

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

Financial Strategy Refresh

Purpose of report

1. This report provides an update to the Financial Strategy and an outline plan for the 2014/15 and 2015/16 budget process.

Introduction

2. The challenges facing all public sector organisations are very significant and these difficult financial times are certain to continue in coming years as the Government seeks to deliver upon its aspiration of reducing the public sector share of total GDP. At the time of writing, the details of the June spending review had only just been announced and it is clear that the funding position of local government will continue to present challenges. A 10% reduction in overall CLG funding was announced, which will likely result in a loss of £5m to £6m for York, which is broadly in line with what we expected and has been included in the tables throughout this report, however the full impact will not be known until the final settlement is announced in December of this year.
3. The Government has also announced that it will continue to provide support for councils to freeze council tax for a further 2 years at a rate equivalent to 1% and the referendum rules for councils that wish to increase council tax remain unchanged. A further new development is the announcement of a single pooled budget for health and social care services to facilitate closer working and deliver joined up services for older and disabled people. However, a great deal of uncertainty surrounds this aspect of the Spending Review announcement, not least as to whether it is actually additional funding and the potential impact on existing funding streams.
4. York has responded well to the challenges to date with strong financial management practices, strong financial planning, successful delivery of

efficiencies and a firm economic base when compared with many other local authorities.

5. However, to continue to deal with the challenges effectively will require the Council to consider further major decisions in terms of the provision of all Council Services. The scale of the challenge should not be underestimated, particularly given the scale of spending reductions made in recent years.

Key Priorities

6. It is imperative that the financial strategy supports the Council's priority objectives, as outlined in the Council Plan. In particular it should be the enabler to ensure the economic prosperity of the city and the provision of an effective and fair society which has sound public services. Key priority themes to drive the financial planning process forward are set out below:
 - Creating and growing a successful Economy for York.
 - Protecting Vulnerable Groups.
 - Ensuring that York residents receive effective provision of vital public services such as Housing and Transport.
 - Resilient Communities
7. The effects of a poorly performing economy and reliance upon government funding are seen very clearly across the country at present, where the impacts of public spending cuts are felt most severely in those areas most dependent on central government funding. The strong economic base in York means the Council has, relatively, less reliance upon central government grants, a stronger Council Tax base and lower financial pressures in respect of benefits and other interventions associated with areas of greater deprivation.
8. Delivering the Council priorities at a time of significant financial challenges, will require long term approaches to ensuring a sustainable local funding base, driving out efficiency and changing how services are delivered. It will however also require significant reductions in many areas of service delivery to ensure sufficient resources can be directed towards the key priority areas.

Funding Issues

9. The Council's key funding sources are Government grant (general and specific), Council tax, fees and charges, and potential in the future to grow business rates. There are many issues that will affect these areas, and these are considered briefly below:

- i) Local Business Rates – the change in business rates, introduced in April 2013, means that the Council retains around 25% of any additional business rates growth. There are a number of potential increases in coming years in respect of business rates, for example, the further development at Monks Cross. However, this is balanced against potential revaluations (the cost of which would fall on the Council) and also the closure of some high street stores in the last 12–18 months. The position regarding any growth in business rates will be considered in full as part of the Council’s budget process, noting that any increased income can only be released in to the General Fund in 2014/15 as it is operated through the Collection Fund. The Council has joined the Leeds City Region business rates pool in order to maximise opportunities to maximise economic growth over a larger geographic area and this results in a further 25% of any growth being retained in the region rather than being paid to central government. We don’t yet have any indication as to the potential scale of this growth and any resulting investment.
- ii) Council Tax currently accounts for £69.7m of the Council’s net budget. It is unavoidable that the overall contribution from Council Tax in coming years will impact on the overall level of reductions that will be required in Council services. In recent years the Government has sought to keep Council Tax levels frozen. The implication of this would be a declining council tax base that does not keep pace with inflation, which would inevitably mean more severe public spending reductions. York’s Council tax is still amongst the lowest of all unitary councils and is approximately 9% below the average for unitary councils (equivalent to some £7m). The medium term plan currently assumes (for Planning purposes only) increases in council tax of 1% over the next two years. This will be considered as part of the budget process.
- iii) Fees and Charges are levied on a range of services provided by the Council, and we receive significant income from our Assets. Exploiting new opportunities for generating income and providing high quality services which the customer is willing to pay for will be important in the future. This may require a more commercial approach to some of the Council’s fee charging services. It may also require capital investment to ensure facilities offer the highest standards and a fundamental review and an ongoing focus/prioritisation of the assets the Council holds.

Investment and Cost Pressures

10. Alongside consideration of resources and investment in its priorities, the Council needs to continue to focus upon achieving efficiency, innovation, exploring new ways of working and delivering key projects. The Delivery and Innovation Fund, established in the 2012-13 budget, provides resources to assist with new ways of working. In order to support the delivery of these efficiencies, the Council is continuing to invest in new technology. A key priority for coming years will be to maximise the efficiency of our whole Asset portfolio.
11. In addition, and as outlined earlier, a successful economy can result in significant financial benefits, both direct and indirect, to the Council. The Council created the Economic Infrastructure Fund to ensure major investment in economic projects. As part of the financial strategy, further consideration may need to be given in terms of ensuring the investment needed to retain and improve the economic prosperity of the City is provided. Related to this, the Council will need to consider any issues associated with the Leeds City Region, and in particular the West Yorkshire Transport Fund and the requirement for budget growth in this area.
12. Whilst the impact of public spending reductions is significant, the Council also faces growing demand for many services. In particular, the demographic trends in relation to adult care have and will continue to create significant financial pressure. It will be important to seek to constrain these growth pressures, otherwise the implications on other areas of service provision will be extreme.

An Effective Strategy

13. The importance of managing the different issues and challenges set out above cannot be overstated. This represents a huge challenge for the Council, especially as it comes on the back of major reductions in spending in recent years. However, it is a challenge that the Council has demonstrated an ability to deliver. We have delivered on £21m of efficiencies in 2011/12 and a further £11m in 2012/13. There is a clear Council plan in place and the Council's financial management is recognised as being highly effective. In addition, the framework of ensuring an effective organisation is in place, through the way in which we procure services, our ways of working, our investment in staff, and the investment in technology. There remain many areas where we can continue to develop and improve but this existing framework provides the platform for the Council to meet the ongoing challenges.

14. A successful strategy will ensure that:

- there is investment in the economic infrastructure to create sustainable long term economic growth,
- there is continued innovation and efficiency in how services are delivered,
- there is investment in the facilities it runs ensuring the highest standards for customers,
- the budget is prudent and makes proper provision for contingencies,
- there is a high degree of self reliance upon its own income sources – ensuring the highest level of local choice and decision making,
- there is an effective provision of public services ensuring a high quality of life and protecting vulnerable people, creating a city people choose to live and work in, and in turn providing the sources of funds to achieve this.

Medium Term Strategy

15. A two year budget covering the period 2013-14 (approved) and 2014-15 (agreed in principle) was approved by Council in February 2013. Table 1 highlighting the key aspects is shown below:

	2013/14	2014/15
<u>Expenditure</u>	£m	£m
Pay & Pensions	1.20	1.65
T. Management & Capital	0.72	1.30
Waste	0.75	0.75
Contingency & Reserves	0.40	0.73
Adult Social Care	2.50	2.50
Other Pressures	0.73	0.26
Total Expenditure	6.30	7.19
<u>Funding</u>		
Net funding changes	2.47	3.89
Savings Identified	-8.77	-11.08
Budget Gap	0.00	0.00

Table 1: February 2013 Approved Budget

16. The total amount of savings agreed in principle for 2014-15 was £11.08m and Table 3 shows the breakdown of the savings by directorate:

	2014/15
<u>Directorate</u>	£m
Adults, Children & Education	4.01
City & Environmental	2.34
Communities & Neighbourhoods	2.19
Customer & Business Support Services	1.62
Office of the Chief Executive	0.17
Corporate	0.75
Total	11.08

Table 3: 2014/15 Savings by Directorate

17. As in previous years, a review of these savings will be undertaken and where Directorates identify potential shortfalls in the delivery of savings, they will be expected to identify compensating savings. This review will be submitted to the Director of Customer and Business Support Services and updated on a regular basis as part of the budget process.
18. The two year plan for 2014/15 and 2015/16 is shown below. It is likely that the grant funding position will need to be reviewed following Government announcements in terms of both the scale of funding for local government, and means of distribution.

	2014/15	2015/16
	£m	£m
Expenditure Increases	7.13	3.39
Savings Approved	-11.08	0.00
Net funding changes	3.81	4.62
Net Position	-0.14	8.01
Additional Savings Required	0.00	8.01

Table 4: Summary position

Longer term issues

19. Looking beyond 2015/16 is extremely difficult, given that there are no available Government spending plans beyond this year. However, there is a significant likelihood that there will continue to be a “gap” between the expenditure pressures facing the Council and the overall level of funding (i.e. council tax, government grants and business rates). As such, there are likely to be further savings needed in future. If the current scale of reductions in government funding continue, then savings in the region of around £8m would be required, though these would very much be dependant upon the Council’s ability to constrain costs in Adult Social Care.

2014/15 and 2015/16 Budget Planning Process

20. The Council's budget process has successfully managed the significant financial challenges, and delivered significant investment into Council priorities such as Economic Development and Protecting Vulnerable People. As further financial challenges face the Council, it will be even more important that we are absolutely focused upon a priority based budget process. Work is in hand to develop this further, and to meet the real challenge of identifying non priority services (where greatest reductions will need to be found), to ensure continued investment for priorities. This is not an easy challenge, but is one that must be fully addressed if the Council is to meet the financial challenges it faces in the future. In addition, there will need to be a number of significant efficiency programmes, challenging the way services are delivered and ensuring the Council continues to innovate and drive out efficiency improvement in all areas.
21. Overall the budget process is considered to be working well and delivering a very sound budget. The setting of a two-year budget was seen as positive and this will continue. The following sections set out a summary of the process for the year coming year.

July 2013

22. A review of the 2014-15 savings will be undertaken and options for alternative savings identified where required. The outcome of this exercise will be reported to CMT and Members by early August and will feed into the first budget meetings.
23. Targets for meeting the 2015-16 savings requirement will be further reviewed and consideration given to potential efficiency opportunities and priority based budgeting. Proposals will be formulated over the summer.

October/November 2013

24. There will be a series of budget review meetings with Cabinet members during October and November 2013. These will consider 2014-15 savings, 2015-16 savings and any requirements for growth.

December 2013

25. Final proposals will be compiled, leading to the presentation of a 2 year budget to Council in February.

26. It should be noted that there will be continued engagement with Trade Unions via Directorate JCC's and the Corporate JCC and that the consultation and equalities processes are being refreshed.

Analysis

27. The analysis of the financial position of the council is included in the body of the report.

Consultation

28. None specific to this report, however, the overall process will involve consultation with a variety of groups and organisations.

Corporate Priorities

29. The information and issues included in this report demonstrate progress on achieving the priorities set out in the Council Plan (2011-15).

Implications

30. The implications are:
- Financial - the financial implications are dealt with in the body of the report.
 - Human Resources - the impact of delivering savings is having considerable implications in terms of managing the HR issues. The Council is seeking to manage the process of reducing staffing number as effectively as possible, through use of Voluntary Redundancy and working with the Trade Unions.
 - Equalities - there are no specific equality implications to this report, however equalities issues are accounted for at all stages of the financial planning and reporting process. Equality Impact Assessments will be completed for individual budget proposals and summary information will be available for the budget review meetings with Cabinet members during October and November. The individual EIAs will then be used to complete an overall assessment of the cumulative impact of the budget on all the communities of interest.

Risk Management

31. The risk management processes embedded across the council continue to contribute to managing the risk issues associated with major projects and key areas of service delivery.

Recommendations

32. Members are asked to:

- a. Agree to the refreshed Financial Strategy and the outline budget planning process for 2014-15 and 2015-16;

Reason: To ensure the Council meets future financial challenges and produces a sound, prudent budget for 2014-15 and 2015-16.

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			1/7/13
Wards Affected: <i>All</i>			
For further information please contact the authors of the report			

Annexes:

Annex A Outline Plan