

**Financial Strategy 2010-2016**

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(note: the capital plan will be incorporated into the final financial strategy - this report is considered as a separate agenda item)

**A. PURPOSE AND SCOPE OF THE STRATEGY**

- 1 The Financial Strategy sets out the framework of the council's budget by detailing how available resources will be allocated between services, reflecting council priorities, and providing the framework for the preparation of annual budgets. In particular it:
- sets out the council's medium term financial aims;
  - sets out the measures to be taken to ensure they will be achieved;
  - sets out the council's approach to delivering improved services and value for money over the next few years;
  - describes the council's arrangements for developing the medium term financial plan, including:
    - the identification and prioritisation of spending needs
    - the key financial influences on our medium term financial planning and the assumptions made in developing the plan
    - the challenges and risks associated with the plan and how we will deal with them.
  - sets out the council's policy on reserves and balances.
- 2 The financial strategy covers all revenue and capital spending plans (the capital report is covered as a separate agenda item).

**B. LINKS WITH OTHER STRATEGIES**

- 3 The council's financial strategy and plan is linked with and supports service priorities and the council's other strategies and plans. These include:

- **The Sustainable Community Strategy (SCS)**  
There are 7 themes within the Sustainable Community Strategy (SCS), which was developed through a wide ranging, city wide consultation exercise and evidence analysis. It is a partnership document, owned by the Local Strategic Partnership which describes the vision for York over the next 20 years. The Council supports the delivery of the SCS via the Local Area Agreement (LAA - the 3 year action plan), and most importantly, the aligning of the council's Corporate Strategy to the themes of the SCS (therefore making a financial commitment to the delivery.)

- **The Council's Corporate Strategy**  
The Corporate Strategy has been fully aligned to the SCS and the LAA. The development of the milestones and the budget process run simultaneously, to ensure realistic targets are set to meet the council's commitments.

Service planning carries the golden thread of delivery to work plans, ensuring that the financial commitments made are delivered successfully. Progress and corrective action, if needed, are discussed at CMT on a monthly basis and by the Executive quarterly, completing the picture of full integration of the financial and corporate planning functions.

- **The Asset Management Plan**  
The Capital Resource Allocation Model (CRAM) process invites bids from Directorates asking them to put forward their main capital priorities as identified through their asset management plans which are aligned to the Council's Corporate Strategy. The financial strategy manages the impact of decisions taken on the Capital Programme resulting from the Asset Management Plan.

- **The IT Strategy and work programme**  
There are 5 themes within the IT strategy, of these the following themes reflect issues dealt with as part of this financial strategy, particularly through the council's Transformation Programme:

1. Use technology to improve the efficiency and effectiveness of Council Services and the internal working of the Council
2. Use technology to make services easy to access, high quality and efficient, effectively managed, and responsive to the particular needs of individuals and/or Customer groups.

- **The Procurement Strategy**  
The current procurement strategy is being revised as part of the More for York workstream and its focus will be in support of the Council's drive for efficiency over the next three years. Targets for savings from procurement activity have been identified and the strategy will set out how CYC intend to increase the effectiveness of expenditure control regimes, increase the commercial focus of the Council's procurement activity and improve the future planning and visibility of its procurement activity.

- **The Treasury Management Strategy**

Treasury Management is the management of the Authority's cash flows its banking, money market and capital transactions, the effective control of risks associated with those activities and the pursuit of optimum performance associated with those risks.

In order to comply with the various statutory frameworks within which the Treasury function has to operate, the Treasury Strategy and associated Prudential Indicators have to be approved by Council prior to 1st April of each financial year.

Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council.

- **The HR Strategy and other related HR policies**

## **C. LOCAL AND NATIONAL PRIORITIES**

### **Our priority themes**

- 4 The corporate strategy is in the second year of its three year life, with milestones currently being updated to ensure the successful delivery of the three year commitments. This in turn will make a significant contribution to many of the priority local area agreements targets, and the aims of the sustainable community strategy, to which the corporate strategy has been fully aligned.
- 5 The development of the milestones and the budget process run simultaneously to ensure realistic targets are set to meet the council's commitments. Bids that are associated with the delivery of the corporate strategy milestones are given a higher weighting of importance than that of unrelated bids.
- 6 The corporate strategy milestones undergo a large amount of scrutiny before being finalised. This includes consideration by the corporate management team (CMT), the corporate leadership group and the Executive. This ensures that the strategy is fully embedded within the culture of City of York Council, and value for money is considered at many levels before final agreement at budget council. Thus the projects the corporate strategy committed to the public to deliver are funded where at all possible.
- 7 Service planning carries the golden thread of delivery to work plans ensuring that the financial commitments made are delivered successfully. Progress and corrective action, if needed, are discussed at CMT on a monthly basis and by the Executive quarterly, completing the picture of full integration of the financial and corporate planning functions.
- 8 The council's medium term financial planning is driven by these priorities. By integrating the development of the budget and financial plan with these priorities we seek to ensure that resources have been allocated to deliver the corporate priorities in a robust and sustainable manner. The financial strategy

also seeks to make links with national priorities. In considering any proposals for investment the links to national priorities are considered. By planning over a number of years the financial strategy aims to ensure that local and national priorities are delivered in the long term and service improvement and realignment is planned in an effective manner.

## **D. CURRENT NATIONAL ISSUES**

### **External Influences**

- 9 Council tax provides for about 17% of the council's gross revenue spending, with the majority of the council's resources coming from central government as either direct or indirect grants. Consequently, our financial strategy is to some extent shaped by factors outside our immediate control.
- 10 However, there are many facets to an effective financial strategy and the council must ensure it proactively manages its resources with a view to ensuring robust financial planning that delivers council priorities.

### **Comprehensive Area Assessment**

- 11 The white paper 'Strong and Prosperous Communities' set out wide ranging proposals for support and improvement of local services. A key part of these proposals is a new performance assessment framework, the comprehensive area assessment (CAA), which came into operation from 1 April 2009.
- 12 CAA focuses on the delivery of outcomes that are the responsibility of the council and our partner organisations including police, health, fire and rescue services and other local authorities. The process is based on two assessments: an area assessment and an organisational assessment.
- 13 Community outcomes, efficiency, partnership working and value for money are key measures in these assessments with a new set of national indicators measuring the performance of the council and its partners against government priorities.
- 14 The results of the first year's assessments were published in December 2009. The city received a Green Flag for its integrated services for disabled children and no Red Flags in the Area Assessment. The council was found to be 'Performing Adequately' overall in its organisational assessment.

### **Three year settlements for Formula Grant and Revenue Financing**

- 15 In July 2005 the government announced the introduction of a multi-year settlement process in order to give more stability and certainty to local authorities. The first full three-year settlement was announced in December 2007 and covered the 2008/09, 2009/10 and 2010/11 financial years.
- 16 The introduction of 3-year settlements is intended to improve the ability to forecast the overall financial position for the council. However there will remain

significant uncertainties in long term planning as the level of grant is only part of a complicated set of assumptions used.

### **Public Spending Plans and National Priorities**

- 17 It should be recognised that the growth in public spending in recent years (primarily towards health and education) is unlikely to continue at the same rate. However, public services are under increased pressure from their customers for improved service provision. In addition, national targets for improved service delivery are becoming common, including electronic service delivery, planning, concessionary fares and recycling.
- 18 This financial strategy seeks to ensure national priorities are considered alongside local priorities.

### **Efficiencies**

- 19 In October 2007 the Department of Communities and Local Government (DCLG) published a report 'Delivering Value for Money in Local Government'. The report highlights that public services have been set a target of achieving at least 3% net cash releasing value for money (VFM) gains per annum, between 2008 and 2011. Collectively councils are expected to achieve £4.9 billion cash releasing efficiency by 2010/11.
- 20 These efficiencies have to be achieved through a greater focus on VFM and through a culture of innovation. Responsibility for identifying opportunities for efficiency gains is left to individual councils and it will be up to them to put in place the processes that they need to plan VFM projects, track delivery, measure achievement and assure service quality. All councils' progress on efficiency will be monitored and challenged through a number of methods including the CAA and a new performance framework consisting of 198 performance indicators which includes a new national VFM indicator.
- 21 The council recognises the need to ensure VFM and this is reflected in the corporate strategy. To ensure the council can respond proactively to the major financial challenges it faces it launched the More for York programme during 2009. Savings from the programme are included in the 2010/11 budget and will be a key feature of future budgets beyond 2010/11.

### **Sustainability**

- 22 Sustainability is a key measure of CAA. It is about long term social and economic benefits, ensuring a strong healthy and just society as well as environmental concerns. In order to ensure that the council's services and actions promote sustainability the council has developed a sustainability policy which contains principles and measures that are to be implemented over the coming years.

### **Local Area Agreements**

- 23 Local area agreements (LAA) are about improving local services through a 3-year agreement between the main public sector agencies working in an area and the government.
- 24 Local public service agreements (LPSA) were developed by government as a means of raising performance and providing better public services in key areas. LPSA agreements focus on the performance of a selection of services and set specific improvement targets for them to hit. The participating services are provided with up-front investment to aid achievement of this enhanced performance. For meeting the targets set or for making significant progress towards them a reward grant is payable by government.
- 25 York's second LPSA ran from April 2005 to December 2008 and had a potential performance reward grant (PRG) of £3,935,028. There were 12 areas for improvement under this second agreement, which on completion attracted a reward of £2,008,451, approximately 51% of the total available. We submitted a claim for this to DCLG in 2008/09 and received a first instalment of £874,451. A second claim will be submitted this year for the remainder. After repayment of the venture fund (£1.09m) which helped pump prime the LPSA2 improvement projects and other calls on the reward grant, a fund of approximately £660,000 was established and allocated to support projects which contributed to the achievement of LAA targets.

### **Significant Partnerships**

- 26 In order to deliver more efficient services the council continues to work with a range of partner organisations throughout the area. In some cases it has entered into a formal agreement with partners for the delivery of services and projects, examples include:
- Safer York Partnership
  - Joint commissioning with the health authority
  - Joint agency panel for out of authority placements
  - Learning disabilities integrated services
  - Yorkshire Purchasing Organisation
  - Waste PFI with North Yorkshire County Council

### **Area Based Grants (ABG)**

- 27 The government has significantly increased local authorities' flexibility over the use of their main stream resources in recent years by moving at least £5 billion into non-ring fenced general grants over the comprehensive spending review (CSR) period. £4 billion of this amount has been moved into ABG. ABG are allocated on a 3 year basis to tie in with 3 year finance settlements. The grants are non ring fenced and the grant determinations do not include any conditions for use. Local authorities are therefore free to use the grants as they see fit to support the delivery of local, regional and national priorities in their areas. During 2010/11 the council will receive ABG of £15.4m.

## External Funding

- 28 The Audit Commission sees the achievement of external funding as a key part in the demonstration of VFM. External funding opportunities include European funding, lottery funding, and Yorkshire Forward funding. The council must carefully appraise the role that external grant resources can play in meeting its objectives. Decisions about bidding for external grants must be taken in the context of the priorities in the corporate plan.

## E. THE FINANCIAL STRATEGY'S OBJECTIVES

- 29 The financial strategy is designed to maintain financial stability and, as far as possible, avoid the need for large unplanned increases in council tax and unaffordable borrowing, whilst ensuring we have sufficient resources to achieve the corporate aims and priorities. To this end, it is proposed that the medium term financial strategy should ensure the following specific objectives:

### 30 **Objective 1 - Budgets are prudent and sustainable in the long term**

This seeks to ensure that budgets recognise real cost pressures, and that no over reliance is placed upon any one-off savings, and/or use of one-off reserves. This will be achieved by ensuring:

- adequate provision is made for inflation pressures, current economic conditions, pay awards, and new legislation
- the revenue budget is not supported by one-off savings, or any significant use of reserves
- effective budget monitoring to ensure early identification of issues and action planning

### 31 **Objective 2 - Financial plans recognise corporate priorities and objectives**

This seeks to ensure that financial plans link with corporate planning and priorities, and that there is provision within the financial strategy for growth/development funding on an ongoing basis. This will be achieved by ensuring:

- additional investment and savings proposals make explicit reference to corporate priorities
- local and national targets are considered
- long term vision and objectives are considered within the report
- provision within financial planning figures for growth and contingency amounts based upon perceived risk,
- a review capital prioritisation process/option appraisal

### 32 **Objective 3 - Significant risks are identified, and factors to mitigate against those risks are identified**

Risk management is crucial in long term planning and it is essential that the financial strategy clearly identifies the associated risks and that this is

supported by an embedded risk management culture within the organisation. This will be achieved by:

- risk management being embedded in corporate and service planning
- financial risks being specifically considered on an ongoing basis, and specifically reflected within the financial strategy
- targeting high risk areas when setting budgets and monitoring these areas closely throughout the year

**33 Objective 4 - The capital programme is planned over a 5 year period, with the revenue implications of planned capital investment incorporated into the financial strategy**

This seeks to ensure that advance provision is made within the financial strategy for the estimated revenue implications over the long term. This will be achieved by ensuring:

- the development of a 5 Year capital programme
- the clear identification of potential unsupported borrowing
- contingency funding is included within the capital programme
- a corporate approach to external funding opportunities to maximise resources to the council.

**34 Objective 5 - Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account**

It is important that the financial strategy is realistic and that there is a corporate awareness of the constraints on council funding. This will be achieved by ensuring:

- specific reference within each financial strategy of constraints and current issues
- regular reporting to Executive on local government finance issues
- awareness of the financial position within the organisation through an effective communication strategy

**35 Objective 6 - Council tax increases will be kept below the government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the financial plans, recognising that these increases may be subject to change**

The government may in the future require authorities to set out planned council tax increases for the next three years. It is important in developing the financial plan that an assumed council tax increase is included, ensuring that financial plans do not place over-reliance upon excessive council tax increases. This will be achieved by ensuring that financial plans take account of this level of council tax increase, government expectations on council tax increases, and, in particular, that target efficiency gains reflect the likely levels of council tax. However, it has to be recognised that additional burdens and demands can be



placed upon local authorities, and that it may not always be feasible to achieve an increase in council tax in line with the inflation rate.

**36 Objective 7 - Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the council**

It is important to strike a balance between maintaining adequate reserves and contingencies and delivering priorities and achievement of VFM. This will be achieved by ensuring an annual review of reserves, linked to corporate priorities and treasury management implications.

**37 Objective 8 - VFM and achievement of improved efficiency and service delivery underpin the financial strategy**

VFM should be at the heart of everything the council does, and the pursuit of improved efficiency and performance needs to be established as an ongoing underlying principle. This is being achieved through:

- a corporate efficiency programme, linked to transformation through the More for York programme
- a corporate approach to external funding
- embedded finance and performance reporting to Members
- benchmarking the costs and performance of our services

**38 Objective 9 - The financial strategy supports the achievement of excellence in financial management and use of resources**

A financial plan in isolation will achieve little. It needs to be supported by:

- effective financial governance arrangements
- effective corporate governance embedding the principles contained within the CIPFA/SOLACE good governance framework, and the implementation and assurance of these principles through the council's improvement plan/business model
- financial management that supports performance
- effective monitoring arrangements
- effective financial reporting

This will be achieved by:

- implementation of the action plan in relation to the use of resources assessment. A highly visible improvement plan focused on core procedures and processes that an effective council needs to have in place
- developing the financial culture within the council
- financial reporting and documentation based upon stakeholder needs
- new financial systems (general ledger upgrade)
- training and development - both financial and non-financial
- integration of financial and non financial performance measures

39 These objectives are further explored throughout the report.

## **F. DEVELOPMENT OF THE FINANCIAL STRATEGY**

40 As noted above, the development of the budget and medium term financial plan is driven by the council's priorities. The financial strategy aims to help Members to determine priorities and forecasts the changes in demand for services, and the likely financial implications of changes in legislation. The strategy also demonstrates the future cost of policies or proposals, and seeks to balance the demand for spending with the resources likely to be available. The strategy provides a financial framework within which departments and individual managers can plan their services.

41 The financial strategy comprises a 5-year revenue plan and a 5-year capital plan. The plans will be reviewed annually and rolled forward by a year.

42 The process, from the start of the review of the financial plans through to the approval and allocation of budgets, will span the whole year and will engage regularly with senior Members and senior managers throughout the council. Ownership and understanding of the financial strategy is crucial in ensuring effective long term planning within the council.

43 One of the key features of the budget process is the linkage between the corporate financial requirements and the operational needs and demands of the council. This is done through the service plans that identify funding requirements for the revenue and capital budget, performance outcome expectations and risk assessments.

44 The financial strategy will be communicated to staff and other key stakeholders.

## **G. CONSULTATION**

45 The council's budget has been widely consulted on. The forms of consultation included the following:

- the postal and web based survey of citizen's priorities for budget growth and savings
- budget forums held separately for citizens and the business community where an in-depth analysis of the situation and options were discussed
- Scrutiny Management Committee
- Executive Member Decision Sessions (EMDS) where budget proposals, options and details, including service plans, were presented

46 The main form of consultation was the postal and online survey of citizens' views. These surveys had a total of 12,694 responses up from 7,748 responses last year. This is around a 14.6% return, which is an exceptional response rate for this type of survey and up almost 64% up on the 2009 consultation.

**H. FINANCIAL CONTEXT**

47 Ever since York became a Unitary Council in 1996 its funding and spend position has been comparatively low compared to other the unitary authorities which were created at the same time. York has a comparatively low level of council tax, spend per head and receives one of the lowest grant per head settlements as the following three charts show.

48 In 2009/10 York had the second lowest Band D equivalent council tax of all 55 unitary councils, it had the lowest spend per head and received the 9th lowest government grant per head. Therefore York can be considered to be one of the lowest funded authorities in the country which is why decisions about the budget and the consequential impact on the council's priorities and services are difficult and important.

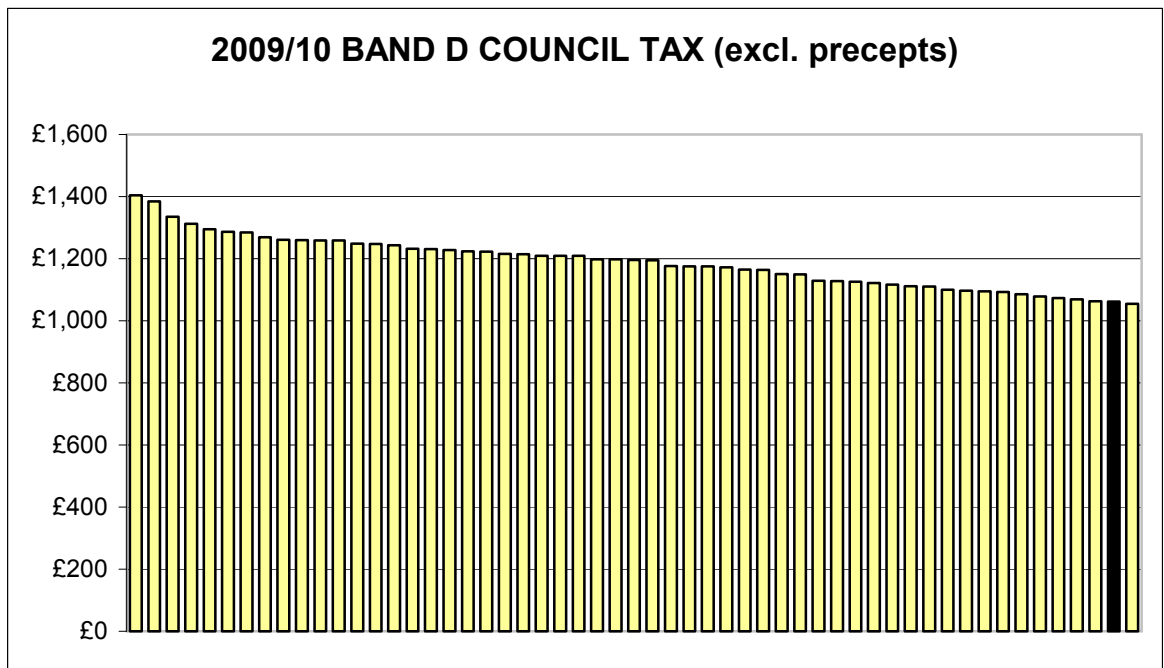


Chart 1 - 2009/10 Band D Council Tax - All Unitaries

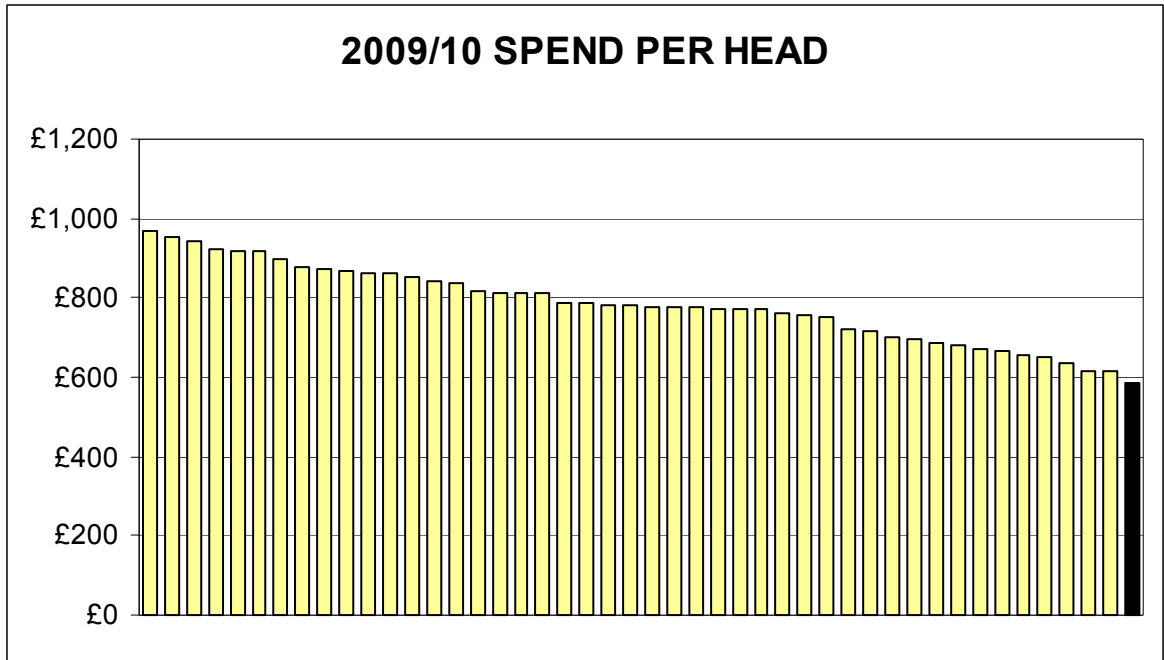


Chart 2 - 2009/10 Spend per Head - All Unitaries

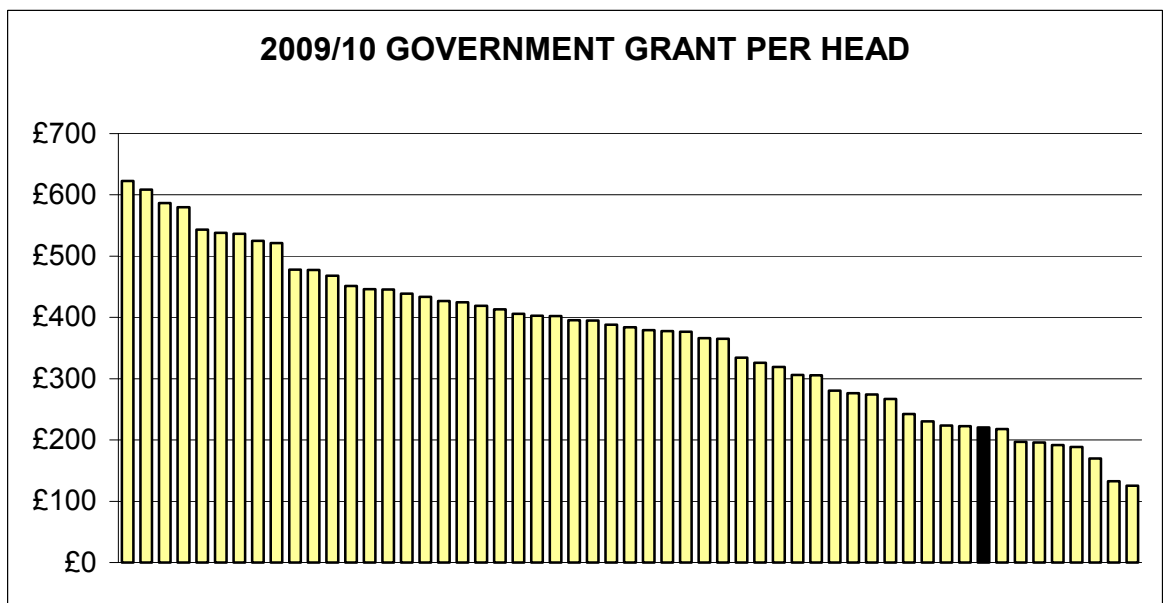


Chart 3 - 2009/10 Grant per Head - All Unitaries