

Report of the Head of Finance

Finance Strategy 2008/09 to 2010/11 and Policy Prospectus Response on the Future of a Fair Grant for York

Summary

1. This report presents to the Executive the council's draft Financial Strategy for 2008/09 to 2010/11. In doing so it covers both the council's financial position for the next three years (the Medium Term Financial Forecast or MTFF) and potential options for bridging the gap between the expected budgetary position and the funding available. It also attempts, for the first time, to formalise a number of financial policies relating to the council's financial management.
2. The report provides not only the MTFF but also details of the proposed methodology and timescales for addressing these pressures. It also outlines options in terms of saving target requirements for 2008/09 and enhancements to the usage of performance information and priority alignment in relation to the budget process.
3. As part of moves to address the funding gap the report explores the options available for moving to a more strategic approach to meeting future budget pressures and for delivering efficiency improvements across the council's services. Such processes will not only assist the budget process through releasing funding but will also enable a better deployment of resources to meet the ever present need to reprioritise the council's efforts. This process will be a key element in meeting the commitment to the priority for improvement "*Improve efficiency and reduce waste to free-up more resources*".
4. It should be noted that this year, more than ever, the degree of uncertainty in the MTFF is significant. This report was originally timed to coincide with the Government's 3 year Comprehensive Spending Review (CSR) figures which was originally due to be published in July 2007. This would have given us the national funding totals from which we could have estimated likely funding and would have been followed in the late autumn by York specific figures for the next 3 years. The Government has, however, delayed the CSR until early October and this causes significant forecasting problems. York cannot afford to wait for the CSR to start its budget process so we must work on the limited information that is available. On this basis the MTFF assumes that there will be no cash increase in the level of grant available. It should be noted that this

projection includes any additional funding provided nationally to support changes to the concessionary fares arrangements.

Background

The Underlying Financial Position

5. This is the council's third three year finance strategy. The first, which was approved by the Executive in July 2005, was the start of the process of developing a longer term approach to the management of the council's finances. The 2008/09 to 2010/11 strategy, which is attached as an annex to this report, builds upon the experience gained over the last two years.
6. The financial strategy is a key element of how the council plans for the future. To be truly effective it needs to map potential positive and negative impacts on the council's finances and, in so doing, identify the scale of the challenges facing the organisation.
7. Traditionally the financial strategy has looked to achieve this through the development of a detailed medium term financial forecast (MTFF) covering the next three financial years (in this instance the period 2008/09 to 2010/11). However, while this approach has enabled a clear focus on the scale of the problems that the council may face in the short term, it has a number of failings including:
 - An identification of a gross spending pressure requirement that includes not only the unavoidable or political imperatives, but also the aspirational aims of service managers. In some instances such aspirational growth has not been formally discussed with members and, due to funding shortfalls and the priorities of elected members, is often not supported as part of the final budget. To put this in context, in June 2006 the MTFF for 2007/08 to 2009/10 identified £7.3m of service reprioritisation pressures of which only £4.2m were met when the budget was finally set by Council in February of this year.
 - The delivery of a hard hitting MTFF can push the council towards crisis management of its finances. The MTFF consistently demonstrates a large gap between what the council can afford and what it must and would wish to do. Upon publication the focus falls on how the gap can be narrowed rather than a more considered analysis of the major financial issues facing the council and how these can be controlled, eliminated or mitigated.
8. To address these shortcomings the strategy for 2008/09 to 2010/11 has been rebuilt from first principles. Instead of providing a broad brush approach the analysis has instead been focussed on those key areas of strategic need or importance. To provide such focus the strategy does not go into the current aspirational needs of services but instead concentrates on those areas that the council must address before it can start to look at its developmental agenda. However, such aspirations and priorities will not be lost but will, instead, be dealt with during the budget process.

9. The MTFF shows that over the medium term, even with potential funding for council priorities and service improvements excluded, growth pressures will continue to outstrip the levels of funding available by nearly £10.5m. The figures in this table assume:
- A 2008/09 council tax increase of 5%
 - A 1% increase in the council tax property base
 - A cash freeze for the revenue support grant
 - No additional funding from reserves above that already committed (£627k in 2008/09, £584k in 2009/10 and £95k in 2010/11)
 - No contribution from the collection fund surplus (in 2007/08 the contribution was £850k)

	2008/09	2009/10	2010/11
	£'000	£'000	£'000
Unavoidable and Contractual Requirements	7,410	7,242	6,969
Potential Changes to national Government Policy	3,262	1,375	948
Prior Year Decisions	1,598	14	(442)
Demographic and Obsolescence Pressures	2,151	885	685
Reduction or Cessation of Grants to York	787	211	226
TOTAL ESSENTIAL PRESSURES	15,208	9,727	8,386
Funding Increase	(3,924)	(4,634)	(4,375)
Impact of Contingency	(800)	0	0
BUDGET GAP TO BE FUNDED	10,484	5,093	4,011

Table 1 – Projected Budget Gaps 2008/09 to 2010/11

10. Table 1 demonstrates that, even when support for council priorities and service aspirations are excluded, in 2008/09 the council faces spending pressures of just under £15.21m and that whilst the gap is forecast to reduce in 2009/10 and 2010/11, the residual gaps will remain a major challenge for the council, especially when the potential future growth in the impact of prior year decisions and legislative / national policy are factored in. It should be noted that this gap represents the level of saving which will have to be made for the council to merely stand still financially.
11. Figures have been obtained from all Directorates for the levels of council priority and service improvement pressures which they would wish to have met in 2008/09. However, due to the scale of the financial pressures facing the council, it will prove difficult for additional funding to be released to meet these needs. As such they are not being formally reported as part of the MTFF but the Executive may wish to note that such requests currently stand at £4.45m. Within this there are likely to be pressures that are viewed as unavoidable, albeit at different levels than those currently identified. These could include:
- Additional planning resources to manage the development of major schemes and the local development framework.
 - Dealing with income streams that are in decline or not achieving targets.

Addressing the Gap

12. The strategy identifies a number of ways in which the council can meet these financial pressures. These approaches have already been endorsed by CMT and include:
 - a. Controlling growth so that only the truly unavoidable is funded.
 - b. Critically evaluating directorate requests for the reprioritisation of resources so that the council's scarce resources are focussed in those areas that have the highest impact on our priorities.
 - c. Requiring all Assistant Directors to identify potential efficiency savings within their areas. For the purposes of this paper it is recommended that this target is set at 2.5% of gross expenditure.
 - d. Requiring all Directors to identify potential efficiency savings or service reductions across their areas of responsibility.¹ For the purposes of this paper it is recommended that this target is set at a further 2.5% of gross expenditure.
 - e. Bringing the achievement of additional income more clearly into the budget process. For the purposes of this paper it is recommended that all services be required to provide an increased yield equivalent to 5% of gross income. This would replace budget requirements in previous years relating to fee increases (2.3% to 3%) and the additional 5% efficiency target. Any income raised above the 5% could contribute towards AD or Directorate wide totals
 - f. Identifying invest to save opportunities;
 - g. Delivering on a programme of strategic efficiency reviews and strategic procurements based on that agreed by CMT last Autumn.
 - h. Utilising reserves and time limited funding to support one off initiatives.

Links to the Efficiency Review Programme

- 13 One of the key challenges for the finance strategy over next three years is how the council intends to engage in delivering service efficiency improvements. Such work not only has to provide savings but also needs to deliver qualitative service improvement which can change the customer experience or release resources for other emerging priorities. Indeed in many instances these service improvement drivers (akin to the need for Gershon non-cashable

¹ These savings are on top of the targets required of individual services and allow directors to focus efforts on cross cutting initiatives and areas where there is significant potential for service remodelling.

efficiencies) may be of a much higher priority than the need to deliver cash savings. In order to do this the finance strategy proposes the development of a medium term programme of planned efficiency projects.

14. Developing such a programme will also provide an opportunity to change the way the council approaches several, currently disparate strands of activity. Creating links between these will mean a more forward looking, strategic and joined up approach.

Policy Prospectus Response - The Future of A Fair Grant for York

15. Most recently the council's work in this area has been based around the Fair Grant for York Campaign. Submitted in the autumn of 2004 to the Office of the Deputy Prime Minister, these documents outlined the council's financial position and to requested action on seven key areas:
 - a. A reassessment of York's entitlement to Area Cost Adjustment.
 - b. A better recognition of the true costs of tourism.
 - c. Revisions to the capping criteria to reflect the low cash value of the council tax in authorities such as York.
 - d. Revisions to the Bellwin scheme methodology to more accurately reflect the costs of exceptional events.
 - e. The retention of £340m additional revenue support grant that was being paid at that time.
 - f. The treatment of funding in relation to assumed capital receipts.
 - g. The introduction of transitional funding when functions are transferred between national and local government.
16. Since this time the last three of these seven items have been addressed. While there is no direct causal relationship it is safe to assume that York's submission will have contributed to some or all of these decisions.
17. Of the remaining four, proposals have been included in the current grant consultation for the first two. However, in terms of the area cost adjustment the proposals only involve southeast authorities and for tourism the proposals involve a potential loss of £1m per annum in funding. The consultation on the proposed changes provides a route for the council to strongly express its position in these areas and it is anticipated that this will be the case. In addition this representations will also need to be made about the proposed funding framework for the extension to concessionary fare arrangements.
18. However it has to be recognised that while the Fair Grant for York approach has been successful in raising awareness of the issues facing the authority it

can only have a limited impact on moving the council's agenda forward in areas of national policy (such as capping and Bellwin). As a result it is intended that in future the focus of the authority's efforts will be on exploiting opportunities for members and officers to influence national debates. Such an approach will build on work already undertaken, in the past year this has included:

- Using our membership of the Unitary Treasurers Group to push relevant aspects of the Settlement Working Group agenda².
- The Director of Finance at the Local Government Association, Stephen Jones, spending a day in York with officers and members to better understand the issues facing councils such as York.
- The Director of Resources and Head of Finance maintaining their respective memberships of CIPFA working groups on Housing and Financial Management.

19. This involvement has resulted in York starting to be viewed as an opinion leader in local authority finance. The three most recent examples of this are:
- York being one of only two unitary council's invited to DCLG meetings on the development of efficiency and transformational government indicators under the new BVPI frameworks.
 - York being invited to provide evidence to a parliamentary select committee on the proposals made in the Lyons Report for the introduction of a supplementary business rate to fund capital investment in infrastructure.
 - The Head of Finance being nominated to sit as the Unitary Authorities representative on the Local Government Association's Core Advisor Group for finance.
20. In summary the response to the Policy Prospectus request is that:
- The council will pursue a robust response to three aspects of the national funding consultation, these being the Area Cost Adjustment, Tourism Funding and proposed arrangements for Concessionary Fares. Where appropriate this response will look to include wider stakeholders such as the local MPs.
 - Officers will look to identify and exploit opportunities to establish York as an opinion leader for local government financial issues. It should be noted that the benefits of such an approach are only likely to be realised in the medium to long term.

² The SWG is the method by which central government and local authorities meet to discuss and analyse potential changes to funding. Under normal circumstances Unitary Authorities have two representatives at these meetings.

Consultation

21. The Finance Strategy has been produced by the Head of Finance and is based upon information provided by individual directorates. An initial draft has been discussed with CMT as the first stage of the consultation on its adoption.
22. The finance strategy does not yet address how the council will consult with the public on its budget proposals. In recent years full details of the budget proposals have been made available on the internet during December and individuals have been asked, through a variety of approaches, to provide comments upon them. These comments have then formed part of the details reported to the Executive when they make their final budget recommendations to full council. In future the council could take a variety of approaches to consultation, these include:
 - a. Not undertaking a formal consultation but instead relying on the normal circulation and advertisement of the various EMAP papers.
 - b. A retention of the publish and comment approach used for this year's budget. This could utilise the internet as the principal consultative tool. This would require consultation to be undertaken in a period between mid December and mid-January.
 - c. A more formalised consultation providing individuals with the opportunity to respond via pre-paid cards on preset questions. This would mirror the approach adopted for the 2005/06 and 2006/07 budgets. As with the option above this would require a time slot in December and January.
 - d. Alternately the council could invite interested individuals and possibly organisations to attend a small number of budget seminars that would be led by elected members and senior officers. These would provide a forum for debate on current and future issues facing the council. Such an approach is utilised by a number of councils including the East Riding who hold four or five such seminars at locations around the council area. As a more reflective piece of work this could be undertaken as the initial budget proposals are still being shaped during October and November. Alternately it could be undertaken during the more traditional December and January timeslots.
23. The development of a preferred route for public consultation will be developed as part of the 2008/09 budget process.

Options

24. The primary focus of this report is to update the Executive about the council's projected financial position for the next three years and steps that could be taken to deal with the underlying pressures that have been identified.

Corporate Priorities

25. The financial strategy is the outline framework against which the council's priorities must be delivered. In addressing the underlying budget gap the council is ensuring the continued delivery of current services. Reprioritisation will enable the council to address its changing needs and objectives. Links to the council's priorities are explicitly addressed throughout the strategy, most notably at section 3.2 and 7.5.

Implications

26. The following implications apply to this report:
 - **Financial.** Whilst it has no direct financial implications this report and the attached strategy present the Leaders with an outline of the council's financial position for the next three years and potential actions available to it. However, if it is decided at a future date to pursue either public consultation option 'c' or 'd' then there may be additional cost implications that will be addressed as part of the approval process.
 - **Human Resources (HR).** None from this report. HR implications may arise as the result of actions taken during the budget process and these will be addressed at an appropriate stage in the process.
 - **Equalities.** None from this report.
 - **Legal.** None from this report.
 - **Crime and Disorder.** None from this report.
 - **Information Technology (IT).** None from this report.
 - **Property.** None from this report
 - **Other.** None from this report.

Risk Management

27. The development of a three year finance strategy is always subject to a degree of uncertainty, especially where, as is the case at present, government spending plans for future years have not yet been announced. The principal risks and mitigating actions are identified below:
 - **Government grant levels are different to those anticipated.** For 2008/09 a prudent position has been adopted in line with the apparent position at the Treasury and DCLG. As such it is unlikely that a smaller grant increase than that shown will be made.

- **Additional spending pressures are not identified.** To minimise the risk of spending pressures not being identified the budget is developed in partnership between directorate management teams, directorate finance teams, and central finance staff.

Recommendations

28. The Executive is asked to:

- a. Endorse the attached financial strategy while noting
 - i. The revised calculation base for the MTFF which currently excludes requests for funding expenditure on council priorities and service aspirations.
 - ii. The initial funding gap (excluding priority and aspirational growth) of £10.484m.
- b. Formally adopt the proposed approach to balancing the budget and to note the relevant savings targets:
 - i. 2.5% per service;
 - ii. plus 2.5% per director;
 - iii. plus a 5% yield on income budgets.

Reason: To enable the commencement of formal budget planning for 2008/09.

- c. Support the proposed response to the Policy Prospectus request for proposals to influence current and future funding decisions at a national level.

Reason: To maximise the council's potential influence on national funding policy and decisions.

- d. Request the Head of Finance to develop a response to the extant consultation on potential changes to the grant distribution formula with a particular focus on:
 - i. Delivering changes to the Area Cost Adjustment for York,
 - ii. Ensuring that new arrangements for concessionary fares are funded either as a specific grant or are excluded from formula damping calculations,
 - iii. Opposing the proposed changes to the day visitor funding calculation.

Reason: To ensure that York's views are reflected in any final decision on national funding changes.

Contact Details

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Report Approved Yes **Date** 30/8/07

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

All All

For further information please contact the author of the report

Background Papers: None

Annexes

Finance Strategy 2008/09 to 2010/11