverable from 2014/15	50
ACE	Direct Payments	Level of duplicated services significantly lower than originally estimated	100
CANS /CES	Supplies & Services	Savings incorporated into specific service reviews	100
CANS /CES	General - Management Staffing Target	Review has commenced and savings to be delivered in 2014/15.	240
CANS /CES	General - Further Staffing Target	Savings incorporated into specific service reviews	150

CANS	Parks & Open Spaces - Tree Maintenance	Savings incorporated into Smarter York savings	10
CANS	Housing Services - Debt Advice	Following reforms of benefits system this saving was deemed inappropriate at this stage	35
CES	Market Testing - Waste, Civils and Fleet	The services are undergoing reforms through the Directorate Restructure. Market testing is to be considered at a later date.	270
CES	Planning Fees	The Government didn't fully deregulate Planning Fees meaning the income target is not achievable.	150
CES	Design & Conservation	Assumed savings have been rolled into the Directorate Service Review	90
CES	External Income - Specialist Services	Assumed savings have been rolled into the Directorate Service Review	25
Total			1,312

Table 1: Savings removed from 2013/14

36. The following table shows new proposals that replace those removed in Table 1 above. The proposals total £1,379k, some £67k above those removed. This is due to refinements of other assumptions in balancing the budget.

Adults, Children & Education

XD02a	Efficiency Savings - Adult Services Further savings from 2% efficiency targets set to all services not already subject to a major review.	-100
XD02b	Efficiency Savings - Children's Services Further savings from 2% efficiency targets set to all services not already subject to a major review.	-142

Communities & Neighbourhoods

CANS0 3/04/05	<p>Smarter York</p> <p>The savings agreed as part of the 2013/14 saving for Smarter York have been stretched by £38k in 2013/14. This will be achieved by creating an integrated Smarter York Community Delivery, reviewing specification for grass cutting (including reducing double taxation liability) and income from enforcement.</p>	-38
CANS0 6	<p>Parks & Open Spaces</p> <p>Integrate Parks and Neighbourhood Pride Service gardeners to carry out maintenance at all locations by using mobile teams (£170k). Cease weekend working and locking / unlocking of parks (£74k). Saving to be delivered over 2013/14 and 2014/15.</p>	-122
CANS1 0	<p>Street Cleansing</p> <p>Reduce from 4 street sweeping machines to 3 and remove current vacant post.</p>	-48
CANS0 2/16	<p>Culture, Events and Festivals</p> <p>Savings target for implementation of new partnership structures</p>	-20
CANS0 9	<p>Allotments</p> <p>Halve the subsidy by increasing rents over and above inflation and passing business support responsibilities to allotment secretaries.</p>	-10
CANS1 7	<p>Library Services</p> <p>Further target set for introducing savings across library services through a social enterprise. The level of savings that are deliverable will be established through the business plan of the social enterprise. This level of cut is likely to involve a reduction in service levels.</p>	-50
CANS1 11	<p>Public Protection</p> <p>Review of Regulatory Services staffing restructure to reduce management capacity across the service areas.</p>	-50
CANS1 12	<p>Housing Services</p> <p>Review of discretionary services and efficiency savings as a result of changing working practices.</p>	-50
CANS1 2	<p>Community Centres</p> <p>Target for reducing council support to Community Centres.</p>	-40

CANS1 07	Public Protection - Trading Standards Saving arising from consolidation of Trading Standards /Licensing and Animal Health Enforcement	-8
CANS1 09	Public Protection - Environmental Protection Unit / Food Safety Review of staffing structure across Environmental Protection Unit and Food Safety Team.	-20
CANS1 10	Environmental Protection Unit Review of staffing levels for the maintenance of Air Quality Monitoring.	-11

Customer & Business Support Services

CSTS41 12	Review of Facilities Mgt/West Offices Covering a range of options including move to West Offices and Cleaning services. A single West offices budget is being created as part of the move, and through this consolidation efficiencies are anticipated. A full review of support needed to operate the building is being conducted and may include a range of external contracts for cleaning, security etc. Further opportunities to consolidate activity within West offices will be explored, eg single contracts for all supplies, We will also as part of a wider review of FM be considering the option of outsourcing of Cleaning services, and a range of other service reviews to deliver the required savings.	-80
CBSS33 14	Reduce Planning Committees from Three to Two Currently there is a Planning committee and two sub-planning committees, this proposal is for a reduction to two Planning committees enabling a reduction of one Special Responsibility Allowance. This proposed saving incorporates the removal of the provision of mini buses and pre-arranged transport to site visits.	-7
CBSS17 14	Electronic Information for Council Tax annual billing and e-billing This saving would be achieved by increasing the use of e-billing and including council tax leaflet information on the Council's web site, thereby reducing printing and postage costs.	-54

City & Environmental Services

CES00a	Directorate Senior Management Review Comprehensive review of senior manager levels across CES Directorate leading to a reduction in a number of senior management roles.	-95
CES00b	Directorate Staffing Review Major restructure across the Directorate resulting in deleting / reducing the number of posts as well as funding posts from alternative income streams.	-167
CES01	Quality Bus Contract Reduce budget to reflect emphasis on partnership approach over next two years, Better Bus Area Fund funding and increase operators expenditure via Quality Bus Partnership.	-26
CES05a	Taxi Card Reduce budget to reflect actual level of usage	-60
CES10	Bus Shelter Advertising Expand bus shelter advertising contract to radial routes	-5
CES11	Traffic Systems Re-procurement of maintenance services for real time information and UTMC on street equipment	-10
CES13	Traffic Systems Host other Local Authorities UTC and UTMC systems	-8
CES14	Traffic Systems Additional income potential from bus lane CCTV enforcement	-50
CES102	Planning Consultation Cease neighbour notification in relation to planning applications. Replace with site notices. Reduce postage costs.	-10
CES203	Waste Strategy Reduce in house capacity to support Waste Minimisation activities. Delete 0.8 vacant posts in 2013/14.	-18
CES206	Street Lighting Budget Revision to street light service and external contract	-60
CES207	Fleet Vehicle workshop income target	-20
Total		-1,379

Table 2: Replacement Savings for 2013/14

Full year effects of previous council decisions

37. **Waste PFI project** - £750k to create necessary budget capacity, as approved by Council in December 2010, and also to meet increased costs of landfill tax that are currently being incurred. 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.
38. **Full year effect of various growth items** - £70k, agreed in 2011/12, to build a permanent election budget over a period of four years (previously provided for on a one-off basis).

Unavoidable cost increases, priority areas and creating capacity

39. The following paragraphs set out the areas where additional investment is being made;
40. **Pay and increments** - £1,250k is included for contractual pay increments as the council's staffing budgets align to the recent pay and grading exercise. An assumption of 1% has been made for a pay award in 2013, which reflects the current anticipated national pay award.
41. **Treasury management and capital costs** - £720k which includes the revenue costs of the current approved capital programme, plus any implications from the separate capital budget report elsewhere on the agenda.
42. 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** – demand for services continues to grow as the elderly population increases and high complex needs are experienced. The service has implemented a range of cost control measures which seek to mitigate the increased costs, but over a two year period there is a need for a further £5m of growth to ensure that the budget properly represents estimated needs.

- Contractual price increases contingency **£250k** – set aside for unavoidable contractual price increases, such as energy costs and Concessionary Fares.
- Levies increases **£14k** - increase in levies from Internal Drainage Boards.
- Commercial waste Income **£100k** – although the commercial waste service makes a significant surplus to the council, it does not meet its budgeted level. This is partly due to the very competitive market place. It is necessary therefore to reduce the level of budgeted income.
- Funding of **£160k** to support the new interim contract arrangements for the Huntington Stadium Leisure Complex (Waterworld) as set out in the Community Stadium update report to Cabinet in November 2012.
- Tethered Horses **£40k** – funding required to deal with problems associated with horses being deliberately tethered on land without the landowners permission.
- York Financial Assistance Scheme **£100k** – the council becomes responsible for crisis loans and grants, previously administered by the Department for Works and Pensions (DWP), from 1 April. A report to cabinet in December set out the details and the council will receive over £300k funding from the government for this responsibility. It is however anticipated that demand for assistance will increase significantly due to the range of benefit changes being implemented in April 2013. The cabinet report set out proposal to rename the fund as York financial assistance scheme, and it is planned to top up the government grant by £100k in 13/14 and a further £100k in 14/15.

One-Off Proposals

43. The Council has received a further allocation of New Homes Bonus (NHB), which amounts to £603k. This is payable for a period of 6 years and is additional to the funding that is already allocated to the Economic Infrastructure Fund. It is proposed to use £1.206m of this funding in years 1 and 2, as follows:
- Adult social care - The budget proposed sets out investment in adult care of £5m over the next two years which will allow for the budget to represent an accurate assessment of likely spending pressures. However, whilst over the two year period £5m is considered to be

the necessary investment needed, in 2013/14 there is a need for further one off investment to deal with pressures. It is proposed to allocate £957k to this area in 2013/14 from this fund.

- Local Plan - It is also proposed to allocate the remaining 2 year amounts of the NHB fund towards meeting the costs of preparing the local plan, with the relevant amounts being £192k and £57k for 2013/14 and 2014/15 respectively, as set out in a report to Cabinet in October 2012.

44. It should be noted that NHB funding is received in the financial years 2013/14 and 2014/15. Clearly the proposals above set out spending in 2013/14 of £1,149k. This means that in 2013/14 there is an over commitment of funds of £546k, whilst in 2014/15 there is an under commitment of the same amount. To enable the planned spending profile, it will be necessary for the Director of CBSS to use an earmarked reserve (in this case the Insurance fund) to meet the shortfall in funding, and for this to then be repaid from NHB in 2014/15.

Ensuring a prudent budget

45. **Contingency fund (£200k)** – given the financial risks facing the council, in particular in relation to the wider economic situation, it is recommended that provision is made for a contingency and that this is increased in the medium term to ensure the councils financial stability.
46. **Increase in general reserves (£200k)** – linked to increasing the contingency, it is recommended that provision is made to increase overall reserves in the medium term. 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 at £6.4m, equating to 5% of the net budget. It should be noted that, due to a number of specific grants now being general grant and funding changes for council tax support, the net budget of the council has increased by some £5.5m. A figure of 5% is considered a prudent level of reserves and also reflects a need for a slightly higher overall cash value in that the council now has risks associated with the council tax support scheme. Further details are provided in paragraph 77 of this report.

Potential Investment in Sustainability and Fuel Poverty

47. As part of the Councils commitment to energy efficiency, renewable, and fuel poverty, a separate report will be included on the same Cabinet Agenda that considers how the Council can seek to attract additional

external funding, build partnerships to tackle fuel poverty, reduce carbon emissions, develop renewables and opportunities to link these to economic growth.

Expenditure Pressures Summary

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

Expenditure Changes	2013/14 £'000	2014/15 £'000
Full year effects of previous council decisions		
- Waste PFI	750	750
- Other previous Council decisions	70	70
Unavoidable cost increases, priority areas and creating capacity		
- Increments and pay costs	1,250	900
- Increase in pension fund costs	0	500
- Living Wage	0	250
- Treasury management & capital costs	720	1,300
- Adult Social Care	2,500	2,500
- Prices contingency	250	0
- Tethered Horses	40	0
- Waterworld	160	0
- Levies	14	0
- Social Fund	100	100
- Commercial Waste Income	100	100
Ensuring a prudent budget		
- Contingency fund	200	375
- General reserve contribution	200	350
Total Expenditure Changes	6,354	7,195

Table 3 – Summary of expenditure pressures

49. Members will recall that a Delivery and Innovation fund was created in the February 2012 budget. This funding was for £1m in 2012/13. This fund will be maintained at the current level. The table below sets out the budget amount, and approved commitments for the period 13/14 to 14/15.

	2013/14	2014/15
<u>Commitment</u>	£000's	£000's
Rail policy	8	8
Innovation catalyst programme	165	0
Access York Phase 2	50	0
Landlord accreditation Scheme	40	40
Total	263	48
Budget	1,000	1,000
Unallocated	737	952

Table 4 – DIF Commitments

Funding Changes

50. 2013/14 sees the introduction of a revised local government finance system. Formula Grant is replaced by a start up funding assessment which comprises of a revised Revenue Support Grant (RSG) and a business rates funding baseline. Full details of the changes were published in the January 2013 Cabinet report and are set out in paragraphs 8 to 10 above.
51. The 2013/14 figures in Table 5 below can be assumed to be final figures, however the final funding figures for 2014/15 will not be formally announced by the government until December 2013.
52. Table 5 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 of RSG and the start up funding assessment for the localisation of business rates. 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 2014/15 is of the order of £5-6m. The precise assumptions will need to be revisited during the forthcoming financial year.
53. The first line of Table 5 shows a net £3.908m reduction in the start up funding assessment the council will receive from central government as part of the programme of Local Government funding cuts, initially announced in December 2010 and confirmed in December 2012. It is shown net as a number of previous specific grants, such as the Early Intervention and Learning Disability & Health Reform grants, have been rolled into the base figure. The rolling in of grants serves to notionally increase the Council's net budget as they are now included in funding below the line, rather than matching expenditure above the line. The loss

is therefore presented as an equivalent to funding received in 2012/13. A significant proportion of the loss (£1.6m) is related to the a reduction in General Fund resource for the Early Intervention Grant, which funds services such as Children’s Centres.

54. The second line of Table 5 shows the additional funding available via council tax in 2013/14. The total projected yield from council tax is significantly less than in 2012/13 however this is a presentational change as a result of the abolition of council tax benefit and reflects the effects of the new local support scheme. Instead of receiving Benefit subsidy, the council will now receive grant funding as part of the start up funding assessment. The local support scheme, approved by Council in December, is cost neutral and therefore has no effect on the net funding of this budget.
55. The table shows that in applying the recommended 1.9% increase on the revised taxbase of 60,945.49, the council will receive additional income of £1.44m from council tax in 2013/14. 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.
56. In summary, for 2013/14 the council has net reduced funding available of £2.468m compared to 2012/13. Table 5 also shows a provisional funding reduction of £3.895m in 2014/15. This comprises a government funding reduction of £5-5.5m as announced in the December 2012 settlement and notional increases from council tax and business rates funding.

Funding Changes	2013/14 £'000	2014/15 £'000
Funding Changes in year		
- Net Reduction in Government Funding	3,908	3,895
- Net Change in Council Tax	(1,440)	
- Retained Business Rates above Baseline	0	
Net Funding Changes	2,468	3,895

Table 5 – Funding changes

57. Taking into account these funding changes and their impact on the council’s net budget, table 6 summarises the funding available from council tax, business rates and government funding for 2013/14 and 2014/15 (provisional).

	2013/14 £m	2014/15 (Provisional) £m	Change £m
Council Tax	69.710	123.883	-3.895
RSG	34.870		
Business Rates Baseline	23,198		
Net Budget	127.778	123.883	-3.895

Table 6 – Net budget composition for 2013/14 and 2014/15

58. The following table shows the budget position after taking account of the expenditure changes outlined earlier in this report and changed funding set out in tables 3 and 5.

Summary	2013/14 £'000	2014/15 £'000
Total expenditure pressures	6,354	7,195
Total expenditure reductions	-8,822	-11,090
Total net funding changes	2,468	3,895
Budget gap	0	0

Table 7 – Budget position summary

Savings and Income Generation

59. To meet the challenge of identifying around £20m of savings, work has been ongoing for many months. There have been fundamental reviews of all areas of activity, and all options for achieving increased income, better procurement, service reconfiguration, and alternative service delivery have been considered. Whilst the proposals include savings which seek to balance the budget for 2014/15 these are based upon a number of assumptions, some of which may need to be revisited.
60. Service reviews, better procurement and improved efficiency are contributing £13.2m. In some areas these will be relatively painless savings, which accrue through pure improved efficiency and savings on procurement. There are also a range of proposals for alternative service delivery models. In other areas there are major service reviews, either ongoing or which need to take place in 2013/14. It is recognised that in some cases these may require difficult choices to deliver savings.
61. Additional income is contributing some £2.5m. These include opportunities for new charging/trading, improved performance in income

collection following the consolidation of all income collection across the council, and a range of fees and charges increases.

62. Some £2.6m has been categorised as a direct service reduction. Given the difficult financial position, whilst all attempts have been made to seek to avoid such reductions, it has been necessary to prioritise some areas of service.
63. A further £1.3m and £342k is attributed to full year effects of previously agreed savings and changes in relation to grant funding respectively.
64. The following tables show the overview of savings for each directorate. Detailed proposals are contained in Annex 2.

Savings	2013/14 £'000	2014/15 £'000
Customer & Business Support Services	-1,196	-1,619
Communities & Neighbourhoods	-1,931	-2,191
Adults, Children & Education	-3,789	-4,013
Office of the Chief Executive	-115	-170
City & Environmental Services	-1,577	-2,347
Corporate savings	-214	-750
Net total of savings	-8,822	-11,090

Table 8a – savings proposals by directorate

Savings	2013/14 £'000	2014/15 £'000
Service Reviews, Efficiency and Procurement	-5,360	-7,838
Full Year Effect of Prior Year Savings	-1,125	-148
Service/Budgetary Reduction	-883	-1,695
Grant Related Savings	-256	-86
Increases in Income	-1,198	-1,323
Total savings	-8,822	-11,090

Table 8b – savings proposals by category

65. The proposed savings have been categorised into one of the above headings, reflecting the primary nature of the individual saving. It is recognised however that some savings may cut across more than one category and could be a mix of service reduction/efficiency. The analysis seeks to provide a broad overview of the nature of the total savings proposals.

Fees and charges

66. Detailed proposals for any changes to fees and charges are attached at annex 3. 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 2.

Council Tax and the Collection Fund

67. The existing components of the current (2012/13) band D council tax for a CYC resident are shown in the Table 9. It should be noted that these figures exclude parish precepts which are an additional charge in some areas.

	£
City of York Council	1,122.48
North Yorkshire Police Authority	204.55
North Yorkshire Fire Authority	62.10
TOTAL	1,389.13

Table 9 - Make Up of 2012/13 Council Tax

68. As referred to earlier in this report, the recommendation made in these papers is that from April 2013 the CYC element of the council tax will increase by 1.9%, resulting in a band D council tax of £1,143.81. Table 10 below shows the impact on each property band of the proposed 1.9% increase on the basic CYC element of the council tax.

	2012/13 Basic Tax by Band	2013/14 1.9% Increase	Annual Increase	Weekly Increase
Band	£'s	£'s	£'s	p's
A	£748.32	£762.54	£14.22	27p
B	£873.04	£889.63	£16.59	32p
C	£997.76	£1,016.72	£18.96	36p
D	£1,122.48	£1,143.81	£21.33	41p
E	£1,371.92	£1,397.99	£26.07	50p
F	£1,621.36	£1,652.17	£30.81	59p
G	£1,870.80	£1,906.35	£35.55	68p
H	£2,244.96	£2,287.62	£42.66	82p

Table 10 – Impacts of proposed 1.9% increase on CYC basic council tax

69. 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

70. 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 28 February.

- The Police and Crime Commissioner will make their precept and Council Tax charge decision during February 2013.
- The Fire Authority will be meeting on 13 February 2013 to determine its precept and council tax charge.

71. Table 11 demonstrates both the cash and percentage increase in 2012/13 for these which resulted in a total band D council tax for a York property of £1,389.13.

	2011/12 Charge £	2012/13 Increase (£)	Increase (%)	Council Tax
CYC	1,090.85	31.63	2.90	1,122.48
Police	204.55	0.00	0.00	204.55
Fire	62.10	0.00	0.00	62.10
Total	1,357.50	31.63	2.33	1,389.13

Table 11 - Headline Council Tax Figures for City of York Area

72. There are 31 parish councils within the City of York Council area. 29 out of 31 of these have notified the council of their precepts for 2013/14. There are wide variations in the parish precept increases from a reduction of 10.24% to an increase of 22.91% 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. The continuance of this beyond 2013/14 will require review during the year.

National Non Domestic Rates (NNDR)

73. In April 2012 the two NNDR multipliers were 45.8p in the pound for normal properties and 45.0p 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 2013 the multipliers will increase to 47.1p (by 2.7%) and 46.2p (by 2.6%) respectively.

74. The council is projecting provisional business rates income in 2013/14 of £92.578m.

Leeds City Region (LCR) Pool

75. 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 to join the pool following consideration of the other member authorities projected business rates collection.
76. In practice for every pound in growth that York will see in its business rates in 2013/14, 50p will go straight to the government as part of the central share, York will keep 25.5p as under the main system but rather than pay the 24.5p levy over to government, this will instead be paid into the LCR Infrastructure Fund to be spent on projects in the region. Members will be updated throughout 2013/14 on the progress of the pool.

Reserves

77. Table 12 shows the position on the general fund reserve which, it is anticipated, will be £6.296m by the end of 2012/13. Reserves stood at £11.4m in 2008 and have reduced in recent years. The projected reserves at the end of 2012/13 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 2012/13 budget and that the recommended increase of a £200k reserve contribution is agreed.

	2012/13 Projected Out-turn £'000	2013/14 Budget £'000
General Reserve at start of year	6,046	6,296
Reserve contribution in budget	250	450
General Reserve at end of year	6,296	6,746
Prudent minimum reserves	6,100	6,400
Headroom (+)/Shortfall (-) in Reserves	196	346

Table 12 - Projected General Reserves

78. 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 c.5% of the net budget, or £6.4m is an appropriate figure. It also reflects a need for a slightly higher overall cash value in that the Council now has risks associated with council tax support scheme. It should be noted the prudent level has increased this year due to the uplift in the base budget by some £5.5m as a result of the significant funding changes outlined earlier related to rolling in of grants. This report contains a recommended £200k increase in reserve contribution for 2013/14 which, should it be accepted, will create £346k of headroom above the minimum level. There is also a further contribution of £350k in 2014/15. This will provide an element of flexibility which the Chief Finance Officer consider essential in ensuring prudent financial management.

Medium term planning

79. Looking ahead beyond 2014/15 is difficult to do with any great degree of accuracy at this stage. There will be a further comprehensive spending review during 2013/14 and until the details of this become clear the overall implications for local government are difficult to assess. What we do expect is that there will continue to be further reductions in government grants. These are currently running at around £4-£5m per annum. Assuming this level of reduction would imply a reduction over a 5 year period of around £20-£25m in government funding.

80. 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 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.

Housing Revenue Account (HRA)

81. 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.

82. The HRA budget at annex 4 results in an in-year deficit of £1,527k. Together with the budgeted brought forward working balance of £12,126k this leaves a working balance of £10,599k on the account. This balance is broadly in line with that forecast in the HRA business plan and a report elsewhere on this agenda sets out further detail of the proposed investment strategy for the HRA. This will include a review of the overall working balance to ensure a prudent reserve is maintained on the account.
83. Planned investment includes £1m for loft conversions and £1.4m for insulation. Full details of the HRA capital investment is included in both the HRA business plan report and the capital report, both of which are also on this agenda.
84. 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. By 2015/16 existing actual rents will converge with their target rent for the majority of council dwellings. 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 the table below;

Year	Estimated Average Rent Increase (assuming RPI at 2.5%)	Estimated Average Rent Per week	Estimated Average Increase per week
2013/14	4.36%	£75.21	£3.14
2014/15	4.2%	£78.40	£3.19
2015/16	4.2%	£81.71	£3.31
2016/17	3%	£84.17	£2.46
2017/18	3%	£86.70	£2.53

Dedicated Schools Grant (DSG) and the schools budget

85. The DSG is ring-fenced for funding the provision of education for pupils in schools (maintained, pupil referral units (PRUs), private, voluntary and independent (PVI) nurseries or externally purchased places). As such it covers funding delegated to individual LA maintained schools 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 authority (0% in 2013/14).
86. 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 can be 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 can be demonstrated.
 - Some SEN transport costs, again only when there is a net schools budget saving.
87. There are also strict limits (central expenditure limits [CEL]) on the amount of the DSG that the council can retain centrally to either fund pupil costs outside mainstream schools, or to provide targeted allocations during the financial year to maintained schools. The funding reform changes for 2013/14 have further tightened these regulations significantly reducing flexibility.
88. Annex 5 sets out further details of the budget proposals for the DSG and schools budgets.

Funding Available within the DSG

89. The funding available includes the estimated 2012/13 DSG allocation of £109,558k, an early estimate of funding for post 16 pupils from the YPLA of £6,543k, the estimated level of the pupil premium for York schools of £3,708k and an estimated zero balance carry forward from 2012/13.

Balancing the Schools Budget

90. Annex 5 shows that there is a potential shortfall in the overall schools budget of £200k - £400k as a result of the change to post 16 SEN funding and further work may be required in conjunction with the YEP to produce a balanced Schools Budget for 2013/14 pending the outcome of discussions with the EFA on the level of resource to be transferred to the authority for post 16 SEN pupils.
91. This may result in a deficit Schools Budget having to be set for 2013/14 of up to £400k, and in this situation in year mitigating savings would be sought. Ultimately any remaining deficit would have to be carried forward to 2014/15 and dealt with as part of that year's budget setting process, most likely as a reduction in the amount of funding available for schools through the LMS Funding Formula. Cabinet will be provided with an update of the decisions and comments made by the York Education Partnership Board.

Impact assessment of the 2013/15 budget proposals

92. 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, sustainability and the equalities impact.

Feedback from Consultation

93. An integral part of the development of the 2 year financial strategy has been to undertake focused engagement with a diverse range of stakeholders, and to include new forms of engagement such as meeting the voluntary sector. 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.
94. The specific consultation streams undertaken as part of the development of this budget strategy were:-
- Meetings with representatives from the Voluntary Sector
 - Use of an on-line budget consultation tool – YouChoose
 - Meeting with Business Leaders from across the city
 - A meeting with the Youth Council

- Meeting with Equalities Advisory Group

95. Key elected members were present at most of the consultation sessions to hear the views directly from the participants.
96. In accordance with constitutional practice Scrutiny Management Committee (SMC) considered at its meeting on 14 January 2013 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 2012/13, some areas of likely spend in 2013/14 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.

Sustainability

97. The new Administrative Accommodation strategy which involves relocating to a new building will allow the council to rationalise numerous smaller buildings that are less energy efficient in a variety of ways compared to a single purpose building. The new office accommodation will be central to the council's strategy in meeting its carbon reduction.
98. The council is continuing to support the joint waste PFI project with North Yorkshire County Council.

Equalities

99. A communities impact assessment (CIA) has been completed on the overall impact of the budget proposals and this is available as a background paper. This has been developed as a result of individual impact assessments for services which are undergoing changes, and following consultation with equality communities of interest. 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. It does this by considering the information gathered at consultation and engagement events with equality communities of interest, including information and views gathered in events organised by the councils Equality Advisory Group. Where negative impacts have been identified, possible remedial actions have been shared with the relevant Cabinet member prior to the budget recommendations being finalised.

100. The risks will be dealt with through increasing expenditure in areas beneficial to all communities of interest, with growth of £5m being invested in adult social services over the next 2 years.

101. 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.
- Stipulate that where service provision is passed on to independent providers under contractual agreements, people from the most affected communities of interest receive the same level of service as before or better in many cases.

Specialist Implications

102. This report has the following implications;

Financial

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

Human Resources (HR)

104. In summary the budget proposals could result in the reduction of around 120 FTE posts in 2013/14 and potentially up to a further 122 FTE posts in 2014/15. Although this is in line with previous indications of potential reductions, there could be further implications as the service reviews develop. The HR implications will be 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 redundancies, such as flexible working, early retirement and finding suitable alternative employment for at risk staff. 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.

Legal

105. The Council is required to set a council tax for 2013/14 before 11 March 2013. It may not be set before all major precepts (ie 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.

106. 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.
107. 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.
108. 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.
109. 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.
110. 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.

111. 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.
112. 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.
113. 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.
114. The Government has removed the power to cap local authority budgets and replaced it with a system of local referendums where the Council has set an excessive Council tax increase. For 2013/14 an increase above 2% will be considered excessive.
115. Section 106 of the Local Government Finance Act 1992 makes it a criminal offence for any Member with arrears of council tax which have been outstanding for two months or more to attend any meeting at which a decision affecting the budget is to be made, unless the Member concerned declares at the outset of the meeting that he or she is in arrears and will not be voting on the decision for that reason. The Member concerned must not vote but may speak. If a Cabinet member

has arrears outstanding for two months or more, they are prevented from taking any part in such a decision. The application of Section 106 of the 1992 Act is very wide and Members should be aware that the responsibility for ensuring that they act within the law at all times rests solely with the individual Member concerned.

Crime and Disorder

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

Information Technology (IT)

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

Property

118. There are no property implications to this report.

Other

119. There are no other implications to this report.

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

Introduction

120. 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 2013/14 and beyond), reserves and general robustness of the process.

Overall Assessment

121. The proposals in this budget give a balanced budget for 2013/14 and give consideration to the financial years 2014/15 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 consideration of a two year budget is in line with the Council's prudent approach to long term financial planning.

122. Full scrutiny of the budget proposals for 2013/14 has taken place, in terms of their deliverability, and a proper risk assessment of a range of issues has been conducted.
123. 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 14/15 will be subject to more detailed review during 2013.
124. 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. 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.
125. 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 2012/13 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

126. 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.

127. 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

128. 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.

129. I believe that the council will come in on budget for 2012/13 and this is reflected in the budget monitoring report presented to Cabinet at this same Cabinet meeting.

130. The recommended minimum reserves for 2013/14 are £6.4m, an increase on the current level of £0.3m, reflecting the significant change in funding from specific grants to general grants and also the revised funding for council tax support. 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 do this.

131. 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

132. The government have announced that they will require any local authority who proposes to raise its council tax by 2% or more to conduct a referendum.
133. The government have also stated that they will continue with the system of Council Tax Freeze Grant in 2013/14, as they did in 2012/13.
134. 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.
135. 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.
136. There are added risks this year in relation 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 have only recently been confirmed, 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.

137. 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

138. A summary of risks attached to the budget is contained in Annex 6. They will be monitored regularly throughout the year.

Recommendations

139. Members are asked to approve the average rent increase of 4.36% as set out in paragraphs 81 to 84 of the report.

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.

140. Members are asked to consider the appropriate levels of council tax that they wish to see levied by the City of York Council for 2013/14. 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 2
- 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

141. 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 £127.778m
- The revenue growth proposals as outlined in the body of the report

- The revenue savings proposals as outlined in Annex 2
- The fees and charges proposals as outlined in Annex 3
- The Housing Revenue Account budget set out in Annex 4
- The dedicated schools grant proposals outlined in Annex 5

Reason: To ensure a legally balanced budget is set

142. 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 28 February 2013.

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Specialist Implications Officer(s) <i>Legal – Andy Docherty</i> <i>HR – Mark Bennett</i>			
Wards Affected: List wards or tick box to indicate all	All	<input checked="" type="checkbox"/>	

For further information please contact the author of the report

Background Papers:

2013/15 Budget Process, Cabinet, 17 July 2012

Local Government Finance Settlement Update, 8 January 2013

Communities of Interest Equality Impact Assessments

Annexes:

- 1 - Summary of budget**
- 2 - Savings**
- 3 - Fees & charges**
- 4 - HRA**
- 5 - DSG and schools budget**
- 6 - Risk analysis**
- 7 - Background Information**