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## Budget Council

25 February 2010

### Report of The Executive Leader

## **Recommendations of the Executive on the Council's Detailed Revenue Budget Proposals for 2010/11 and the Council's Capital Programme Budget for 2010/11 – 2014/15**

### Purpose of Report

1. This report presents to Council for approval the recommendations of the Executive in respect of the Revenue Budget proposals for the 2010/11 Financial Year and the Capital Programme Budget for the period 2010/11 to 2014/15. This report must be read in conjunction with the reports of the Director of Resources presented to the Executive meeting on 16 February 2010, circulated to all Members on 8 February 2010.

### Background

2. On 16 February 2010, the Executive met to consider the Revenue and Capital Budget recommendations contained in reports tabled by the Director of Resources. The following reports were considered:
  - a) Financial Strategy 2010-2016 including detailed revenue budget proposals for 2010/11
  - b) Capital Programme Budget – 2010/11 to 2014/15
  - c) Treasury Management Strategy Statement and Prudential Indicators for 2010/11 to 2014/15.

Members have previously received copies of these reports and may also refer to them by following the link on the Budget Council agenda.

3. A decision list from the Executive meeting, incorporating their recommendations to Council on the above reports, was published on 17 February 2010.
4. This report relates to the first two of these matters, namely the Executive's recommendations in respect of the revenue budget (Financial Strategy 2010-2016) and the Capital Programme Budget. The recommendations in this regard are set out in paragraphs 14 and 15 below.

5. The Executive recommendations in respect of the Treasury Management Strategy are set out in a subsequent report, at Item 8 on the Council agenda.

### **Executive Amendments to the Revenue Budget Proposals**

6. At their meeting on 16 February, the Executive agreed the following amendments to the Director of Resources' recommendations on the budget presented in his report, the combined effect of which would reduce the net expenditure by £98k and the call on Council Tax by £140k:
  - Reverse saving LS04 Community Arts with new designation of 'Inclusive Arts' (£67k)
  - Reverse saving CSTRS12 Park and Ride Additional Income (£50k)
  - Reduce cost of Respark Visitor Passes to £0.90 from £1.10 (£30k)
  - Reduce running costs for Yearsley Baths (£45k saving)
  - Reverse saving CEXES 16 Democracy Officer (£27k)
  - Reverse saving CEXES17/18 Review of Responsibility Allowances (£10k)
  - Reduction in Chief Executive's department of printing costs and subscriptions (£9k saving)
  - Provide from Council reserves £42k funding to maintain the Arts Consultant posts CS11, with the projection that schools will be invited to maintain funding for these posts from September 2010
  - Reduce the contingency by £270k (from £855k to £585k)

### **Executive Amendments to the Capital Budget Proposals**

7. At their meeting on 16 February, the Executive recommended the inclusion of two additional schemes in the capital programme, namely:
  - a further Street Lighting Improvement scheme of £0.250m and
  - £0.025m for further investment in the targeted home insulation programme to continue the £0.100m scheme commenced during 2009/10.

The effect of these changes on the programme is illustrated in Annex 1 to this report, which is a revised version of Annex B to the original report of the Director of Resources.

### **Consultation**

8. The Council's budget has been widely consulted upon. Please refer to the relevant paragraphs in the reports of the Director of Resources.

## Options

9. Options open to Council are to approve the Executive's recommendations, or alternatively, to approve any amendments that may be moved by other Members of Council.

## Corporate Priorities

10. The Council must set a balanced budget every year in order to manage its business and deliver its services effectively.

## Implications

11. There are no known implications in relation to the following in terms of referring the Executive's recommendations to Council:
  - **Human Resources (HR)**
  - **Equalities**
  - **Legal**
  - **Crime and Disorder**
  - **Property**
  - **Other**
12. Implications in respect of setting the budget are contained in the reports to Executive, which have been published and made available to all Members. Members' attention is drawn in particular to the legal advice and the statutory advice of the Section 151 Officer set out in the Financial Strategy report, which is reproduced verbatim below.

## Legal Advice

- a) The Council is required to set a Council Tax for 2010/11 before 11 March 2010. It may not be set before all precepts have been issued or before 1 March 2010, whichever is the earlier. This decision is reserved to Council and cannot be taken by the Executive or delegated to officers, although the Executive has to recommend a budget to the Council. These comments are intended to apply to both the Executive meeting and the subsequent Council meeting. Before setting the level of the tax, the Council must have agreed a balanced budget, differentiated by services, which is sufficient to meet estimated revenue expenditure, levies, contingencies and any amounts required to be transferred between funds. The tax itself must be sufficient to cover the difference between the agreed budget less government grants credited to the revenue account, and any other expenditure which must be met from the Collection Fund, less any surplus (or plus any deficit) brought forward from previous years.
- b) In addition, following the implementation of the Local Government Act 2003, 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 is also obliged to report to the Council if in relation to the previous financial year it appears that a controlled reserve is or is likely to be inadequate. A controlled reserve is one where the Secretary of State has, by regulation, defined the appropriate minimum level of reserve. The s151 officer must report the reasons for that situation, and the action, if any, which he considers it would be appropriate to take to prevent such a situation arising in relation to the corresponding reserve for the financial year under consideration. No Regulations defining controlled reserves have been made.

- c) 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.
- d) 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.
- e) 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.
- f) 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 Resources as Chief Financial 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 Resources in order to balance the budget, they must find equivalent savings elsewhere.
- g) The Director of Resources 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 b) above.

- h) 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, specified in the Local Government and Housing Act 1989. The law in relation to the council's borrowing has been changed by the Local Government Act 2003. The previous regime of capital controls was abolished and the Council is now required to set prudential indicators in line with capital investment plans that are prudent, affordable and sustainable.
- i) In setting the council tax for the next financial year and in agreeing the council's budgetary requirements, the Council also needs to take into account the fact that the Government still has power to cap local authority budgets under the Local Government Act 1999. The government may either set a maximum amount for the budget in the forthcoming year or put an authority on notice to set a maximum budget in the next financial year. If the government proposes to cap the council, the council will be given a short period to put its case. If the cap is then confirmed in the current year, this could require the authority to revisit its budget decisions and would be likely to require rebilling of council tax.
- j) 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 an Executive 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.
- k) The importance of setting a balanced budget cannot be over emphasised. Members have a duty to consider this seriously and to endeavour to reach a decision which, if not in accordance with the advice of the s151 officer has at the very least taken his advice conscientiously into account. Members are also required to act reasonably and this duty extends to their conduct in the meeting agreeing the Budget. Members should endeavour to agree a balanced budget and the level of council tax at this meeting.

## Statutory Advice From the Director of Resources

- a) 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 2010/11 and beyond), reserves and general robustness of the process.
- b) The proposals in this budget give a balanced budget for 2010/11 and give consideration to the financial years 2011/12 to 2015/16. The council has taken many steps to try to put itself on a firmer long-term financial position, with longer term planning and improved budget monitoring. Full scrutiny of the budget proposals for 2010/11 has taken place and I believe that a proper risk assessment of a range of issues has been conducted.
- c) There are significant savings contained within the budget proposals, and clearly there are risks in the achievement of some of these. I would draw Members attention specifically to the proposals within the More for York programme. Whilst I am assured of the robustness of the projected savings, and the extent of rigour in their calculation, they represent a major challenge for the council, and one that will only be achieved through full commitment across the organisation to the Transformation process. I consider there are naturally some risks in terms of their achievement, and very careful monitoring of the More for York programme will be essential.
- d) 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 overall package, which includes provision for a contingency (which I consider to be an essential feature of the budget proposals), and provision for 1% increased public sector pay (again I consider this an essential component of the robust budget) is a realistic approach in dealing with the potential financial pressures facing the council next year. In addition the major financial pressures being experienced during 2009/10 have been addressed through significant additional investment (e.g. looked after children, adult social care) and this is key to ensuring a prudent budget. Whilst I consider the budget to be robust, it is not without its challenges, and there will be a need for very tight cost control and robust monthly monitoring.
- e) I would highlight that any significant variation in terms of the assumptions regarding the level of contingency and provision for pay awards could require me to amend my statement, as would any other potential amendments to the budget proposals that I felt were not prudent/properly assessed.

- f) Looking ahead there remains a range of very significant pressures for the future. The major challenge facing the council in coming years will be to secure savings from real efficiency gains (i.e. no deterioration in service quality) 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.
- g) In addition however, looking ahead over the next few years the economic situation clearly provides a further major challenge to the council. The council has sought to recognise this in a number of ways within this budget, however it is a very volatile position and whilst the full impact of the recession and its impact on public spending in the future (especially post General Election) still needs to be assessed, there is a very high likelihood that all public organisations will need to reduce expenditure significantly. Whilst efficiency improvements will go some way towards these likely reductions, the council will need to prepare itself for fundamental reviews of the services, and respective levels, that it provides. Tackling this financial challenge will clearly be one of the major challenges facing the council in coming years.
- h) Key to tackling these medium term challenges will be the need for the council to continue its transformational change programme, through the More for York programme. However, as outlined elsewhere in this report that programme needs to deliver not only very significant efficiency improvements, but also the council will need to consider the level and type of service it provides, as it is highly unlikely that the scale of financial savings required in future years can be met from true efficiency alone. There is likely to be a need for reductions in the scope and level of services provided by all public sector organisations in coming years, and this needs to be planned for at an early stage. 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.
- i) In terms of reserves, there are no proposals contained within this report that use balances to fund recurring items of expenditure, which is a positive feature. It is particularly important that there is continual review of reserves, and Members are advised that there should in the foreseeable future be very little utilisation of existing General Reserves. The scale of pressures on the 2009/10 budget are placing potential further calls on reserves, and it may be that at some point in the future reserves need to be increased. There remains a risk that I may need to advise Members of the need to consider increasing reserves at some point in the medium term.
- j) Ensuring adequate reserves is particularly important as there is potentially great pressure/risks in future years and there are significant commitments against the venture fund in coming years which mean that reliance upon this reserve is very limited. 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. I stress that it should not be assumed that the council has significant reserves - as can be seen from the tables in this report, the future calls on those reserves are potentially putting the council in a position whereby reserves may approach, or even reduce below minimum levels.

- k) The government have announced that they will again consider capping councils who they feel are raising council tax levels excessively. The capping criteria they use are based on budget growth and council tax increases. The government have talked about average increases needing to be well below 5% and in the past have clearly meant maximum rises of 5%, but they do not publish the criteria they will use until after we will have set our budget. Based on their actions in the past I believe that in 2010/11 the maximum council tax rise that York should consider is 3%, which is marginally higher than the 2.9% in this report
- l) I would highlight that this is a maximum figure and whilst this report currently does assume an increase of 2.9%. Members may wish to consider further options to bring this increase down, in order to reduce any risk of the possibility of being capped this year. In reaching their final decision Members need to consider that if the council were capped it would bring with it reputational damage and potential costs of re-billing which are estimated at £170k.
- m) 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.

## **Risk Management**

13. The risk management issues relating to the budget setting process are contained in the reports of the Director of Resources to the Executive, which have been published and made available to all Members.

## **Recommendations**

### **Revenue Budget**

14. The Executive recommends that Council approve the budget proposals outlined in the report of the Director of Resources and set out in detail within the financial strategy, in particular:
- i) The net revenue expenditure for 2010/11 of £117.880m as set out in Annex 1, **amended by £0.098m.**



- ii) The housing revenue account proposals outlined in Annex 8.
- iii) The dedicated schools grant proposals outlined in the report.
- iv) The revenue growth proposals of £13.786m on-going for 2010/11, plus one-off growth of £1.008m, as outlined in Annex 3, **subject to the following amendments:**
  - a) Reduce growth proposals by £0.045m as follows:
    - £0.045m (from £0.123m to £0.078m for price increases in LCCS)
  - b) Reject growth proposals totalling £0.255m, as follows:
    - CORPG41 in the sum of £0.255m for increased corporate contingency.
  - c) Include new growth proposals totalling £0.030m, as follows:
    - reduction in the cost of Respark visitor badges from £1.10 to £0.90 at a cost of £0.030m;

resulting in revised figures of £13.516m for on-going growth in 2010/11, plus one-off growth of £1.008m.
- v) The revenue savings proposals of £10.352m for 2010/11 outlined in Annex 4, **subject to the following amendments:**
  - a) reject savings proposals totalling £0.154m, as follows:
    - CEXES 16 – delete 1 fte Democracy Officer in the sum of - £0.027m
    - CEXES 17/18 – review of responsibility allowances in the sum of - £0.010m
    - CSTRS 12 Park & Ride additional income in the sum of - £0.050m
    - LS04 Arts and Culture – cease funding the community arts service in the sum of £0.067m
  - b) amend savings proposals totalling £0.042m, as follows:
    - CS11 Arts Consultants – reduce the saving from £0.100m to £0.058m in 2010/11 to defer implementation until September 2010, with the remaining £0.042m of the 2010/11 saving to be funded by the use of reserves.
  - c) include new savings proposals totalling £0.024m, as follows:
    - reduction in printing costs and subscriptions in the Chief Executive's department in the sum of - £0.009m
    - reduction in the corporate contingency provision in the sum of - £0.015m from £0.600m to £0.585m

resulting in a revised figure of £10.180m.
- vi) In terms of the Council's reserves, the use in 2010/11 of £0.500m from the Venture Fund and £42k from general reserves for the Arts consultants.
- vii) Use of prior year collection fund surplus of £0.288m.
- viii) That release of growth of £500k for 16/17 year olds be subject to a further report to the Executive setting out the full implications (paragraph 28).
- ix) That the £2m transfer from general balances to the capital reserve fund not be made (paragraph 52).

- x) The increase in council dwelling rents by an average of 1.83%, in line with government guidance on rent re-structuring, as set out in Annex 9.
- xi) Note the medium term financial strategy projections that indicate the need for savings / efficiencies in future years of £10m per annum.
- xii) Note that the effect of approving the income and expenditure proposals included in the above recommendations will result in an increase in the City of York element of the Council Tax of 2.7%.

REASON: In order to set a balanced budget that assists the most vulnerable and supports the local economy, whilst responding to concerns raised by residents and interested parties.

### **Capital Programme**

15. The Executive recommends:

- (i) That Council approve the revised capital programme of £235.191m (amended from £234.916m), including specifically the inclusion in the programme of new schemes totalling £89.065m, as set out in the 'growth' column in Annex B to the report, plus a further Street Lighting Improvement scheme of £0.250m and £0.025m for further investment in the targeted home insulation programme to continue the £0.100m scheme commenced during 2009/10; the whole programme comprising:
  - a) the bids recommended in paragraph 70 (table 5), totalling £7.618m and including the allocation of receipts to Access York Phase 1;
  - b) the additional externally funded schemes in paragraph 77 (table 8), totalling £72.860m;
  - c) the use of prudential borrowing for the IT development plan in paragraph 79 (table 9), totalling £5.141m and containing specific schemes of £1.141m, with the remaining £4m subject to further approval and for the capital element of the More for York programme as in paragraph 80, totalling £210k;
  - d) the use of HRA balances to fund HRA capital schemes, as set out in paragraph 81 (table 10), totalling £3.236m;
  - e) an additional scheme of Street Lighting Improvements of £250k, on an Invest to Save basis, with a view to achieving energy / carbon savings, the repayment period to be determined by the Director of Resources;
  - f) an additional scheme of £25k to continue the existing area based programme for home insulation grants in designated areas with the lowest SAP ratings and the highest incidence of fuel poverty.
- (ii) That Council note the overall funding position identified in the report, which highlights a current shortfall in resources over the

next five years, which the Council will need to address through increased revenue contributions in the medium term.

- (iii) That Council endorse the principle of postponing asset sales until such time as the market picks up sufficiently to allow optimum values to be realised.
- (iv) That Council approve the full re-stated programme as summarised in Annex B to the report and as amended by recommendation (i) above, totalling £235.191m up to 2014/15.

**REASON:** To set a balanced capital programme, as required by the Local Government Act 2003.

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**Report Approved**



**Date** 17/02/10

**Specialist Implications Officer(s)** None

**Wards Affected:**

**All**

**For further information please contact the author of the report**

**Annexes**

Annex 1 – Revised Capital Programme 2010/11-2014/15, incorporating Executive's recommended changes to the programme (this is an amended version of Annex B to the original report of the Director of Resources)

**Background Papers**

Reports to the Executive meeting held on 16 February 2010 as follows:–

- i) Report of Director of Resources re Financial Strategy and Detailed Revenue Budget Proposals 2010/11
- ii) Report of Director of Resources re Capital Programme Budget 2010/11 to 2014/15
- iii) Report of Director of Resources re Treasury Management Strategy.