

Report of the Director of Resources

Finance Strategy 2007/08 to 2009/10

Summary

1. This report presents to Members the council's draft Financial Strategy for 2007/08 to 2009/10. 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 reflects the Secretary of State's decision to nominate the council in relation to its council tax levels for 2006/07 and 2007/08.
2. As part of this latter process 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 the primary driver towards delivering the recently adopted Service Improvement Statement *"Improve efficiency and reduce waste to free-up more resources"*.
3. The report asks members to note the current financial projections outlined in the MTFF, the proposed methodology and timescales for addressing these pressures, and to support the development of a five year programme of efficiency reviews which will underpin the council's continual improvement and development.

Background

The Underlying Financial Position

4. This is the council's second 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 2007/08 to 2009/10 strategy, which is attached as an annex to this report, builds upon the experience gained over the last year.
5. The MTFF (which is shown as Annex A to the strategy document and summarised in Table 1) shows that over the medium term unavoidable growth pressures will continue to outstrip the levels of funding available.

	2007/08 £'m	2008/09 £'m	2009/10 £'m
Unavoidable Growth – Recurring	6.061	5.367	5.746
Unavoidable Growth – One-Off	0.395	0.295	0.295
Contingency	0.800	0.800	0.800
Total Unavoidable Growth	7.256	6.462	6.841
Funding Adjustments	0.539	0.497	0.656
Increase in Government Grant	1.192	0.436	0.436
Increase in Council Tax	2.728	3.167	3.326
Increase in Funding	4.459	4.100	4.418
UNDERLYING BUDGET GAP	2.797	2.362	2.423
Reprioritisation Growth – Recurring	7.291	1.646	1.321
OVERALL BUDGET GAP	10.088	4.008	3.744

Table 1 – Projected Budget Gaps 2006/07 to 2009/10¹

6. Table 1 demonstrates that in 2007/08 the council faces unavoidable spending pressures of just under £7.7m and that this figure remains approximately the same for all three years of the MTFF. Even with increases in funding through grant and council tax the council faces an underlying budget gap of between £3.5m and £4.1m across each of the next three years. This is the level of saving which will have to be made for the council to merely stand still financially.
7. This gap takes into account the government's decision on the 29th June to nominate York for council tax purposes. This decision means that for the capping calculation in 2007/08 York's base budget will be reduced by £285k (the equivalent of York having set a 5% rather than 5.49% increase in 2006/07). This is a purely paper calculation and has no direct financial impact in 2006/07. However, when taken in conjunction with the government's desire to see council tax increases of below 5%, it means that any increase above 4.5% would increase the chance of government action being taken over the 2007/08 council tax increase. On this basis the MTFF projections are based on a nominal 2007/08 council tax increase of 4.5%.² Based on the revised calculations the DCLG would consider this a 4.99% increase.
8. In addition to this, services have identified a significant number of areas which would benefit through the deployment of additional resources. However, such funding can only be made available through the reprioritisation of existing resources (whether time, cash, people etc). In 2007/08 such pressures represent an additional demand of £5.35m. Members need to treat the corresponding figures for 2008/09 and 2009/10 with a degree of caution for two key reasons:

¹ Source Table 2 in Finance Strategy

² It should be noted that these are nominal figures used for MTFF purposes only and do not represent the final position on Council Tax which will be established by Full Council at its meeting on the 21st February 2007.

- The council is highly unlikely to be able to meet many of the reprioritisation requests for 2007/08 and some will therefore filter through as additional demands in 2008/09 and 2009/10.
- Reprioritisation occurs for a number of reasons such as changing local demands, emerging local priorities and new national requirements. Forecasting such demands is difficult and hence at this stage it is impossible to include such initiatives in the costs shown.

Addressing the Gap

9. At chapter three the strategy identifies a number of ways in which the council can meet these financial pressures. These include (numbers in parenthesis refer to sections within the Finance Strategy):
 - a. Controlling growth so that only the truly unavoidable is funded (3.2);
 - b. Critically evaluating directorate requests for the reprioritisation so that the council's scarce resources are focussed in those areas which have the highest impact on our priorities (3.3);
 - c. Requiring all Assistant Directors to identify potential savings within their service areas (3.4.1);
 - d. Requiring all Directors to identify savings across their areas of responsibility (3.4.1)³;
 - e. Identifying invest to save opportunities (3.4.2);
 - f. Developing a programme of strategic efficiency reviews more detail on which is provided below (3.5);
 - g. Utilising reserves and time limited funding to support one off initiatives (3.6 and 3.8);
 - h. Maximising the positive impact of capital and treasury management work (3.7).

Developing an Efficiency Review Programme

10. One of the main changes between the first and second finance strategies is the enhanced role envisaged for a Strategic Efficiency Review Programme. In recent years the focus of identifying savings has been through service and directorate level cash targets. Whilst this has been successful in delivering balanced budget proposals it has resulted in an operational focus which has, to a certain extent, hindered the delivery of broader savings and the potential transformation of service areas, especially where such services cross internal functional boundaries.

³ 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.

11. The importance of developing an approach has been externally recognised by a number of bodies. The need to plan for efficiency is a key element of the CPA judgement on Value for Money⁴ and last month Sir Michael Lyons referred to it as one of the key challenges facing councils over the next few years. In addition there is also a developing regional agenda based around the Centre of Excellence and Regional Assembly both of whom are looking to develop and fund work to promote service efficiency and capacity building.
12. To address these various pressures it is proposed that the council develop a programme of reviews that would look to release budget savings and/or deliver service efficiencies. Due to the potential scale of the work required such a programme would need to be planned out over no less than the life of the finance strategy (i.e. three years) and will probably have to take a longer term view of up to five years (which would enable a more balanced schedule to be developed in conjunction with the Admin Accom project).
13. Such a programme would not represent a one size fits all solution. Many of the elements are already underway and for these the programme would represent an umbrella mechanism through which the council's overall progress would be monitored. Whilst not finalised it is envisaged that the following nine areas would fall within this category:
 - a. The review of income collection methodologies and systems;
 - b. The examination of options for the future delivery of highway services;
 - c. Continuing to develop different models for the delivery of adult homecare;
 - d. Putting in place a framework for legal commissioning;
 - e. Assessing and delivering the on-going benefits arising from projects such as:
 - Easy at York;
 - The replacement of the Finance Management System;
 - Changes to the Constitution;
 - Developing the competition agenda;
 - f. The admin accom project;
 - g. Identifying potential additional benefits from the fleet management contract;
 - h. The review of the council's transport provision (to be undertaken in conjunction with, local health bodies and the East Riding of Yorkshire Council) which is being financially supported by the Regional Assembly and Regional Centre of Excellence.

⁴ Value for Money is one of the five strands which comprise the council's "Use of Resources" assessment.

- i. Examining how the council can meet the challenges it faces under the eligibility criteria.
14. For other areas there will be a common need to identify project management elements such as objectives, target timescales, lead responsibilities and, where appropriate, project teams. However the breadth of potential work means that delivery could be undertaken in a variety of ways including:
 - The delivery of work through internal directorate resources;
 - Commissioned work from expert sources such as PIT, Internal Audit and the Easy at York team;
 - Utilisation of external skills.
 15. In this regard the efficiency review programme will act as an overall monitoring and support mechanism through which progress will be identified and reported. The Director of Resources is currently working with relevant officers to develop frameworks through which this can be achieved.

Consultation

16. The Finance Strategy has been produced by the Head of Finance and is based upon information provided by individual directorates.

Options

17. The primary focus of this report is to update members of 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. The finance strategy does however propose the development of a corporate efficiency review programme which members could choose not to support.

Analysis

18. Were the efficiency review programme not to be supported then officers would need to revisit how to integrate a prioritisation process into budget decisions. Such a decision would also have a negative impact on the council's CPA score (via the use of resources assessment) and could reduce the level of savings recorded for Gershon purposes.

Corporate Priorities

19. The financial strategy is the outline framework against which the council's priorities must be delivered. In addressing the underlying budget gap members are ensuring the continued delivery of current services. Reprioritisation will enable the council to address its changing needs and objectives. The development of an efficiency review programme is the key driver for the delivery of Service Improvement Statement "*Improve efficiency and reduce waste to free-up more resources*".

Implications

20. The following implications apply to this report:
- **Financial.** Whilst it has no direct financial implications this report and the attached strategy present members with an outline of the council's financial position for the next three years and potential actions available to it.
 - **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

21. 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.** Government grant for 2007/08 was announced as part of the 2006/07 settlement. For 2008/09 and 2009/10 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

22. Members are asked to consider:
- a. To adopt the Financial Strategy;

Reason: To assist in the development of the council's medium term service and financial planning.

- b. To note the council's projected financial position for 2007/08 to 2009/10 as outlined at Table 1 and detailed in the Financial Strategy;

Reason: To ensure that members are fully aware of the financial pressures which the council currently faces.

- c. To require the Director of Resources, in conjunction with the Corporate Management Team, to develop, review and prioritise all currently identified growth and reprioritisation areas against relevant criteria including statutory pressures, local priorities and comparative performance;

Reason: To assist members in targeting resources at those areas which have the greatest need in terms of meeting external requirements, local needs and service improvement.

- d. To require the Director of Resources, in conjunction with the Corporate Management Team, to develop a three to five year programme of efficiency reviews;

Reason: To assist in the development of a more strategic approach to budget setting, especially in terms of identifying areas for service improvement and financial savings.

Contact Details

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Report Approved *Yes* **Date** *29/6/06*
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Specialist Implications Officer(s)

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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:

Executive 28th June 2005: Finance Strategy 2005/06 to 2008/09

Council 1st March 2006: Budget 2006/07

Annexes

Finance Strategy 2007/08 to 2009/10