1. Introduction

1.1. Background

The council is a major organisation employing over 7,000 members of staff (the equivalent of 4,300 full time posts) and operating with net assets of approximately £620m. York itself has 83,000 properties, 8,050 of which are council owned, and a population of 186,000 of which 4,000 receive help from the council to enable them to live at home. For many years the city has been growing in terms of both the number of houses and its population and as major new developments are commenced this growth will continue and accelerate. The impact of such growth is shown at Annex 9.5.

The council also provides 68 schools and services 469 miles of roads. The usage of the transport network is enormous. York receives nearly 8m day visitors and a further 4m overnight visitors each year. To cope with such demands 3,050 car parking spaces are available and 2m passengers per annum access the park and ride service.

The financial strategy is a key element of how the council, as a major organisation, 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.

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 which the council may face in the short term it has a number of failings including:

- An identification of a gross spending pressure requirement which 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.

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. This does not mean that such priorities and aspirations are not important but more that consideration of their relative need and worth is better undertaken as part of internal budget discussions rather than via the initial financial strategy.

On this basis the financial strategy for the next three years has been revisited and reworked to now reflect the following:

- Chapter 2. An exploration of the significant short, medium and long term funding pressures that the council faces.
- Chapter 3. An analysis of the funding envelope within which these pressures must be managed.
- Chapter 4. Details of the medium term financial forecast.
- Chapter 5. How the council can look to balance its budget.
- Chapter 6. Clear statements of the council's policy in relation to the mechanisms available for managing its financial risks.
- Chapter 7. Details of how the financial strategy links to other council strategies.
- Chapter 8. Details of the financial cycle within which budgets will be set and monitored.

1.2. Context

The base for the 2008/09 budget is the Council's net revenue budget, funded by the council tax and revenue support grant, for 2007/08 of £103m[1]. The council's total, or gross, expenditure, for 2007/08 is budgeted at £379m, supported by fees, charges, and specific grants of £276m. Therefore the residual net budget represents only 30% of the council's overall expenditure.

	£'m
Gross expenditure	379
Gross income (excluding RSG and C Tax)	276
Net Budget	103
Funded by	
Council Tax	64
Revenue Support Grant	38
Collection Fund Surplus	1

[1] This figure excludes £1.3m non-recurring expenditure funded from reserves as such expenditure does not impact upon the net revenue budget of the Council.

Table 1 – 2007/08 Revenue Budget

Whilst York is the 20th largest of the 46 Unitary authorities it has consistently fared badly in the level of Government grant it receives compared to other local authorities and with the introduction of the Dedicated Schools Grant in 2006/07 this fell to approximately 60% of the unitary average, a position which, as Figure 1 demonstrates, remained unchanged in 2007/08.

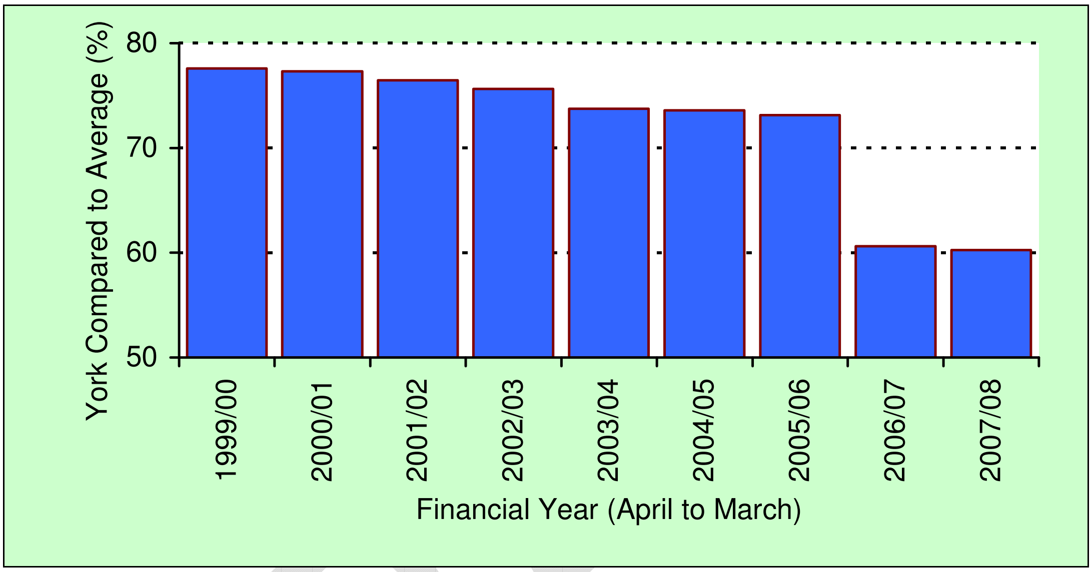


Figure 1 – Comparative Levels of Grant per Person (all unitary councils)

In addition, because of the on-going threat of capping, the Council is unable to balance this low level of central Government funding through significant Council Tax increases especially as due to the low level of Council tax a one percent increase raises less money than in most other authorities . Indeed, as shown in Figure 2, in 2007/08 York had the second lowest Council Tax of any unitary authority. As Figure 3 demonstrates, this low grant and Council Tax base has consistently resulted in York having the lowest budget spend per head of all unitary authorities.

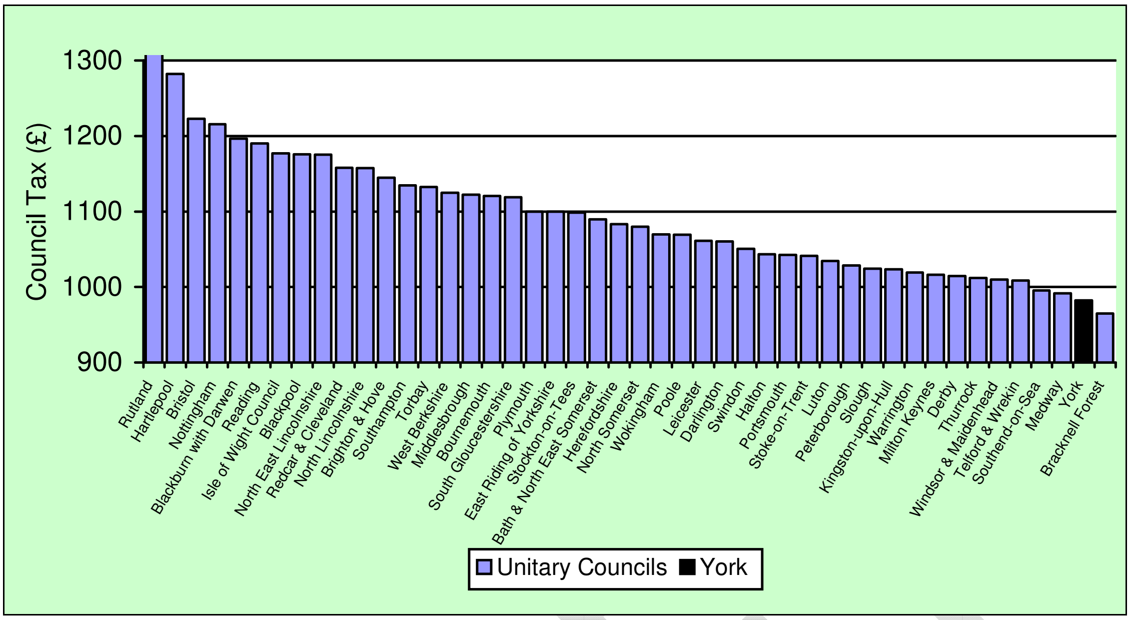


Figure 2 – Unitary Council Tax 2007/08

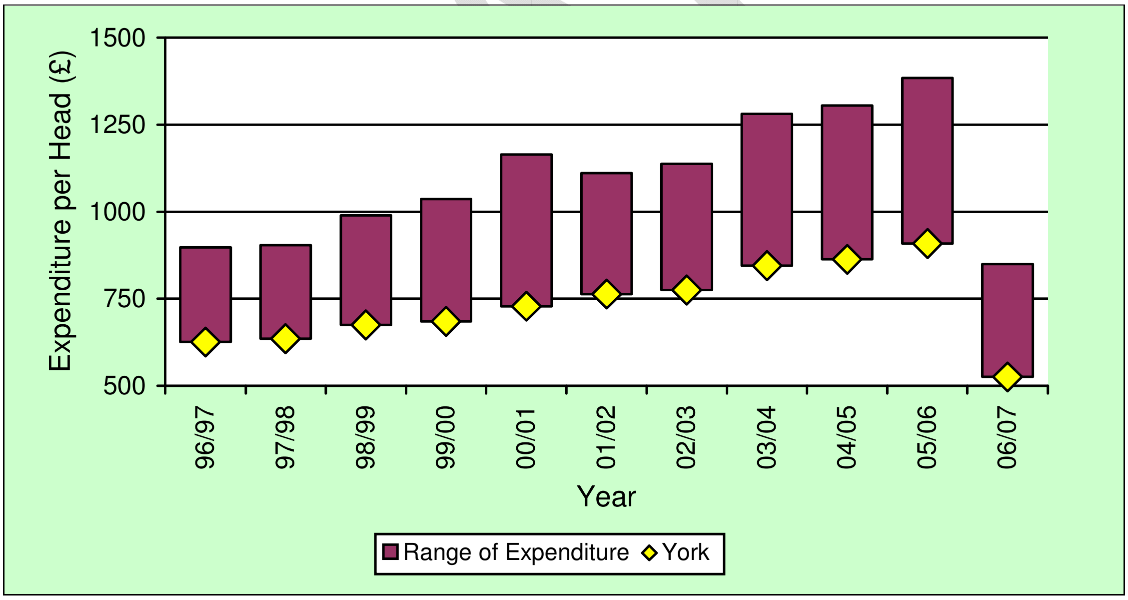


Figure 3 - Unitary Council Expenditure per Head Since 1996[2]

In such a context it is vital that York maintains its historically tight levels of financial management and a challenging budget process. Without such building blocks the council will struggle to maintain existing service levels and address the future needs of the city.

[2] The decrease in 2006/07 is the result of the introduction of the Dedicated Schools Grant

2. Expenditure Pressures

2.1. Overall Framework

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. In this regard the identification and prioritisation of current, future and potential spending pressures is of paramount importance.

The strategy does not take abroad brush approach to future spending pressures but instead focuses on those key areas of expenditure that possess a strategic need or importance for the council. To provide such focus the strategy does not go into the current aspirational needs of services but instead concentrates on those areas that the must be addressed before it can start to look at its developmental agenda. This does not mean that such priorities and aspirations are not important but more that consideration of their relative need and worth is better undertaken as part of internal budget discussions rather than via the initial financial strategy.

2.2. Links to the Council Improvement Statements

The council's corporate strategy for 2006 to 2009 has laid down 13 clear priorities for improvement. These are:

- Decrease the tonnage of biodegradable waste and recyclable products going to landfill.
- Increase the use of public and other environmentally friendly modes of transport.
- Improve the actual and perceived condition and appearance of the city's streets and open spaces.
- Reduce the actual and perceived impact of violent, aggressive and nuisance behaviour on people in York.
- Increase people's skills and knowledge to improve future employment prospects.
- Improve the contribution that Science City York makes to economic prosperity.
- Improve the health and lifestyles of the people who live in York, in particular among groups whose levels of health are poorest.
- Improve the life chances of the most disadvantaged and disaffected children, young people and families in the city.
- Improve the quality and availability of decent, affordable homes in the city
- Improve our focus on the needs of customers and residents in designing and providing services.
- Improve leadership at all levels to provide clear, consistent direction to the organisation.

- Improve the way the council and its partners work together to deliver better services for the people who live in York.
- Improve efficiency and reduce waste to free-up more resources.

Achieving these ambitious priorities will require a high degree of commitment by the organisation. In some instances work has been on-going towards revising managerial and operational structures to ensure that outcomes can be improved within the existing resource base. Where appropriate additional funding has been directed into specific priorities. Most notably the 2007/08 budget identified opportunities for significant additional investment to support the priorities relating to the reduced use of landfill and increased skills and knowledge.

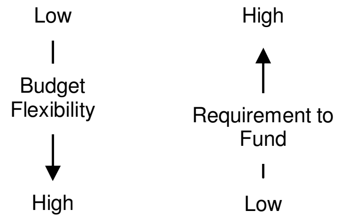
In addition to these priorities for improvement the new administration has, in consultation with the other political parties, produced a "Policy Prospectus" which has commenced debates across a wide range of areas where actions could be considered to improve the range or quality of provision within the city. In many instances briefings and reports are currently being developed to address the potential impacts of the adoption of such changes. In order to maintain on-going financial stability it is vital that the 2008/09 budget reflects such developments and also that any decisions taken in advance of the budget process clearly recognise the fiscal constraints that will face the council in the medium term.

While the priorities are important it must be recognised that resources can only be allocated by retargeting existing provision or by utilising any funding that has not been required to meet the council's underlying spending pressures. Due to York's tight fiscal position such additional funds are severely restricted. This lack of spare resources will, in many instances, switch the emphasis of change from additional funding to service redesign and refocus.

2.3. Defining Spending Priorities

Traditionally spending pressures within the MTFF have been broken down into unavoidable (recurring and one-off) and directorate reprioritisation (historically described as discretionary growth). While this approach has provided a degree of simplicity it has not helped in terms of members and officers understanding the hierarchy of decisions that must be considered in setting the budget. In this regard the budget for 2008/09 to 2010/11 will be developed with a broader and more descriptive allocation of proposals. Within this there are different levels of discretion available to members in terms of the levels of funding that they will be able to allocate ranging from very little on the contractual commitments to a high degree of flexibility on desirable service improvements. The proposed classifications are:

a. Contractual Requirements
b. Impact of Prior Year Decisions
c. Legislative and National Policy Changes
d. Impact of Changes to National Grant
e. Demographic and Obsolescence Pressures
f. Delivery of Priorities for Improvement
g. Desirable Service Improvements



2.4. Underlying Pressures

As with any organisation the council has an underlying range of revenue pressures which it faces each year. For 2008/09 such pressures are calculated at £6,760k the majority of which fall within contractual requirements and legislative change. The breakdown of these figures are detailed below.

a. Employment Costs (£2,603k)
- Pay increases. The pay increase for 2008/09 is budgeted for at 2.5%. A settlement at this level would add £1.8m to the annual pay bill.
- Increments. As part of their terms and conditions many staff are entitled to pay increments. Based upon current pay structures these would cost the council £753k in 2008/09.
- The council must also fund adjustments to pension contributions of £50k per annum.
- There is considerable uncertainty over the above figures due to the unresolved issues of Job evaluation and Equal Pay

b. Inflation (£2,250k)
- Price Inflation. Including the cost of utilities and after freezing non-contracted goods and services budgets price inflation is expected to cost the council £2.25m in 2008/09.

c. Managing the capital programme (£884k)
- Costs of borrowing and revenue implications of the capital programme. This represents the net cash impact of the capital programme taking into account the level of spend on the programme net of capital receipts and for 2008/09 stands at £524k.
- Minimum Revenue Provision. The council is required to set aside a specific amount for the repayment of general fund debt. For 2008/09 the calculation requires this increase to be £360k

d. Waste Management (£733k)
- Previously due to an annual increase of £3 per tonne the council had budgeted for a £250k per annum increase in landfill tax. However following the last budget this annual increase now stands at £8 per tonne leading to a 2008/09 budget pressure of £600k. This figure may be reduced if less waste can be sent to landfill.

- The on-going growth in the council's property base impacts on the underlying costs of collection. Due to capacity issues on current rounds in 2008/09 it is estimated that meeting this demand will cost £133k.

e. Contingency (£800k)
   - The council maintains a contingency budget to help deal with those areas where funding pressures are likely to occur in year but where an accurate estimate of actual cost cannot be provided at the time the budget is set. For the 2008/09 budget the initial projection for the contingency is £800k.

f. Other Pressures (£100k)
   - Other pressures such as increased levies for the Environment Agency and Internal Drainage Boards, and rent reviews on admin accom properties cost approximately £100k per annum. In light of recent regional and national flooding events such costs may increase in future years.

2.5. Prior Year, Time Limited and One Off Pressures

In a number of instances the council has taken decisions the full impact of which will not be experienced until future years. For 2008/09 recurring costs are expected to accrue in the following areas (budget council annex references in parenthesis).

Table 2 – Impact of Prior Year Decisions on 2008/09 Budget

Decision	**Taken By**	**2008/09 Impact (£'000)**
Free Evening Parking for Residents	Urgency (26/6/07)	75
Regrade of Chief Executive	Urgency (23/5/07)	35
Howe Hill Rent Restructure (HSG1)	Budget Council	17
Reprovision of an EPH as an EMI / Dementia Unit (HAG8)	Budget Council	100
Transfer of Ward Committee Capital Expenditure to Revenue (NSG02)	Budget Council	70
Total		**297**

The council also has previously agreed funding for a range of pressures that are one off in nature or will only occur for a fixed length of time. Such pressures are funded from the general reserve. Existing and known commitments in this area are shown in Table 3.

Table 3 – Existing Commitments to One-Off Funding

	2007/08 £'000	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**	**2011/12[3] £'000**
Waste Strategy	250	250	250	0	0

[3] 2011/12 has been included to show the proposed end of the various time limited funding streams and the material funding impact of the 2011 local elections.

Local Development Framework	149	227	224	0	0
Ward Committee and York Pride	100	0	0	0	0
York Central / British Sugar Action Plan	75	105	65	0	0
Housing Benefit element of RSG due to increased take up	25	25	25	25	0
Contribution to 2010 Mystery Plays	20	20	20	20	0
2011 Local Elections[4]	0	0	0	50	200
Items funded in 2007/08 only[5]	793	0	0	0	0
	1,412	**627**	**584**	**95**	**200**

2.6. Additional Key Financial Pressures

In considering its medium term financial strategy the authority also needs to be aware of the significant pressures that the Council faces in the near future. Indeed the need for heightened awareness of, and focus on, such pressures has been highlighted as a key driver for the change in approach to the MTFF. The key financial pressures facing the council include:

2.6.1. Comprehensive Spending Review 2007

CSR07 will define how much funding is available to local government for the three years 2008/09, 2009/10 and 2010/11. Until it is finally announced in the autumn there is little hard data upon which future forecasts can be based. In terms of the council the final impact felt through the grant settlement will be an amalgam of:

- The underlying base increase in general grant.
- The scale of any additional grant provided for transferred functions or new duties.
- The impact of the efficiency savings targets announced in the 2007 budget. The budget indicated that these would represent 3% of the net revenue budget and would be deducted from the funding made available to councils.
- Changes in the government's funding formula. Such changes are currently out to consultation, a process which will not end until October. The most important changes in terms of the council relate to proposals for allocating additional funding for concessionary fares and reductions in funding for day visitors.

Due to this degree of uncertainty the MTFF has been predicated upon a nil cash change in the grant provided. As a result the council will need to continue its robust approach to identifying service efficiencies and savings.

[4] The 2011 has been included as known cost but the funding requirement has not previously been reported to members.
[5] The breakdown of these items is available in the 2007/08 budget report.

The uncertainty over the funding quantum also impacts in terms of the council grants. Until CSR07 is announced government departments are often uncertain about the funding they will be provided with and, as a result, are unable to make firm and unequivocal commitments about the continuation or future levels of grants available to current recipients. Such uncertainty means that the council may have very little notice of significant changes in its specific grant arrangements.

2.6.2. Waste Management

There are significant cost pressures facing the Waste Management budget over coming years. Each year the Landfill Tax is increasing by £8 per tonne on the previous year's amount and the introduction of Landfill Allowances limits the amount of biodegradable municipal waste[6] that the Council can dispose using landfill. In 2007/08 the Council put aside £227k to cover these cost increases. The Landfill allowance is 63,450 tonnes in 2007/08 and this is set to reduce to 20,640 tonnes by 2020. While it is currently forecasted levels of landfill will be within allowances up to and including 2008/09 after this date the Council will need to have diverted additional waste from landfill or purchased allowances from other local authorities. If this is not achieved then the Government will fine the authority £150 per tonne landfilled over the allowance. This could potentially cost the Council £11.5m over the following four years. To alleviate this risk the Council, in partnership with North Yorkshire County Council, is seeking to undertake a PFI procurement that will divert waste from landfill from 2013/14. The Council is also developing a LATS strategy to identify options for avoiding LATS fines in the period up to 2013.

However the waste pfi is not a cost neutral solution to York's waste problems. Over the life of the contract it is anticipated that £155m will need to be found to meet its costs. In order to do so the MTFF assumes that the council will start to gradually set aside revenue budgets from 2008/09 onwards. This will provide the council with additional base budget in future years to meet on-going costs and will allow a smooth transition to future funding needs. For the initial purposes of the MTFF this requirement has been forecast at £500k per annum.

2.6.3. Pension Costs

The triennial valuation of the North Yorkshire Pension Fund (NYPF) was undertaken at the end of 2003/04. This review showed that the funding level of the whole fund had fallen from 79.5% (£187m deficit) at 31st March 2001, to 59% (£525m approx deficit) at 31st March 2004 of which York's share was approximately £130m. As recognised in last year's budget this was well below an acceptable level given the requirement to move to 100% fully funded scheme

[6] BMW is calculated as being 68% of total waste arisings.

and additional investment may be required to bring the fund back to a balanced level over the 24 year timeframe agreed by the council. This time frame compared favourably with the maximum 30 year recovery period allowed for the council by the scheme's trustees. The interim review of the fund undertaken as at 31 March 2007 indicated that due to market conditions the position of the fund had improved with the funding level having increased to 69% (£523m deficit) of which York's share would be approximately £98m. It should be noted that due to their nature, interim valuations can be volatile and while improvements may appear significant a longer term view is required of the overall recovery process.

However, even with this positive short term performance, pressure is increasing on the council's recovery period and levels of contributions. At the interim valuation the Pension Fund's actuaries indicated that changes in a number of demographic areas, most notably longevity, would have a negative impact on the level of funding. In addition changes are being introduced to the Local Government Pension Scheme as a whole and once finalised such changes may require an increased level of contributions from employers. To put this in context in 2008/09 a 1% increase in the employer's pension contribution will cost York approximately £700k.

Until the review findings are announced it would be premature to commit to increasing or decreasing employer contributions and, with a longer term focus, changes at this stage may be considered undesirable. However, regardless of the outcome, the impact of the revaluation will need consideration in the final budget recommended to Council by the Executive for 2008/09. As such this strategy does not propose to increase the level of employer contributions during 2007/08. However, the results of the triennial valuation are expected in October or November 2007 and will feature in the 2008/09 budget process and may require increased contributions to be made.

2.6.4. Job Evaluation

The Council is currently undertaking a full pay and grading review based on a job evaluation exercise. In response to guidance from The Employers Organisation the council has already set aside an ongoing base budget of approximately £2.6m and a one–off budget of just over £1.7m to fund the implementation of this review and the previous financial strategy looked to allocate an additional £500k funding towards the ongoing costs in 2008/09. At this stage in the job evaluation project it is not possible to gauge the total costs of revised remuneration arrangements as the result of implementation. However, as Table 4 demonstrates, it is anticipated that £3.116m will be available on an on-going basis to fund the resultant changes. This includes the allocation of £500k in 2008/09.

	2005/06	2006/07	2007/08	2008/09

	£'000	£'000	£'000	£'000
Budget Allocated	541	1,000	1,075	500
On-Going Funding in Base	**541**	**1,541**	**2,616**	**3,116**

Table 4 – On Going Job Evaluation Funding in Base Budget

A full report will be brought to the Executive prior to the introduction of the new pay and grading system that will highlight the full financial implications of any changes. This will include any potential future reductions in costs as the new grading structure begins to apply. In terms of the financial strategy it is imperative that the ultimate solution is maintained within the resource envelope currently budgeted for.

2.6.5. Elderly Persons

Current estimates envisage that the client base for social care will have increased by 30% from 4,892 in 2002/03 to 6,353 by 2008/09. The impact of this growth in the client base will be further magnified should historic increases in the average cost per client also continue[7]. These are due to a combination of increasing complexity of care needs and cost inflation. Alongside this a number of actions have been taken to control social care costs. In order to maintain a balanced budget into the future it is vital that these actions are successfully monitored and delivered. Even with such actions significant social care growth pressures of just under £1.3m are included in the MTFF as demographic pressures for 2008/09.

2.6.6. Supporting People

The supporting people grant is being reduced from £8.4m in 2006/07, to £8.2m in 2007/08 and then further to £8.0m in 2008/09. As a result services have faced not only reductions in overall funding but also no inflationary increases on existing budgets. Looking ahead the allocation formula (currently being consulted on) would mean a 50% reduction in funding over the next 10 years (phased in at a maximum of 5% per year). Such a reduction would not just impact on the Council but reduce funding across the sector. Due to the scope of the schemes and statutory requirements when Supporting People funds cease the Council often has to continue the service from within its own resources.

2.6.7. National Concessionary Fare Arrangements

From April 2008 the national concessionary fare scheme for the over 60s will change enabling all eligible individuals to free travel regardless of their location. As a result individuals who are not resident in North Yorkshire will be entitled to free travel in York, travel that it will be this council's responsibility to fund. In addition to this, the council will also need to deal with the residual shortfalls in

[7] For personal care the average costs per client rose from £56 per week in 2001/02 to £95 to 2004/05. Since 2001/02 across all life stages there has been an increase from an average of £58 to £96 (65%).

funding for 2007/08 that have been caused by judgments and settlements on claims made by providers against the council's current scheme.

In order to fund the costs of the scheme expansion DCLG are currently consulting on three mechanisms for allocating additional funding to councils as part of the general grant arrangements. These mechanisms would, on the face of it, provide York with £0.8m, £1.3m or £1.4m of additional funding. However by placing such funding in general grant these increases will form part of the calculation for allocating formula damping. As such any increase in overall funding could be significantly reduced to fund authorities who would otherwise be below the grant floor. In this context it should be remembered that for 2007/08 funding was provided to ensure that all council's with education and social services responsibilities received no less than a 2.7% grant increase. York's contribution towards this funding was £872k, 69% of the grant increase above the floor as calculated by the formula. If such a scenario were to be repeated on concessionary fares then the additional cash funding received by the city would be between £240k and £420k.

To address these problems the Local Government Association is lobbying for concessionary fare funding to be viewed as a specific grant taking it outside of the damping mechanism. Alternately DCLG could exclude the grant from its damping calculations. Both of these options will be supported in the council's final response to the consultation exercise.

2.6.8. Infrastructure Maintenance

While significant highways investment has been made in recent years this has to date only managed to halt deterioration and therefore have not been able to significantly reduce the backlog of structural maintenance work. The 2007/08 budget it was estimated that to address this backlog and bring all grade 3 [poor] highways up to a grade 1 [good] standard would cost £27.628m. Due to an on-going rebalancing of resources between the capital programme and revenue budgets it is currently assumed that an additional £250k will be required in the highways maintenance revenue budget for 2008/09.

The capital resources which were allocated to deal with the repair backlog and access issues in buildings have been directed at those which are most used by the public and which have been identified as being retained for service delivery in the foreseeable future. As a result the amount of urgent repairs required has reduced and accessibility to buildings continues to improve with DDA compliance now having reached 84%. There is still need therefore to continue with these works using the agreed criteria and continued capital and revenue resources will be needed in the coming years. To successfully do so will require a combination of moderisation, replacement, pfi, partnerships and internal resources. A report on addressing the property maintenance backlog will be presented to the Executive later in the year.

2.6.9. Changes to Dedicated Schools Grant

Traditionally York has invested more in schools than allocated to it through the general grant process. When school funding was removed from the general grant in 2006/07 this additional funding (approximately £4m) was removed from the council's revenue support grant and allocated to the dedicated schools grant. However no long term commitment has been made by the DfES to continue this level of school funding. This means that through national normalisation of funding over time the quantum of resource for York's schools could reduce by £4m none of which would be returned to general fund budgets resulting in limited funds being available for the council to invest in schools in order to mitigate any on-going impact on education. As a result York would be subsiding education in other council areas by £4m per annum.

2.7. Future Pressures

In developing a position on future budgetary need the challenge is to marry the information on underlying and future budget pressures to provide an underlying quantum of resources required over the next three years. Traditionally at this stage of the year the MTFF would include within it an attempted analysis of all potential pressures identified by directorates. However, in doing so, the analysis was distorted by items in what would now be termed categories 'e' and 'f' which the council is not required to support and which, indeed, would often only be supported should sufficient funds be left available once other needs have been met. This resulted in distortions to both the scale of the reported budget gap and the focus of the organisation in attempting to manage its perceived future budgetary needs. For the 2007/08 budget the swing between the MTFF and actual budget set was approximately £3m.

For this reason the future pressures model has been delivered excluding these items which will be subject to formal development during the budget process. Details of the model are provided in the MTFF at Annex 9.1 which is summarised in Table 5.

Table 5 – Future Pressures Model

	2008/09 £'000	2009/10 £'000	20010/11 £'000
Contractual Requirements	7,410	7,242	6,969
Legislative / National Policy	3,262	1,375	948
Prior Year Decisions	1,598	14	(442)
Demographic and Obsolescence Pressures	2,151	885	685
Grant Fall-out	787	211	226
TOTAL ESSENTIAL PRESSURES	**15,208**	**9,727**	**8,386**

2.8. Long Term (2011/12 onwards)

While the future pressures model is designed to identify the most difficult to avoid spending pressures for the period 2008/09 to 2010/11 there are also other significant pressures and events that the council will face from 2011/12 onwards. In most instances the exact timing and impact of such developments is difficult to gauge but they do provide an additional context within which shorter term decisions need to be taken. Potential future events include:

- Future developments under the Building Schools for the Future initiative.
- The new office accommodation at Hungate.
- The outcome of the waste PFI process
- The completion of the current contract for the management of Waterworld.
- The continued development of the York Pools project including a potential university pool.
- Development opportunities on the York Central and British Sugar sites.
- The use of earmarked fund balances for major capital schemes such as Hungate and York Pools impacting on levels of investment income.

2.9. Overall Summary

The council faces significant underlying pressures and the challenges that these present are being exacerbated by the range of short, medium and long term pressures that have also been identified. The budget process will be a key element in managing and dealing with these pressures.

3. Funding

3.1. Revenue Support Grant

Approximately one third of the council's net budget is provided through unringfenced grant paid by the government. This payment comprises revenue support grant and redistributed national non-domestic rates. As the latter bears no relationship to the level of NDR that the council collects then for all intents and purposes these two payment mechanisms represent a single funding stream.

From 2006/07 Local Government funding is based on a four-block model which no longer uses notional figures for spending and local taxation. Instead the formulae are now simply a means to distribute actual Government grant. Actual allocations from this approach for 2006/07 and 2007/08 are shown in Table 6. It is useful to note that the 2007/08 funding settlement indicated a £1.392m increase in formula grant offset by a reduction of £201k due to adjustments on the transfer of responsibilities into general grant providing a total allocation of £38.343m.

	2006/07 £'000	**2007/08 £'000**
Relative Needs Block	24,242	24,766
Relative Resource Amount	-17,118	-17,794
Central Allocation	31,292	32,244
Floor Damping	-1,265	-0,872
Net Allocation	**37,151**	**38,343**

Table 6 – Government Funding Allocations 2006/07 and 2008/09

In 2006/07 York's grant increase of 3.3% was marginally ahead of the average for other unitary authorities (2.89%). However in 2007/08 this position was reversed with a below average increase (3.8% as opposed to 4.1%). As a result, when viewed as a two year settlement for the combined period 2006/07 and 2007/08, York has seen an average level of increase in its grant funding (7.17% compared to an average 7.16%). However it must be noted that in the settlements for 2006/07 and 2007/08 the level of funding received by the Council has, due to use of floor damping, been reduced by £2.137m (£1.265m and £0.872m for 2006/07 and 2007/08 respectively). At this stage there are no clear indications of when damping will finally cease and CYC will get its full grant entitlement. However it would be safe to assume that some damping will remain for affected authorities in the short to medium term.

As has previously been identified CSR07 will define how much funding is available to local government for the three years 2008/09, 2009/10 and 2010/11. Until it is finally announced in the autumn there is little hard data upon which future forecasts can be based. In terms of the council the final impact felt through the grant settlement will be an amalgam of:

- The underlying base increase in general grant.
- The scale of any additional grant provided for transferred functions or new duties.
- The impact of the efficiency savings targets announced in the 2007 budget.
- Changes in the government's funding formula. Such changes are currently out to consultation, a process which will not end until October. The most important changes in terms of the council relate to proposals for allocating additional funding for concessionary fares and reductions in funding for day visitors.

Due to this degree of uncertainty the MTFF has been predicated upon a nil cash change in the grant provided. Should firmer indications be provided about the potential levels of any increase and the treatment of transferred grants the forecast will be updated accordingly. For reference purposes it should be noted that for 2008/09 a 1% cash increase in grant will provide the council with an additional £383k of funding.

3.2. Council Tax

3.2.1. Council Tax Projections

For 2007/08 the Council set a budget including a 4.5% (£42.29) council tax increase. As Table 7 demonstrates when combined with the Police and Fire Authority increases this equated to an increase on the Band D council tax of £49.79 or 4.24%. York's council tax increase was, in cash terms, the lowest for any council in the North Yorkshire area[8].

	2006/07		2007/08		
	Increase (%)	Council Tax (£)	Council Tax (£)	Increase (£)	Increase (%)
CYC	5.49	939.77	982.06	42.29	4.5
Police	2.27	180.00	185.40	5.40	3.0
Fire	2.56	53.94	56.04	2.10	3.9
Total	**4.86**	**1173.71**	**1,223.50**	**49.79**	**4.24**

Table 7 – Headline Band D Council Tax Figures for York

[8] For York the increase comprises the council, police and fire precepts. For other areas increases comprise county, district, police and fire precepts.

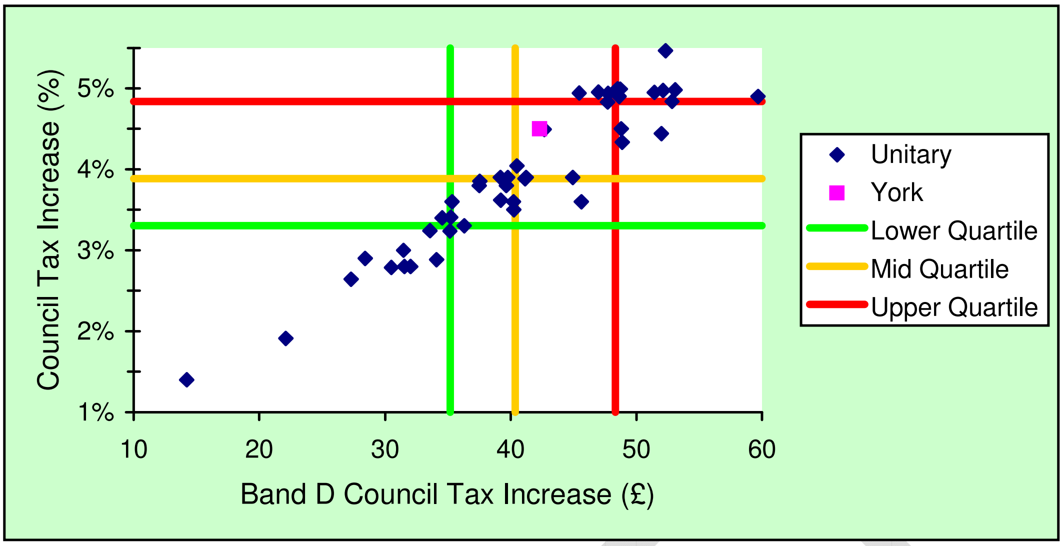


Figure 4 - Unitary Council Tax Increases 2007/08

As Figure 4 shows that the 2007/08 council tax increase fell well within the second quartile for unitary authorities.

3.2.2. Constraints on the Council Tax

The level of council tax and the level of annual council tax increases are both affected by the balance between central and local funding. Traditionally the ratio of central to local funding in the net budget was around 75:25. This ratio gave rise to a "gearing" effect which meant that an increase of 1% in budget requirement resulted in a 4% increase in council tax. This meant that comparatively small spending pressures resulted in considerably large increases in council tax.

From April 2006 this position changed. The transfer of schools funding to a direct grant meant that the council's net budget reduced by approximately 40% with the council tax representing approximately 60% of the authority's net expenditure. While this has a nominal affect on gearing in reality the overall position is unchanged. Schools funding is now matched by government grant in a similar way to the restrictions that applied when passporting was in place.

Whilst the council tax is theoretically subject to local determination central government capping powers, which allow the Secretary of State to limit the annual level of increases, means that large rises are unlikely to be possible. The principles for measuring excess must be clearly stated. The government exercised its capping powers against certain councils for both 2004/05 and 2005/06 financial years. More notably for York in 2006/07 the council was nominated for capping purposes and as a result restrictions will be placed upon the scale of the council tax increase in 2007/08. The changing criteria used by

DCLG to determine whether capping should be considered are illustrated in Figure 5.

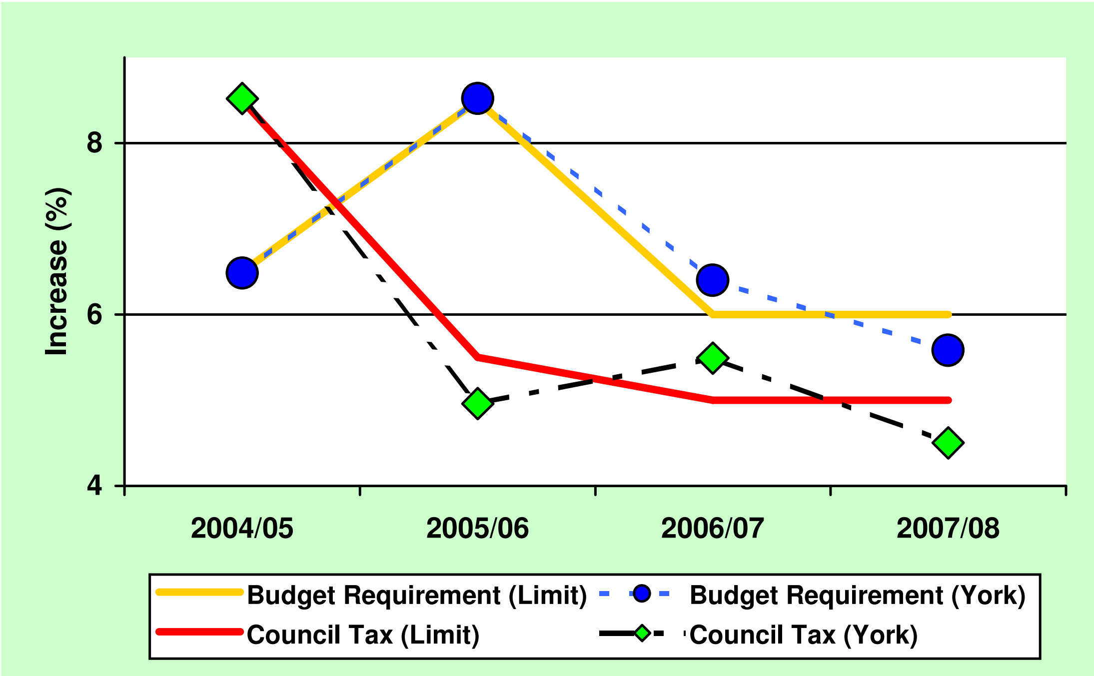


Figure 5 - Capping Criteria 2004/05 to 2007/08

Capping criteria are not announced in advance but the government made it clear that average council tax rises for 2005/06, 2006/07 and 2007/08 should be no higher, on average, than 5%. However in practice these similar statements represented very different interpretations. In 2005/06 council tax increases of up to 5.5% were deemed acceptable (York's council tax increase was 4.96%) but in 2006/07 this position had changed to the extent that no increase over 5% was be allowable (York's increase was 5.49%). As a result of this changing interpretation the council found itself subject to nomination in 2007/08.

While nomination does not have a direct cash impact it did affect the council's ability to increase council tax for 2007/08 by nominally reducing the budget against which such increases were calculated; essentially putting an additional 0.5% for capping purposes onto any increase made by the council. As a result the final 4.5% increase was, for DCLG purposes, treated as a 4.99% increase, fractionally below the anticipated capping limit.

As part of its assessment of what level of increases should be made the council will need to pay due regard to the continued operation of capping constraints in future years. The impact of this on future council tax levels is addressed at .

3.2.3. Modelling Future Council Tax Levels

As previously outlined on a per capita basis York is the lowest spending unitary authority and under the current local government funding financing systems is likely to remain so for the foreseeable future. In order to ensure that its position is not further eroded it would be prudent to adopt a policy of setting medium term council tax increases at a level immediately below the anticipated capping limits laid down by central government. Indeed the council's ability to set an increase above this level may be severely curtailed by national policy.

If guidance for 2005/06 to 2007/08 were replicated in the future then this would mean setting council tax increases of just below 5% per annum. As a result the model is currently predicated on increases in council tax of 5% per annum. However, it must be noted that this does not reflect a political decision to set such increases merely an interpretation of potential increases available under the existing national arrangements.

It should be noted that the resultant council tax levels are purely indicative and will be influenced by a number of factors including political decisions (local and national), levels of external funding and the extent of success in securing savings over the three years. If previous predictions concerning the total numbers of properties are accurate then, as shown in Table 8, the total contribution from these annual council tax increases will be as shown.

	2007/08	2008/09	2009/10	2010/11
Number of Band D Equivalents	66,205	66,796	67,414	68,088
Council Tax Increase	4.50%	5.00%	5.00%	5.00%
Contribution from CT Increase	2.73	3.20	3.39	3.59
Contribution from New Properties	0.70	0.60	0.66	0.68
Cumulative Contribution	**3.42**	**3.80**	**4.05**	**4.28**
Prior Year Yield (£m)	60.61	64.03	67.83	71.88
Yield for Year (£m)	**64.03**	**67.83**	**71.88**	**76.16**

Table 8 – Council Tax Contribution to Budget Gap 2006/07 to 2009/10

It is important to note that the increased income arising from additional properties does not represent totally new money. The increased property base brings with it additional service demands in areas such as waste collection, street lighting, school places social care etc. In addition York's government funding includes a calculation adjusting for assumed property growth that has a negative impact on grant. There is therefore no net financial benefit to the Council of increasing numbers of properties in the City

In considering the future levels of council tax it is important to note the on-going impact of lower increases. As a guide each one percent increase in council tax will, for 2008/09, yield approximately £604k in income. While it may be possible to identify short term savings to offset such costs under the current funding regime there will not be any opportunity to recoup funding lost in future years, i.e. lower increases in previous years is not a factor in the government's ultimate decision of whether or not to cap a council. Hence a decision to set a 4% council tax in 2008/09 followed by 5% in 2009/10 and 2010/11 would result in a total reduction in available funding across the three years of just over £1.8m. In terms of individual tax payers the 2010/11 band D council tax would be £10.83 lower with a total saving across the three years of £30.96.

3.2.4. Collection Fund

The Collection Fund is the ring fenced account where all Council Tax is credited[9]. This account can either be in surplus or deficit at the year-end, depending on whether the authority has managed to collect more or less than it originally anticipated. If there is a surplus, the funds are used to reduce the Council Tax. If in deficit, a higher Council Tax must be set and the taxpayer must fund the shortfall. All major precepting authorities[10] share in any surplus or deficit on the fund, York's share of the surplus is 80.4%.

For a number of years, due to high collection rates and the buoyancy of the housing market, York's Collection Fund was in surplus. However in 2005/06 this was not the case and hence no surplus was available for distribution. In 2006/07 this position has significantly improved and as a result £1.06m surplus was predicted, providing a one-off contribution towards the council's budget for 2007/08 of £850k. At this stage of the year it is prudent to assume that in future the collection fund will remain in balance (i.e. no surplus or deficit). This means that no income or costs are currently reflected in the MTFF. This position will be adjusted once the overall collection rates for the year become clearer.

However adopting such a position has an impact upon the budget process. The council's base budget assumes that £850k will be contributed each year via the collection fund and failure to do so acts as a direct funding pressure of the annual budget. To reflect this the MTFF at annex 9.1 shows an adjustment of -£850k on funding related to the collection fund. The achievement of any surplus will reduce this figure.

[9] This includes monies collected on behalf of Parish Councils, the Police and Fire Authorities
[10] City of York, Police and Fire Authorities

3.3. Fees and Charges

The financial strategy also deals with proposed changes to the systems used to drive the identification of resources which can be reprioritised to fund unavoidable costs, investment in alternate services or savings. In recent years all service areas have been asked to identify options which provide a 5% saving on their gross income and gross expenditure budgets[11]. This is on top of any increases achieved in fee income (in 2006/07 these were normally required to deliver between 2.3% and 3%). Based on this a service with a £1m spend and delivering £1m of income would have to deliver saving options of £100k plus a further £30k in additional income.

The use of a targeted savings system which takes into account both expenditure and income generation is inherently correct in that it encourages managers to look at the funding opportunities that their full range the services provide. However the dual income target system has not proved helpful in terms of clarity for managers or transparency for members. On this basis the process outlined in the financial strategy recommends that in future services provide options to save the equivalent of 5% of their gross expenditure budgets and options to increase the yield from their income budgets by 5%.

3.4. Investment Income

3.4.1. Investment Income

The Council holds cash balances which are invested on the money markets. Typically the cash balances can be separated in to two categories.

Cash flow balances are the short-term temporary fluctuations in cash balances that occur each month. An example of this is in relation to the collection of council tax and the payment of salaries, whereby the majority of council tax is collected on the 1st of the month, but salaries are not paid until the last day of the month. This maximised the Council's cash position. Similarly the Council collects its Council Tax over the first ten months of the year (April until January) which means that cash balances tend to fall in February and March.

Core cash balances broadly represent the level of Council reserves. They include the HRA working balance, earmarked reserves and any debt overhang (when the Council has borrowed in advance of need).

Investment income varies depending on the level of cash balances and the rate of interest. The long term average cash balances are approximately £38m and the equilibrium[12] interest rate is approximately 4.75%, meaning that annual

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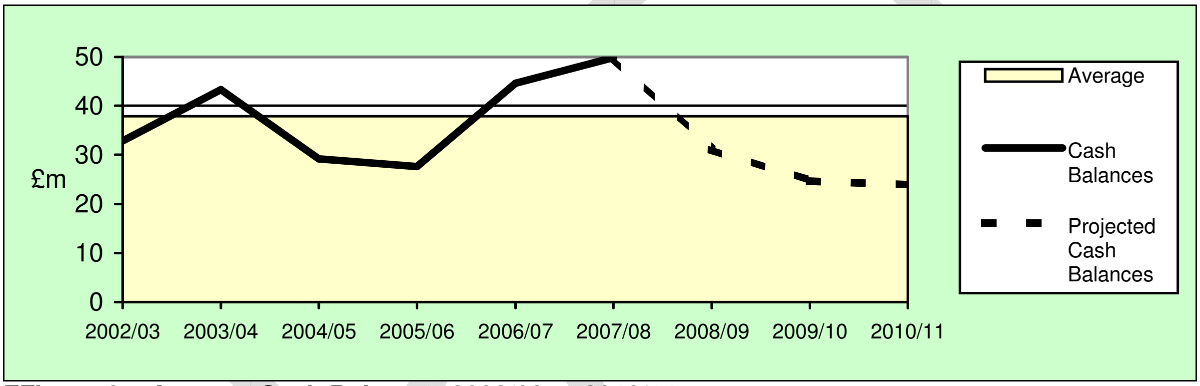
[11] Following a number of adjustments to eliminate recharges and uncontrollable budget elements.
[12] The equilibrium rate of interest is the rate at which interest rates have to be set to have a neutral impact on the level of inflation. Economists believe this to be between 4.5 and 4.75%.

investment income should be £1.8m. The Council's view of interest rates is formed by reviewing the market and taking advice from our Treasury Management advisors (Sector). The level of cash balances is mainly influenced by the level of borrowing, and size of the capital programme. It is expected that over the next 4 years that cash balances will reduce to below average because of the continued use of reserves to balance the budget, the increased size of the capital programme, and in particular the move to new office accommodation at Hungate and the HRA business plan decision to reduce Housing balances to fund the capital programme. The chart below illustrates the average cash balances from 2002/03 to 2006/07 and projection to 2010/11. At the end of 2010/11 average balances are expected to be around £21m, earning interest of only £1m, a reduction of £0.8m on the average level. This reduced level of income will need to be met by compensating efficiencies elsewhere in the council.



FFigure 6 – Average Cash Balances 2002/03 to 2010/11

3.5. Reward Based Government Grants

3.5.1. Local Authority Business Growth Incentive Scheme (LABGI)

LABGI is a scheme whereby the council can keep locally the increase in business rates generated if growth exceeds a certain level. Actual levels of entitlement are announced in December. In 2005 the council failed to reach the required level of growth to trigger additional funding and in 2006 the council received £30k. Due to the volatility of entitlement LABGI income is not built into the budget and any monies received are transferred into the general reserve.

3.5.2. Local Public Service Agreement (LPSA)

LPSA 2 is the second round of projects where a dozen or so projects or areas of improvement are identified and agreed with government. To assist with this the government allocates pump priming funding to the council and where targets are met also pays a one-off reward grant. While LPSA 2 falls within the life of the finance strategy (it commenced late 2006 and concludes late in 2008) agreed commitments on pump priming and reward grant, alongside the possibility of not all targets being met (and hence reduced reward grant being payable), means that no allowance for such income is included in the MTFF. From April 2007 the LPSA has been subsumed into the Local Area Agreement.

3.6. Other Government Grants

In addition to Revenue Support Grant the Council receives other funding in the form of Specific and Special Grants. These are distributed by the individual government spending departments to target specific spending needs. Some of the these grants are "ring-fenced" and must be spent on specific projects but many are non-ring-fenced and can be used for general revenue spending. The removal of Schools' spending from Revenue Support Grant into the specific grant DSG has distorted the ratio between RSG and specific grants. The bulk of the Schools' grants are ring fenced, for example the General Sure Start grant of £1.6m, as are the grants distributed by the Dept of Health. Details of specific and special grants in 2007/08 are detailed in Table 9.

Government Department	£'000
Education and Skills (DfES)	101,264
Of which, DSG equals £83,409 k	
Transport (DfT)	718
Health (DoH)	5,403
Work and Pensions (DWP)	35,219
Communities and Local Government (CLG)	7,974
DEFRA	213
Home Office (HO)	49
TOTAL	**152,223**

Table 9 – Other Government Grant Funding 2007/08

3.7. Hypothecated Areas

3.7.1. Overall Framework

Hypothecation (or ring fencing) primarily applies to two areas within the council: those areas covered by the Dedicated Schools Grant (DSG), and the Housing Revenue Account (HRA). While the details below outline how restrictions apply to the transfer of base funding into and out of DSG and HRA funded areas this does not prevent appropriate recharges being levied either in relation to overhead costs (such as senior management time) or through recharges for services provided such as payroll.

3.7.2. Dedicated Schools Grant

The DSG funds the pupil led aspects of the council's education service the majority of which are provided by schools. As it is funded via a specific grant expenditure under the DSG does not form part of the council's overall net revenue budget. The distribution of funding to schools is controlled by an agreed funding formula. Under the terms of the DSG the council is not able to take education funding and use it for non-eligible purposes, it can, if it wishes, choose to invest additional funding in this area.

The DSG is ring-fenced for funding the provision of education for pupils in schools. As such it covers funding delegated to individual schools through the Local Management of Schools Funding Formula and funding for other pupil provision that is retained centrally. It is distributed according to a formula that guarantees a minimum per pupil increase for each authority (5% in 2007/08). Additional funding is then allocated based on Ministers' priorities. For 2007/08 personalised learning and practical options for 14-16 year olds have been identified as priorities.

While the LEA cannot use the DSG for any purpose other than schools block funding, with the permission of the Schools Forum limited contributions can be made to the following areas:

- Combined budgets supporting Every Child Matters objectives where there is a clear educational benefit.
- Prudential borrowing, where overall net savings to the Schools Budget can be demonstrated.
- Some SEN transport costs, again only when there is a net Schools Budget saving.

Although at face value the DSG allocations may appear generous, as Figure 7 demonstrates in terms of the unitary councils York is the seventh lowest of the 46 unitary councils placing this aspect of funding within the bottom quartile. This low funding has also been reflected by the scale of the increases which have been received in funding. In 2007/08 York's increase per pupil was £217, just over half of that for the highest increase nationally of £419.

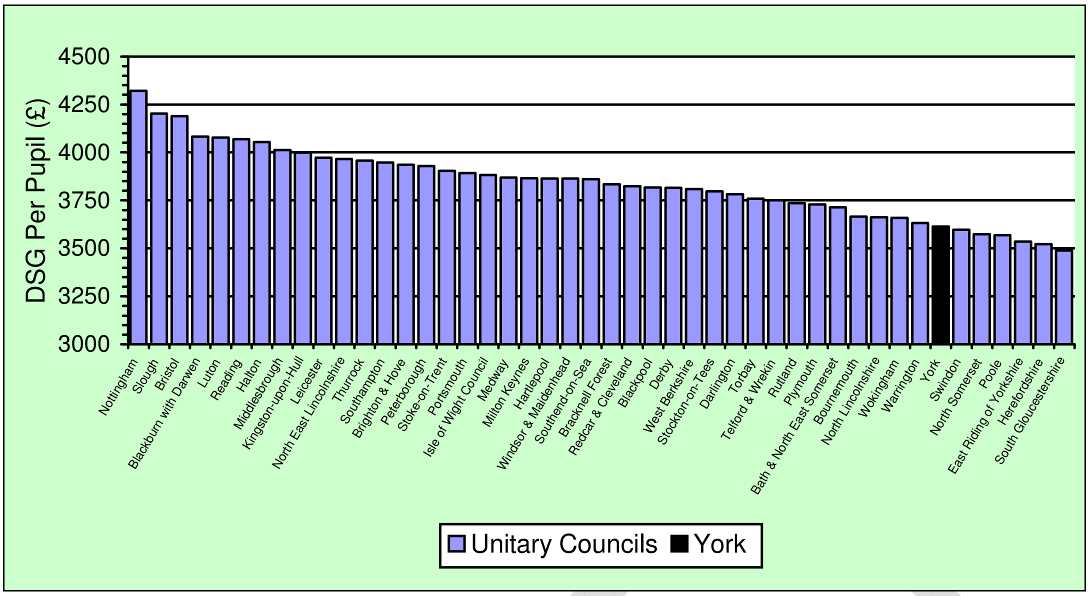


Figure 7 – Dedicated School Grant per Pupil 2007/08

3.7.3. Housing Revenue Account (HRA)

The HRA is the mechanism through which the council operates its housing landlord functions and is funded through the collection of housing rents. It is a statutory requirement that the HRA be a self supporting area of activity which means that services cannot be subsidised by, or contribute towards, the general fund.

The HRA is a ring-fenced account for the management of council housing stock and local housing authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 states that only items of income and expenditure relating to Council housing must be contained within the account. The main sources of funding for the HRA are housing subsidy and rents.

Housing subsidy is allocated on a ‘notional’ HRA. This account is based on Government assessments of what local authorities should charge in rents and expenditure on management and maintenance etc., rather than what they actually do. CYC is in a ‘negative’ subsidy position as there is a net surplus on the ‘notional HRA’ as the rent income exceeds the subsidy payable by the government for HRA expenditure on management and maintenance etc. CYC will pay over to government in excess of £5 million each year under the current subsidy system.

This means the main source of income for the HRA is rent. Over £22 million of rental income was due in 2006/07 with 97.46% collected. Arrears levels currently stand at 2.6% of the total rent roll. Future income levels will be dependent on maintaining and improving rental collection levels, the number of Right to Buy sales and the level of rent increase, which is determined by rent restructuring and the move to target rents.

The Council owns just over 8,000 dwellings, including hostel accommodation. By 2010 all council housing stock should meet the governments Decent Homes Standard (DHS). At April 2007 approximately 90% of the housing stock met the DHS, with the remaining 10% of homes being a key priority for future investment. In excess of £35 million will be invested in the councils stock by 2010 to ensure that all homes meet the DHS and in addition meet the York Standard (CYCs own standard), which exceeds the DHS requirements.

Currently the HRA has a balanced business plan in place to ensure that the DHS is achieved by 2010. Beyond 2010 it is difficult to forecast the long-term financial viability of the HRA and any future option that should be taken. This is due to the multitude of factors that are included in the HRA subsidy system, not to mention possible options that may arise from the work ongoing at pilot authorities on options for opting out of the subsidy regime, the results of which are expected to be known as part of the comprehensive spending review 2007.

The current options available to councils appraising the future of their stock are:

- Council retained ownership with in-house landlord service
- Council retained ownership of the stock but with an Arms Length Management Organisation
- Stock Transfer to a new or existing RSL.
- Private Finance Initiative

4. The Medium Term Financial Forecast (MTFF)

As explained elsewhere in this report it is not intended to produce a detailed MTFF at this time. Instead Annex 9.1 outlines a composite position of how funding pressures and budgetary constraints will impact in the short to medium term. While this does not provide an overall theoretical budget gap it does provide a clear indication of the underlying pressures that the council faces and the need for these to be managed and addressed.

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Net Funding Envelope			
Council Tax[13]	67,830	71,880	76,160
Government Grant[14]	38,343	38,343	38,343
Use of Reserves	627	584	95
Total Funding Envelope	**106,800**	**110,807**	**114,598**
Material Expenditure Pressures			
Base Budget[15]	103,226	106,173	110,223
Contractual Requirements	7,410	7,242	6,969
Legislative / National Policy	3,262	1,375	948
Prior Year Decisions	1,598	14	-442
Demographic and Obsolencence Pressures	2,151	885	685
Grant Fall-out	787	211	226
TOTAL ESSENTIAL PRESSURES	**15,208**	**9,727**	**8,386**
Anticipated Funding Adjustments			
Impact of 2007/08 and 2008/09 Contingency	-800	0	0
Reductions in Landfill Tax	-350	0	0
	-1150	**0**	**0**
Net Funding Gap	**10,484**	**5,093**	**4,011**

Other Expenditure Pressures

- Delivery of Priorities for Improvement
- Desirable Service Improvements

Figures not developed as these are desirable rather than essential budget decisions

Table 10 – Summary MTFF

As Table 10 demonstrates even before allowing for the need to replace government grant, deliver on identified priority improvements or address desirable service improvements the council has a £10.5m shortfall between its required expenditure and the funding available.

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[13] In line with Table x this assumes a 5% council tax increase and a 1% increase in the property base.

[14] Net of assumed cash efficiency reduction

[15] Based on a nil collection fund surplus, equals prior year's total funding envelope less prior year use of reserves.

5. Balancing the Budget

5.1. *Introduction*

As identified at Annex 9.1 in 2008/09 the council faces underlying expenditure pressures totalling £15.21m. Even once a potential council tax increase of 5% and other funding adjustments the council faces an overall budget gap of £10.48m in 2008/09 alone.

In attempting to balance the budget the council has a number of actions it can take. This can be categorised in terms of:

- Controlling Growth
- Directorate and Service Efficiency Savings
- Use of Reserves and One-Off Funding
- Invest to Save
- Efficiency Programme Projects

5.2. *Controlling Growth*

Due to the scale of the overall budget gap every effort will need to be taken to identify whether funding is truly required and if so what level of resource is appropriate. The first stage of this process has been to better identify and categorise the basis for requests for increased funding. To date the MTFF only includes those pressures that are increasingly difficult for the council to avoid. In addition to these pressures there are other opportunities for reprioritisation that represent an ideal position for investment in services if there were no constraints on council funding. However, this is not the case and during the budget work will be undertaken with directorates to review and prioritise all such areas against relevant criteria including statutory pressures, local priorities and comparative performance

5.3. *Service Level Savings*

5.3.1. Directorate and Service Efficiency targets

In the current financial climate it is likely that as part of the process to deliver a balanced budget the council will have a year on year requirement to secure efficiency savings. Indeed, as Table 10 shows the underlying budget gap means that just to stand from grant increases and savings the council will need to find £10.484m just to stand still. Any reinvestment in, or reprioritisation of, resources could significantly increase this figure. In terms of closing any budget gap a decision will need to be made about the extent of savings that will be required from all or some service areas. Whilst often criticised as a blunt mechanism such an approach is effective at spreading the burden of savings across all service areas. In developing proposals to deliver efficiency savings the following principles will be applied:

- Minimum annual efficiency requirements will be established corporately and applied at a service plan level. For the life of this strategy these are assumed to be operating at 2.5% of each service plan expenditure budget.

- In the past services have been required both to deliver increased fee income (in 2007/08 of between 2.3% and 3%) and to deliver efficiency savings of 5% on all income budgets. While this approach has delivered savings it has led to a disconnection between the various decisions made on fees and charges. To eliminate this, from April 2008 the target will be simplified to require all services to provide a net 5% increase in the yield they receive from fees and charges. This can be through straight increases in charges or steps to manage demand. Where services are unable to provide such an enhanced yield the extant income requirement will be viewed as an addition to the service plan efficiency requirement.

- In addition to service plan level saving targets each Directorate will be required to identify directorate level efficiency requirements. For the life of this strategy these are assumed to be operating at 2.5% of each service plan expenditure budget. Such savings must come from those areas within directorates that are best placed to contribute additional savings and this may include additional yields on income or new income streams. This means that many services will be providing potential efficiency savings of well over 2.5% of their overall expenditure budgets.

- To assist with the focus of reportage at EMAPs, Executive and Council it is proposed that, in relation to these requirements, any individual saving proposal under £10k will be viewed as a deminimis change and so not be reported in detail. This is in line with the proposals agreed by members when they approved the 2007/08 to 2009/10 Finance Strategy.

5.3.2. Use of Reserves and One off Funding

The current budget gap does not envisage the use of any additional use of reserves to support expenditure other than those commitments which were made in previous financial years. The resultant impact on future reserve levels are shown at Annex 9.2 and are summarised in Table 11.

	2007/08 £'000	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**
General Fund Reserve	5,003	4,391	4,547	5,192
Commercial Services Reserve	330	330	330	330
Venture Fund	7,934	1,258	869	481
Total General Reserves	7,267	5,979	5,746	6,003
Minimum Reserve Threshold	5,201	5,361	5,521	5,687
Headroom in Reserves	**2,066**	**618**	**225**	**316**

Table 11 – Summary Reserve Projections 2007/08 to 2010/11

It is standard practice for the council to only fund items from reserves when they are time limited in nature and will not result in medium term minimum reserve thresholds being breached. Against this framework Table 11 demonstrates is that while reserve levels at the end of 2007/08 are approximately £2m higher than the minimum reserve threshold this masks identified pressures in future years that, unless additional funds are invested into the reserves (for example from net underspends, LABGI or business rate refunds) then by 2010/11 the differential between the amount held and the minimum threshold will be in the order of £316k.

5.3.3. Invest to Save

The council set up a Venture Fund in 1997/98 with a balance of £4m. Departments make bids for funding on an annual basis since it was set up loans of approximately £3m have been advanced. The Venture Fund is used for various types of projects including invest to save opportunities, capital investment and restructures. Of the £3m that has been loaned out, £1.2m has related to invest to save projects. Successful projects have included work as diverse as facilitating school amalgamations to supporting benefit uptake. At present the amount available for investing in new initiatives stands at £1.61m.

5.4. Efficiency Review Programme

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 deal with hard cash savings but also need 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 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.

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. The broad objectives for the programme are to:

- Identify opportunities for efficiency based transformation of services;
- Deliver service improvements/improve service efficiency and /or quality (strong customer focus);
- Achieve significant financial savings reducing the need for service focussed percentage budget reductions;
- Measure the benefits of change that will lead to the achievement of efficiency targets and meet CPA expectations.

The efficiency review programme will have strong links to the budget process in that any cashable savings that arise from efficiency reviews will go towards meeting the budget gap in the year of realisation. However, while strongly linked to the budget this is only one driver. Improving efficiency should be an integral element of the organisation's culture, and something that every manager and their team should be constantly looking to improve irrespective of whether a budget target exists.

Therefore the efficiency review programme should be a stand alone set of projects that are phased over an agreed timescale. They will be monitored and delivered to increase the council's efficiency in running its services whilst, where appropriate, contributing to the annual budget deficit. The ultimate aim as far as the budget process is concerned is to get to a stage whereby the annual budget gap is addressed mainly by targeted efficiency reviews driving both cash savings and wider service improvement. It is intended that proposals for a formal efficiency review programme covering the life of the financial strategy will soon be presented to the Executive.

Current and recent projects that would be viewed as integral elements of such a review programme would include:

- Changes to the Park and Ride contract.
- The new legal commissioning framework contract.
- Changes to the delivery mechanisms for adult homecare.
- Major cultural change projects such as Easy@York and Admin Accom.
- The collaborative transport provision project.

5.5. A Balanced Approach

In order to balance the 2008/09 budget it is proposed to focus on the following actions:

- To require all services to provide options for 2.5% efficiency savings on expenditure budgets.
- To require all services to provide proposals to secure a 5% increase in the yield from external fees and charges.
- To require all Directors to provide options for portfolio wide savings equating to 2.5% of expenditure budgets.
- To indicate that the majority of progress on the council's priorities for improvement and policy prospectus will need to be addressed through service remodelling and reprioritisation.
- To indicate that Directors should expect to meet all Desirable Service Improvements through internal service remodelling and reprioritisation.

In terms of future efficiency reviews these will be considered alongside the overall efficiency requirements and depending on the potential benefits accruing these schemes may result in the above efficiency and yield percentages being adjusted.

6. Financial Policy Statements

6.1. Influencing National Decisions

As part of its recent Policy Prospectus the Executive requested that the Director of Resources examine how the council can best look to influence future central government funding decisions.

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 inequities in the council's financial position and to request actions on seven key areas:

- A reassessment of York's entitlement to Area Cost Adjustment.
- A better recognition of the true costs of tourism.
- Revisions to the capping criteria to reflect the low cash value of the council tax in authorities such as York.
- Revisions to the Bellwin scheme methodology to more accurately reflect the costs of exceptional events.
- The retention of £340m additional revenue support grant that was being paid at that time.
- The treatment of funding in relation to assumed capital receipts.
- The introduction of transitional funding when functions are transferred between national and local government.

Since this time the last three of these seven items have been addressed. While there is no direct cause and effect relationship it is safe to assume that York's submission will have had a small influence on some or all of these decisions.

Of the remaining four items 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 case in these areas and it is anticipated that this will be the case. Alongside this representations will also need to be made about the proposed funding framework for the extension to concessionary fare arrangements.

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 agenda[16].
- 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.

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.

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.

6.2. Contingency

In order to meet any unforeseen costs that may arise during the financial year, the Council sets aside a contingency amount in the budget. This is a prudent way to ensure that unforeseen costs do not result in any substantial overspends against budget, which would impact on Council reserves or require in year cuts to be made. Due to the uncertainty of any of these events occurring the level of funding provided is less than the total potential demands. As Figure 8 shows calls on the contingency have varied significantly in recent years[17].

[16] 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.

[17] 2006/07 Figures assume the allocation by Executive of £55k to Neighbourhood Services in respect of income pressures at the crematorium.

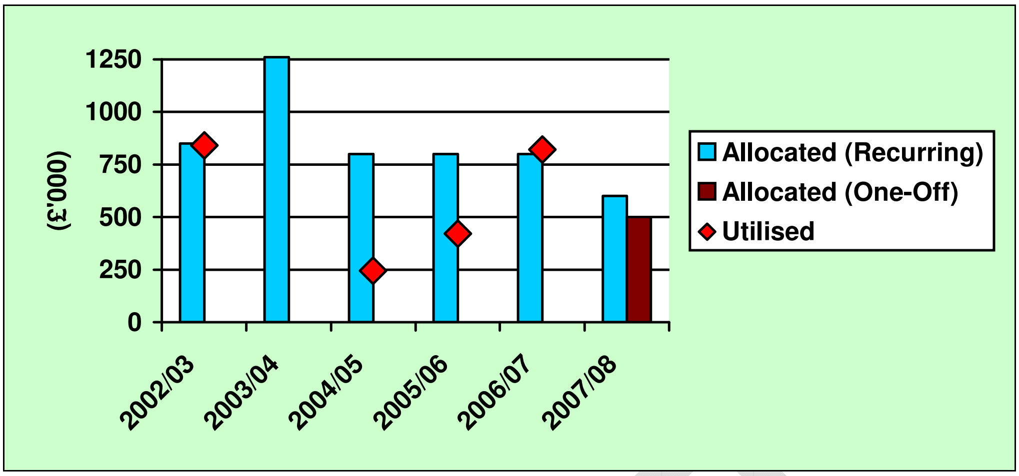

Figure 8 – Size and Use of Contingency

Releases from the contingency can only be made by the Executive and, under normal circumstances, would only be allowed for items identified during the budget process and up to the maximum amount indicated at that time. Any such releases need to have first been considered by the relevant EMAP who would then refer their request to the Executive for approval. As a result use of the contingency is an explicit element of the revenue monitoring reportage provided to the Executive.

6.3. Reserves

Table 13 shows the position on all of the unearmarked General Fund reserves that, it is anticipated, will decrease from £9.732m at the start of the 2007/08 financial year to £5.979m by the end of 2008/09. In the longer term the Council's budget should not rely on one-off funds to support recurring expenditure. Using balances to fund recurring expenditure items creates funding problems in future years, as the resources no longer exist, but the expenditure will. Also, any large approvals against balances reduce the scope to utilise reserves to fund overspends or new investment in future years.

Forecasts for the future levels of reserves are shown at Annex 9.2 and summarised at Table 12.

	2007/08 £'000	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**
General Fund	4,628	4,376	3,807	4,452
Venture Fund	1,934	1,258	869	481
Commercial Services	330	330	330	330
Total	**7,267**	**5,979**	**5,746**	**6,003**
Minimum Reserve Threshold	5,201	5,361	5,521	5,687
Headroom in Reserves	**2,066**	**618**	**225**	**316**

Table 12 – Projected General Reserves

Under current CPA guidance, a recommended prudent level of reserves for this Council should be 5% of the net non-schools revenue budget. For 2007/08 this would be equal to 5% of £104.982m, or approximately £5.25m. However in line with best practice the council has moved away from this blanket figure to a targeted calculation taking into account identified risks and known commitments. The Director of Resources has undertaken a mini-review of the level and nature of balances held both for general purposes and for earmarked purposes, and also calculated the level that should be held by undertaking a risk assessment for the Council rather than using the former CPA guidance of 5% of net general fund budget. In considering what level of general purpose balances that should be held, rather than those held for earmarked purposes, the Director of Resource has determined that, as a minimum, the prudent level must:

a. Provide sufficient cover to match the highest peak values for net departmental overspends over the last three financial years;
b. Be sufficient to fund the Council's contribution to the Bellwin scheme relating to the costs of two major disasters in a financial year;
c. Cover a shortfall in council tax income of approximately 0.5%;
d. Cover 2% of the Council's net revenue budget.

The total of the above is that the prudent minimum level of reserves for 2007/08 was calculated at £5,201k compared to the former CPA guideline figure of £5,250k. For 2008/09 it is assumed that the first of these items will remain fixed while the others will increase by 5%. This provides a 2008/09 minimum prudential balance of £5,361k.

For calculation purposes the overall general reserves comprise the general fund reserve, the venture fund reserve and the commercial services reserve[18]. Details of these are also shown in Annex 7.

Members are reminded that balances are not normally used to fund recurring expenditure and any further large approvals against these balances will reduce the scope for Members to utilise reserves to fund current year overspends or new investment in future years. Using balances to fund recurring expenditure creates funding problems in future years, as the resources will no longer exist, but the expenditure will.

Annex 9.3 demonstrates that whilst there is some projected headroom in the projected reserves balances this is forecast to decrease once the administrative accommodation project begins it's agreed draw down of funding from the venture fund. In line with the agreed project plan such funds will be repaid from savings made in future years. In addition should some the one-off pressures in 2007/08

[18] For statutory accounting purposes the general reserve also includes the balances held by schools. However as these balances are not available to support general council expenditure they are not included in this calculation.

identified as part of the contingency be incurred then future balances will be reduced. It should also be noted that in recent years the council has used its reserves as an integral part of its strategy for dealing with one off pressures (£1.1m in 2006/07 and £1.312m in 2007/08). The 2008/09 and 2009/10 reserves projections only take into account known calls of reserves of £627k and £584k respectively, a figure that is likely to increase as the detail of the 2008/09 budget is developed further.

Notwithstanding the fact that these funds are required to meet risks, uncertainties and future commitments, as these funds could be spent on current services there is an opportunity cost19 of holding reserves, especially those above the minimum CPA threshold. All council funds are invested via the treasury management function. Between April and December 2006 the return on such investments averaged 4.74% or £47,400 per annum for each £1m held. Such income is fed back centrally to support the council's overall revenue budget. As shown in Table 13 investment income from the council's reserves between for 2008/09 and 2010/11 is projected to be just under £300k per annum.

	2008/09		**2009/10**		**2010/11**	
	Balance £'000	**Interest Income £'000**	**Balance £'000**	**Interest Income £'000**	**Balance £'000**	**Interest Income £'000**
Minimum Threshold	5,361	254	5,521	262	5,687	270
Headroom in Reserves	618	29	225	11	316	15
Total	**5,979**	**283**	**5,746**	**272**	**6,003**	**285**

Table 13 – Reserve Thresholds and Investment Income

Were members to determine to immediately utilise the identified headroom in the reserves then in taking such a decision the following would need to be considered:

a. Should the contingency pressures be realised or other adjustments occur (such as the LPSA2 reward grant not being received) then would the impact on services of maintaining the minimum reserve threshold outweigh the benefits of short-term investment?

b. The potential need to fund identified one-off revenue pressures in 2008/09 and 2009/10 from the on-going revenue budget.

c. The need to identify additional savings to address the loss of budgeted investment income (£38k in 2007/08, £44k in 2008/09 and £26k in 2009/10).

d. Whether such funding was truly one-off or if it created additional on-going revenue and capital costs for future years?

[19] Opportunity cost is a measurement of the benefits of the alternate uses which an asset, in this case cash held, could be used

6.4. Treasury Management

Treasury Management is governed by the prudential code which requires the Council to have a Treasury Management Policy, well documented Treasury Management Practices, a Treasury Management Strategy statement, and an Annual Performance report. The Policy and Practices statements are reviewed annually and are reported to the Corporate Services EMAP in June or July with the Annual Performance report. The Treasury Management Strategy is reported to Council alongside the annual revenue and capital budgets.

6.5. Prioritising Budget Decisions and Service Choices

6.5.1. Current Developments

Various reports on the public sector have heightened the need for the council to better exemplify the links between its key priorities and its systems for allocating funding. However, while much talked about, there has been little concrete work on establishing clear and unambiguous links between a local authority's priorities and its allocation of funding. Against such a background York faces the challenge of developing a sustainable model that clearly links budgets and priorities in an arena where such initiatives are at best patchy and often short lived.

Such an approach also has to pay due regard to the limited levels of management capacity which exist in many service areas. In such a context it would appear logical for data collection to be integrated into the service planning framework. This presents a number of problems not least the need for such data to be in line with the overall size of the service plan. Work is currently underway between staff in Resources and the Chief Executives Department to develop future revisions to the format of service plans, and the budget and service planning cycles. Once firm proposals are produced these will be consulted upon and bought forward for approval.

6.5.2. Assessing the Service Baseline

As has previously been discussed if the council is to develop a rational and coherent budget framework then it is vital that direct links are developed into the service planning process. However, to impact on the 2008/09 budget process it is intended that in developing their proposals for savings, growth and reprioritisation Directors will have to formally consider, for the first time, comparative information on the service's cost and performance (commonly called the strategic compass) and the impact of proposals on performance and priorities. As shown in Figure 9 for simplicity these two requirements are being dealt with via simple matrices.

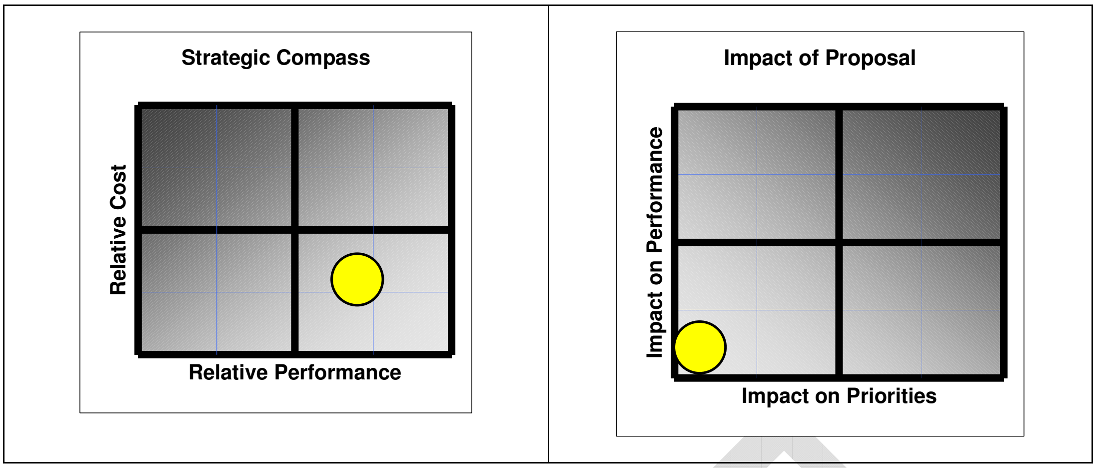

Figure 9 – Identification of Comparative Information

The strategic compass will enable Directors to better utilise comparative benchmarking information when determining and prioritising their proposals. Essentially the council would normally strive to deliver high quality services, ideally at a low cost. Where costs are high or quality is low then this provides an indication that aspects of the service need examining and possibly remodelling, the budget process provides a mechanism for achieving this.

The second matrix will allow Directors to better gauge the overall impact of their proposals and will reflect not only the scale of any positive or negative impact but also whether such impacts are one-off in nature or on-going. Again it is intended that this should assist Directors in determining which of their potential proposals to bring forward as part of the budget process.

6.6. Capital Financing

The Council has to make provision within the revenue account to fund the interest and principal repayments on any borrowing it undertakes. Until 2006/07 the FSS formula provided an explicit allocation of funds to support this expenditure however, with the implementation of the four-block model, this is no longer the case. The Council also funds a significant proportion of its capital expenditure from capital receipts. The continued use of capital receipts will result in the reduction of investment income that could have been generated if these receipts had been invested on the money markets. Based on the prevailing money market rates[20] each £1m of receipts invested in capital works costs £55k per annum in lost investment income.

[20] To date in 2007/08 the council has been receiving an average return of approximately 5.5% on its investments.

The changes to the RSG formula and the 4 block model mean that there is no longer a transparent link between the level of government support provided for capital spend and the amount of funding that is actually received. Unlike the previous system which provided councils with supported capital expenditure (SCE) approvals to borrow to finance capital expenditure the 4 block model has a factor for capital financing that is relative to the capital financing of other local authorities. This factor is then applied through the formula and adjusted for damping and other adjustments.

Table 14 below illustrates the funding of York's capital programme between 2007/08 and 2010/11. The Government are providing SCE of £24.2m over the next 4 years, revenue support traditionally amounted to around 10% of this (4% MRP and 6% interest).

	2007/08 £000	**2008/09 £000**	**2009/10 £000**	**2010/11 £000**	**Total £000**
Grants and Contributions	23,737	11,401	6,181	6,038	47,357
Government Supported Borrowing	6,663	5,955	5,933	5,623	24,174
Unsupported Borrowing	1,872	10,701	12,710	2,253	27,536
Capital Receipts	15,400	18,380	5,874	1,572	41,226
Housing Revenue Contribution	1,652	1,484	1,619	1,927	6,682
Total	**49,324**	**47,921**	**32,317**	**17,413**	**146,975**

Table 14 – Funding of the 2007/08 to 2010/11 Capital Programme

6.7. Trading

The Local Government Act 2003 gave certain classes of local authorities the power to trade in any of their ordinary functions. The Council can only trade after it has had regard to the following:

a) only authorities with a "fair", "good" or "excellent" CPA rating can trade
b) the purpose of trading is to make a profit
c) trading must be pursued via a company (limited by shares, guarantee, unlimited)
d) trading can only commence after the Council has approved a Business Case
e) the Council must cease to trade within 2 years if it falls below the "fair" CPA categorisation
f) the Council can only trade in activities in which they have the power to engage.

6.8. Invest to Save

The council provides two mechanisms to support invest to save opportunities the venture fund and prudential borrowing.

6.8.1. The Venture Fund

The venture fund is an earmarked reserve set aside for invest to save projects. The Director of Resources has delegated powers to make advances from the fund based on a business case of the project concerned. The advance has to be repaid within 7 years of the advance and interest is charged at 2% above the prevailing borrowing rates. The maximum advance is £2m to any one project. Both capital and revenue projects can be funded from the venture, but it must be repaid from revenue resources.

The rules and requirements applying to venture fund applications are addressed in paragraphs 37 to 39 of Part B of the Council's Financial Regulations:

> 37 Officers are able to bid for Venture Fund monies each year with a view to any advances from the Venture Fund being re-paid within a 7 year period at an internal borrowing rate fixed in relation to Public Works Loan Board (PWLB) rates to be determined by the CFO at no more than 2% above base. All bids to the Venture Fund must be made in the form of a business case setting out the nature and purpose of the proposal, forecast income and expenditure and payback period.
>
> 38 The CFO is responsible for convening a panel of at least 3 suitably experienced officers to consider all bids to the Venture Fund. The Panel will meet to determine which bids to support based on the merits of the individual business case and the level of balances in the Fund available for investment over the course of the financial year. Where there are competing demands for resources the Panel will determine a scoring model based on an assessment of fit with corporate objectives, the strength of the financial business case, risk of return, impact, customer benefits and alternative funding opportunities.
>
> 39 All bids must be sponsored by the relevant Chief Officer and have been considered by the local Finance Manager before being submitted to the Venture Fund Panel for consideration. The CFO has delegated authority to approve bids up to £250,000 in consultation with the Leader of the Council. Delegated decisions will be advised to the Executive as part of the budget monitoring and reporting process. Bids in excess of £250,000 must be referred to the Executive for approval.

6.8.2. Prudential Borrowing

The Council can undertake prudential (unsupported) borrowing providing the it is prudent affordable and sustainable. Prudential borrowing can only be used for capital purposes, unless supported by a capitalisation directive from central government. Prudential borrowing advances have to be approved by the Executive and are subject to a CRAM[21] bid and business case appraisal.

[21] The capital resource allocation model is the process by which individual applications for funding are assessed and prioritised for funding. Assessments under the CRAM process assist members in taking decisions on the final components of the council's capital programme.

Prudential borrowing can be repaid from either capital or revenue resources. The minimum repayment is the cost of interest plus 4% of the outstanding balance.

6.9. Year End Variances from Revenue Budgets

The council expects that those managing services will take all steps necessary to maintain their expenditure within their agreed budgets. However it has to be recognised that under certain circumstances individual service areas actual and planned expenditure for the year may differ resulting in under and over spends. The treatment of year end over and underspends is addressed at paragraphs 29 and 30 of Part B of the Council's Financial Regulations:

29 Any overspending on service estimates in total on budgets under the control of a Director must be carried forward to the following year and will constitute a first call on service estimates in the following year. The Chief Finance Officer must report the extent of the overspendings carried forward to the Executive and Full Council. Net underspendings on service estimates may be carried forward subject to financial limits set by the Chief Finance Officer and other criteria, consistent with the provisions of the Medium Term Financial Strategy.

30 All internal surpluses arising from in-house trading activities/business units shall be retained for the benefit of the Council subject to any provision to do otherwise set out in the Medium Term Financial Strategy.

In line with paragraph 29 the Director of Resources has determined that where a service area has underspent its budget for the year it may request as part of the revenue outturn report that some or all of this underspend may be utilised for work in the following financial years. Such carry forwards of resources are reported to the Executive as part of the revenue outturn report and will only be agreed when the service and directorate are underspending by more than the amount requested. Such carry forwards are normally only permitted where the expenditure relates to an on-going project where progress has either slipped or been rescheduled.

6.10. External Funding

In a number of circumstances (for example external grants) the council is provided with funding which is linked to specific projects that have a clear end date. While such funding is often a useful addition to the council's resource base the following broad issues should be taken into consideration during any application and deployment process:

- Funding should only be sought where a successful application would complement the council's priorities. Where funding is provided in low priority areas, or for schemes contrary to on-going council objectives, careful consideration should be given prior to acceptance[22];

- Under normal circumstances funds should be viewed as one-off expenditure and hence care should be taken not to commit to expenditure that occurs after the funding stream has ended.

6.11. Partnerships

The management requirements for partnerships are laid down in paragraphs 2 to 9 of Part E of the Council's Financial Regulations. Paragraphs 2 to 5 that lay down the framework in which partnerships should be considered are replicated below:

> 2 Partnerships are expected to play an increasingly important role in helping to deliver community strategies and promoting the well being of an area. The Executive provides the focus for forming partnerships with other public, private, voluntary and community sector organisations and forming a shared vision of services reflecting community needs and ambitions. The Executive can choose to delegate it's responsibilities for partnership working to officers but remains accountable for them to Full Council.
>
> 3 The main reasons for entering into a partnership are usually:
> · the desire to find new ways to share risk;
> · the ability to access new resources otherwise unavailable;
> · to provide new and better ways of delivering services;
> · to forge new relationships and opportunities for innovation.
>
> 4 A partner is defined as either an organisation (private or public) undertaking, part funding, or participating as a beneficiary in a project, or who's nature or status give it a right or obligation to support a partnership project.
>
> 5 Partners have common obligations and responsibilities to:
> · be willing to take on a role in the broader programme appropriate to the skills and resources of the partner organisation;
> · act in good faith at all times in the best interests of the partnership's aims and objectives;
> · be open about any conflict of interests that might arise;
> · encourage joint working and promote the sharing of information, resources and skills between public, private and community sectors;
> · hold confidentially any information received as a result of partnership activities or duties that is of a confidential of commercially sensitive nature;
> · act as ambassadors for the partnership;
> · act in accordance with their responsibilities set out by the financial regulations of the partnership organisations;
> · ensure risk management processes are in place to identify and assess all risks;

[22] If managing or match funding the scheme involves diverting core resources from high priority to low priority then whilst the overall resource base may increase the impact may be to make the council do less of what it actually wishes to do.

· ensure project appraisal processes are in place to identify and assess the viability of the project in terms of resources, staffing and expertise;
· agree and accept formally the roles and responsibilities of each of the partners involved in the project before the project begins;
· communicate regularly with other partners throughout the project so that problems can be identified and shared to achieve their successful resolution.

6.12. The Gershon Efficiency Agenda

DCLG are due to commence consultation on the role of nationally set efficiency targets for the period 2008/09 to 2010/11. Based upon the information currently available it is appears that DCLG will require local government to deliver 3% cashable efficiency savings for each of the years concerned. It is also expected that the current non-cashable targets will disappear. This is a significant change from the current 2.5% per annum target of which at least half (i.e. 1.25% had to be cashable). However, it is anticipated that this will be viewed as a three-year target and hence may be profiled in response to local projects and opportunities.

Once formal proposals have been produced DCLG then these will be translated into profiled annual saving targets for the council. These targets will need to be aligned with areas such as the strategic procurement programme, the efficiency review programme and the annual budget process. The resultant figures will be addressed as part of the 2008/09 budget report that will be considered by the Executive on the 12th February 2008.

7. Links to Other Strategies

7.1. Local Area Agreement

7.2. IT Development Plan

The ITDP is the mechanism by which the Council funds growth in IT and Telecommunications. It is an annual bidding round which this year is being modified to reflect the potential budget implications of IT development requirements in the next three years but only seeks agreement for one year's funding. The annual investment is revenue funding which funds the cost of prudential borrowing to purchase IT systems and hardware and services, as well as ongoing maintenance costs. Funding for internal staff to resource IT projects is not included in the ITDP and is bid for separately (not always successfully, leaving the problematic situation where we attempt to implement a system with no dedicated resource in the business area which often leads to failures.

Decisions about what to fund are made by members following a prioritisation exercise undertaken by the Corporate IT Strategy Group which is made up of Assistant Directors from each Directorate. They use a points system which allocates points based on statutory requirement, risk and strategic fit with the Corporate and Departmental Strategies and plans. The bids are submitted by each directorate, short listed by the group to ensure corporate thinking is being applied and then put into priority order with recommendations of which to fund.

7.3. Human Resources Strategy

The Council formally adopted an HR Strategy in 2005. The strategy is aligned to the Council's strategic objectives and operates on a five year rolling basis, being refreshed annually. Through the Human Resource Strategy, the Council aims to develop and maintain those key systems, processes, policies, procedures and practices necessary to deliver excellent services to the citizens and communities of the City of York. Corporate Management Team, Senior Managers and, crucially, Elected Members play a key part in ensuring that the Strategy is fully integrated across the Council.

7.4. The Procurement Strategy

The Council formally adopted a corporate procurement strategy (CPS) and accompanying three year medium term action plan earlier this year which sets out the way in which all procurement activity is undertaken at the Council. The CPS will be complemented by the introduction of a robust Competition Strategy in the autumn of 2007 which once adopted will play a key role in the way in which the council will look to control costs and maximise the value it receives from its non-pay expenditure on goods, services and works. Development work in the area of procurement over the last few years, has also involved analysing Council spend on goods, works and services and this has helped in identifying a number of areas for review that could result in reduced costs to the council.

7.5. Capital Strategy

The capital strategy was approved by the Executive on 12 September 2006. The strategy was updated to reflect the capital receipts position of the Council now that the majority of easy high value receipts have been achieved. The strategy highlights the level of repairs backlog and the need to rationalise and integrate our existing assets to release capital receipts in which to reinvest the capital funds in new integrated assets.

The council's property portfolio is of a varying age and condition. The schools repairs and maintenance backlog currently stands at £xxm and at £xxm for other properties. The capital strategy highlights the need to dispose of assets with repairs liabilities and reinvest in reducing the back log in other operational properties.

7.6. Administrative Accommodation Review

The council has undertaken a review of its administrative accommodation portfolio that it inherited when it was formed in 1996. The administrative functions of the council are spread across 17 buildings around the city, some which are owned and some of which are leased. Following consultation with employees and customers a business case has been developed which proposes the construction of a new office building at Hungate resulting in the council operating from 4 main buildings. The business case will enable over £5m of saving to be realised at today's prices.

8. The Financial Cycle

8.1. The Budget Cycle

8.1.1. Approval Timelines

The revenue and capital budgets are developed and implemented on an annual basis starting with an outline of the projected future provision at the preceding year's budget executive and finishing with budget council immediately preceding the start of the financial year. The 2008/09 budget process is outlined in figure 10.

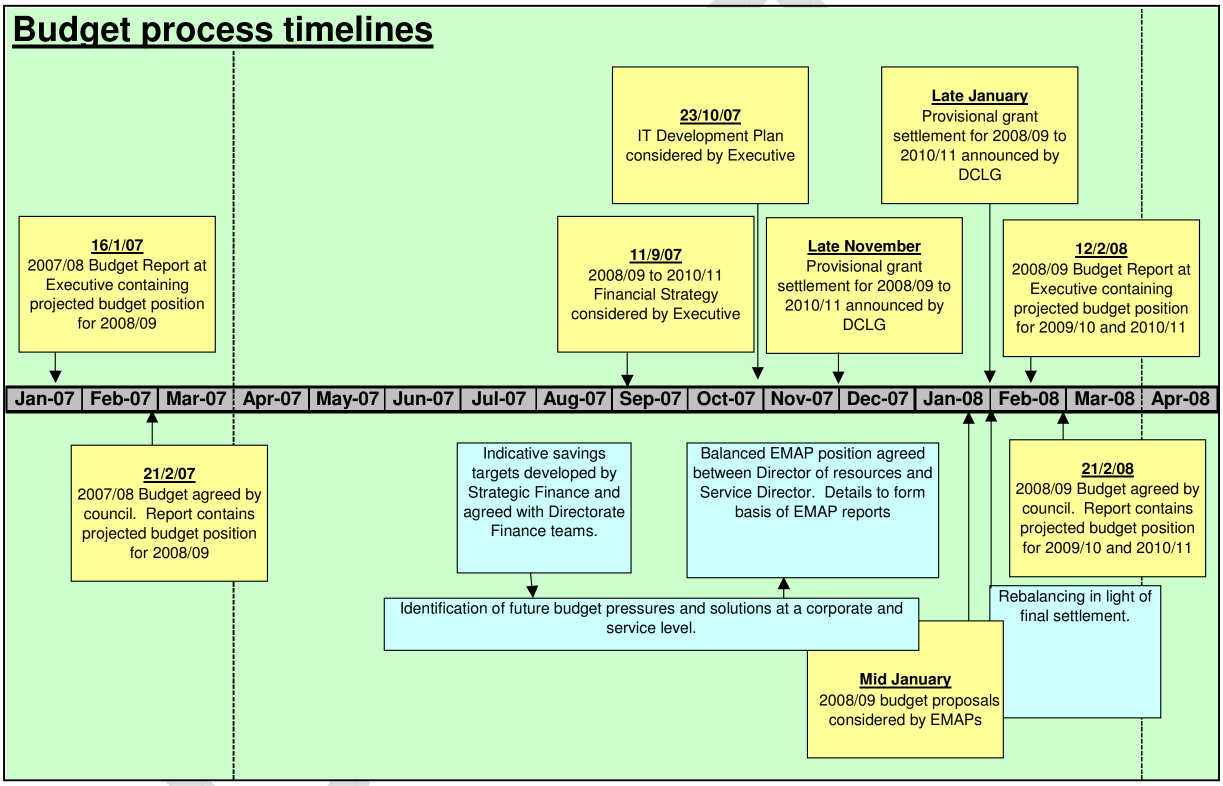

Figure 10 – Timelines for Agreement of 2008/09 Budget

This process has been developed to meet the following key objectives:

- To ensure adequate time exists for Directors to develop budget proposals that can be discussed agreed with the relevant Executive Members.
- To enable robust public debate on budget proposals through the EMAPs.
- That the budget is set in time for the first council tax instalments to fall due on the 1st April 2008. A one-day delay in instalments being received can cost the council £8,000 in lost interest on balances held.
- That the council meets its legal obligation to set an annual budget.

8.1.2. Budget Consultation

In determining its final budget the council consults with three main groups:

- The Public
  Consultation with the public has, in recent budgets, taken a number of different forms. These have varied from a request for all council tax payers to indicate their preference for a 5%, 7.5% or 10% council tax increase for 2005/06 to a more qualitative request for comments on the budget for 2007/08. Alongside these specific approaches each year the council has asked via the Talkabout and ResOp panels for indications on areas where the public would like to see more, the same or less invested in council services.

- The Business Community
  Consultation with the business community is undertaken via a round table meeting between the Leader of the Council, senior officers and invited representatives of major organisations and bodies such as the Federation of Small Businesses which represent a range of organisations within the city.

- The Voluntary Sector
  Consultation with the voluntary sector is also undertaken on a round table basis with members of the York Compact group who liase with the council on a wide range of issues. Again this body includes some of the major local voluntary sector bodies who deal with the Council, such as the Citizens Advice Bureau, and umbrella organisations such as CVS.

To assist with the deliberations in the consultations the council utilises the EMAP process to ensure that full details of the budget changes under consideration are placed in the public domain via the council's website. The results of all consultations are feed into the budget papers. Ideally such details are included in the papers considered by the Executive but on occasion are not reported to members until after the budget has been recommended to full Council.

8.2. The Reporting Cycle

8.2.1. Finance and Performance Monitors

The Finance and Performance monitoring cycle is outlined at Figure 11. This cycle is based around three formal monitors being undertaken and reported to individual EMAPs with a consolidated report then being considered by the Executive. Such monitors ensure that relevant performance and financial information are considered at the same time. The meeting schedules are:

- Monitor One — September EMAPs, October Executive
- Monitor Two — December EMAPs and Executive
- Outturn Monitor — May EMAPs, June Executive

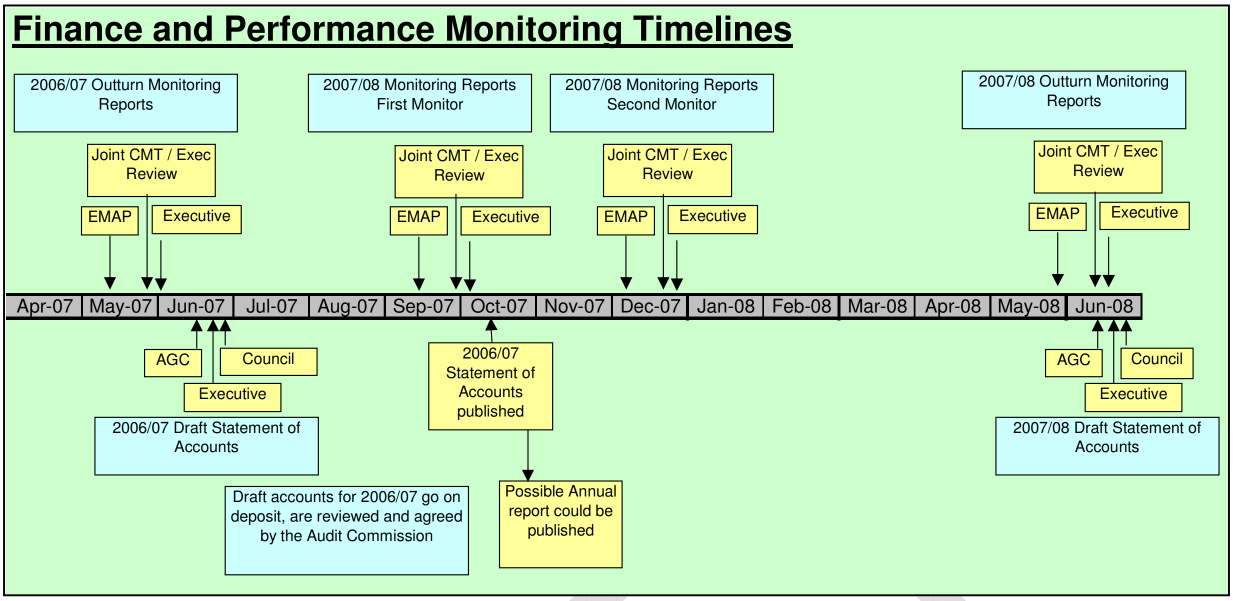

Figure 11 - Finance and Performance Monitoring Timelines

The financial basis for these reports is to provide members with a projected outturn for the service areas concerned.

8.2.2. The Statement of Accounts

In addition to these monitors the council also has to publish a formal Statement of Accounts by the 30th June following the end of the financial year (which ends on the 31st March). The accounts are produced in line with the requirements of the Statement of Recommended Practice for Local Authority Accounting which is produced each year by the Chartered Institute of Public Finance and Accountancy. At present the draft accounts are first considered in late June by the Audit and Governance Committee and then by the Executive who recommend them for acceptance by full council. Their acceptance by full council must occur by the 30th June. Following approval the accounts are formally reviewed by the Audit Commission who issue their opinion by the 30th September at which stage the accounts are considered finalised and formally published.

8.2.3. The Annual Report and Summary Accounts

As the statement of accounts is often a wieldy and technical document from September 2007 members have indicated their support for the publication of an annual report for the council. This report will provide in summary detail both key elements of the council's statement of accounts and notable developments or performance issues for the year. It is hoped that such a development will enhance the level of public accessibility to financial and performance information about the council's activities.

9. Annexes

9.1. Medium Term Financial Forecast 2008/09 to 2010/11

		2008/09 £'000	2009/10 £'000	20010/11 £'000
	Unavoidable and Contractual Requirements			
CORP	Employment Costs			
	Pay Increases for APT&C @ 2.5%	1,800	1,900	2,000
	Pay Increments	753	780	800
	Job Evaluation	500		
	Employer's LGPS Contributions	50	50	50
LCCS	SPA Points	30	30	30
CORP	Price inflation	2,250	2,300	2,400
CORP	Rent Reviews on admin accom	100	33	TBC
CORP	Additional Financing on Capital Programme	474	578	290
CORP	Minimum Revenue Provision - New Borrowing	229	196	131
CORP	Minimum Revenue Provision - Commutation	131	95	18
CORP	Revenue implications of Capital Programme	50	100	100
CORP	Full year effect of prior year savings	TBC	TBC	TBC
	Contingency	800	800	800
CS	Inflation in cost of maintenance - Highways & Street Ops	110	110	110
CX	2011 Local Elections			50
HASS	Continued impact of PCT pressures	TBC	TBC	TBC
NS	Increased Environment Agency & IDB Levies	30	30	30
NS	HWRC Site Management & Transportation Contract - stepped increases	20	40	10
NS	Inflation on paper & delivery costs of "Your Ward"	10		
NS	Waste Processing Contract - stepped increases			150
RES	Insurance Contract		200	
RES	Inflation on IT contracts	73		
		7,410	**7,242**	**6,969**
	Potential Changes to National Government Policy			
CS	Changes and 2007/08 Adjustments to Concessionary Fares Arrangements	1,100		
CS	Deregulation of Land Charges - need to reduce surplus	300		
CS	PROW - Definitive Map (CROW Act)	70		
CS	Building Control - need to reduce surplus	50	50	50
CS	Additional condition testing (SCANNER)	30		
CS	Traffic Management Act - additional Senior Engineer	20		
HASS	EPH Staffing	TBC	TBC	TBC
HASS	Centre for Independent Living	TBC	TBC	TBC
HASS	Accommodation & support strategy	TBC	TBC	TBC
HASS	White Paper (incl, prevention agenda)	150		
HASS	Individualised budgets	50		

		2008/09 £'000	2009/10 £'000	20010/11 £'000
LCCS	Shortfall on Connexions Grant	100		
LCCS	School Workforce Census	7		(2)
LCCS	CRB Clearances	15		
LCCS	Children's Information Service	10		
NS	Increase in Landfill Tax by £8 per tonne	600	600	600
NS	4 additional kerbsiders for recycling from domestic properties	500		
NS	Purchase of LATS allowances		700	300
RES	Property - unable to continue to fund costs from cap. receipts	260		
RES	Supplementary Business Rates		25	
		3,262	**1,375**	**948**
	Prior Year Decisions			
CEX	Impact of revised political arrangements on Members Allowances	25		
CEX	Appointment of new Chief Executive	35		
CS	Reduction in use of capital - Highways & Street Ops	250		
CS	End of Prudential Borrowing - Highways & Street Ops	250		
CS	Withdrawal of evening parking charges - Minster Badge	75		
CS	Revenue Implications of Local Transport Plan	60	60	60
HASS	Reprovision of an EPH as EMI/Dementia unit	100		
LCCS	Edmund Wilson Gym	66	(33)	(33)
LCCS	One off revenue implications of Oaklands closure.	40	(40)	
NS	Replacing ward committee capital budgets with revenue	70	70	70
	Existing One Off Commitments	627	(43)	(539)
		1,598	**14**	**(442)**
	Demographic and Obsolescence Pressures			
CORP	IT Development Plan	500	500	500
HASS	Increased need for home care	540		
HASS	Increased number of LD complex cases & transitions	400	400	200
HASS	Increased need for residential & nursing care	348		
LCCS	Fostering	200		
LCCS	City of Festivals	TBC		
LCCS	Joseph Rowntree one school pathfinder	30	(15)	(15)
NS	Additional refuse collection round due to growth in property no's	133		
		2,151	**885**	**685**
	Reduction or Cessation of Grants to York			
HASS	Supporting People Reductions	200	200	200
LCCS	Cessation of LSC Grant for lead post for 14-19 Strategy	60		
LCCS	Early Support Programme	30		
LCCS	Street Sport - Sport England	15	7	1
LCCS	Funding for 19+ Learning	50		
LCCS	Staffing for AAY - Arts Council Yorkshire			24

		2008/09 £'000	2009/10 £'000	20010/11 £'000
LCCS	Early Years Advisor	60		
NS	End of Waste Performance Revenue Grant (WPRG)	203		
NS	End of WPRG - revenue costs previously capitalised	100		
NS	Award of Air Quality Monitoring Stations Maintenance contract	39	4	1
NS	End of CRED funding for St Nicholas Fields SLA	20		
NS	Part funding of Local Authority Liaison Officer	10		
		787	**211**	**226**
	TOTAL ESSENTIAL PRESSURES	**15,208**	**9,727**	**8,386**
	FUNDED BY :			
	Increase in Council Tax	3,797	4,050	4,280
	Use of Reserves	627	584	95
	Council Tax surplus	(850)		
	Reductions in Landfill Tax (assumes new arrangements in place)	350		
	TOTAL FUNDING	**3,924**	**4,634**	**4,375**
	IMPACT OF CONTINGENCY			
	Use in 2007/08 addressing 2008/09 pressures	400		
	Assumed 2008/09 Contingency offset against current year pressures	400		
	BUDGET GAP TO BE FUNDED	**10,484**	**5,093**	**4,011**
	ADDITIONAL FUNDING OPTIONS:			
	Annual change in Government Grant	TBC	TBC	TBC
	Identification of Savings and Efficiencies	TBC	TBC	TBC
	Increased yield on Fees and Charges	TBC	TBC	TBC
	Additional Use of One Off Resources	TBC	TBC	TBC

9.2. Capital Budget 2008/09 to 2010/11

Total by Department	2007/08 Budget £m	2008/09 Budget £m	2009/10 Budget £m	2010/11 Budget £m	Total Budget £m
Children's Services	18.853	9.543	0.250	0.000	28.646
City Strategy	9.246	6.852	6.113	5.552	27.763
Economic Development	0.509	3.500	0.000	0.000	4.009
Housing	9.249	8.705	8.887	9.303	36.144
Leisure and Culture	4.592	5.688	1.763	0.000	12.043
Neighbourhood Services	0.615	0.202	0.000	0.000	0.817
Resources	6.039	13.226	15.099	2.353	36.717
Social Services	0.221	0.205	0.205	0.205	0.836
Total	**49.324**	**47.921**	**32.317**	**17.413**	**146.975**

9.3. Reserves Forecast 2008/09 to 2010/11

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000
General Fund Reserve				
Balance at 31 March 2007	7,682	5,003	4,391	4,547
Less: Already Committed To Annual Budget	-1,312	-627	-584	-95
Carry Forwards from Previous Years	-1,519	0	0	0
Supplementary Estimates	-223	0	0	0
Revised General Fund Reserve	**4,628**	**4,376**	**3,807**	**4,452**
Add: Other Adjustments				
Release of Bellwin Reserve	300	0	0	0
NDR Rebates	75	0	0	0
LPSA2 Reward Grant	0	15	740	740
	375	**15**	**740**	**740**
Expected General Fund Reserve as at 31 March	**5,003**	**4,391**	**4,547**	**5,192**
Commercial Services Reserve				
Balance at 31 March 2007	439	330	330	330
Less: Use of Reserve	-109	0	0	0
Estimated Commercial Services Reserve at 31 March	**330**	**330**	**330**	**330**
Venture Fund				
Balance at 31 March 2007	1,611	1,934	1,258	869
Plus: Repayments	1,578	602	611	611
Less: Advances	-1,255	-1,278	-1,000	-999
Estimated Venture Fund Balance as at 31 March	**1,934**	**1,258**	**869**	**481**
Total Revenue Reserves as at 31 March	**7,267**	**5,979**	**5,746**	**6,003**
Estimated Minimum Reserves Threshold	**5,201**	**5,361**	**5,521**	**5,687**
Headroom In Reserves	**2,066**	**618**	**225**	**316**

9.4. Consultation on Changes to 2008/09 to 20910/11 Funding Formula

The Government has recently published a consultation on potential changes to the data and formulae used in the calculation of the 3-year local government finance settlement. Each of the proposals has been illustrated using the 2007/08 settlement as a base. The proposals are not exclusive and respondents to the calculation, which closes on 10 October 2007, may propose alternatives. The potential changes relevant to York are described below.

9.4.1. Key Potential Changes Affecting York

These are the key proposals that York should look to influence and comment on. An appropriate response is vital if York is to ensure that negative proposals are negated and positive proposals maximise benefits for the city.

The Day Visitors Indicator
The number of day visitors to an authority is taken into account in the calculation of funding levels for Highways Maintenance and Environmental, Protective and Cultural Services. Day visitors ignores net in-commuters, overnight visitors (measured elsewhere) and trips to families and friends. There is no consistent reliable source of measurement and the current indicator uses information from the 1998/99 Leisure Day Visits Survey, the 1991 Census, the 1991 Census of Employment and the 1991 survey of visits to tourist attractions. It is accepted that this information is out of date. DCLG undertook a review of visitor numbers in 2005 but the results were not accepted as reliable.

The DCLG has now taken a different approach and has tried to identify an indicator that would reflect the reasons why day visits are made, rather than attempt to estimate the actual number of day visitors in a year.

The 2005 English Leisure Survey provides information on the main attractions for a day visit. The number of visits to each type of attraction (including categories such as cycling, shopping and attractions) at a national level has been used to determine the weight of each type of attraction. Visits to family and friends are excluded. These are combined via proxy measures to indicate an authority's relative ability to offer the type of main attraction shown as the reason for making a day visit.

The final indicator applies a population factor to measure the attractiveness of an area. This factor is the natural log of the number of people within the authorities that border the host authority (within 50 miles or 80 km) divided by the distance between the authorities. The threshold of 50 miles is based on the English Leisure Visits Survey that showed that 95% of leisure day visits were taken up to a distance of 50 miles.

Issue for York: The exemplifications provided by the DCLG for this change indicate a £1m reduction in funding for York. It would appear that this problem (which is replicated at a number of other notable tourist destinations) is due to the model not accurately representing the flow of long distance tourists. This is certainly the case in York where survey work undertaken at Easter 2007 indicates that 26.4% of visitors come from Yorkshire and Humberside, 60.4% come from elsewhere in the UK and 15% come from overseas.

Concessionary Fares

When £350m was put into formula grant in 2006/07 to fund free bus travel for the over 60's and disabled people the DCLG increased the judgemental weightings on population density, pensioners on income support and incapacity benefits/severe disablement allowance, i.e. these were used as a proxy for increased bus usage by the over 60's.

A further extension of this scheme starts in 2008/09, allowing free travel anywhere within England. A decision has yet to be made on whether funding will be via formula grant or via special grant. If it is to be distributed via formula grant the DCLG propose to increase the judgemental weights on some parts of the formula. The DCLG have proposed 3 possible methods to distribute this funding via formula grant:

a) distribute the entire £200m based on the number of day visitors to each authority (day visitor information is used elsewhere in the formulae). There is also an assumption that the majority of trips will be made to neighbouring authorities.

b) distribute half the funding pro-rata to the day visitor indicator and half to overnight visitors.

c) distribute roughly equal proportions pro rata to net in-commuters, day visitors and incapacity benefit claimants. Net in-commuters and day visitors act as a proxy for journeys to and from neighbouring authorities, whilst incapacity benefit claimants represent the trips made by disabled people. The remainder of the funding is distributed by a population density uplift to capture the increased opportunity for travel in dense urban areas. The DCLG have indicated that they consider this option to be the best proxy for bus patronage.

Issue for York: The issues in York relate not only to the formula adopted (the three models provide an indicative allocation that ranges between £800k and £1,400k per annum) but also to the inclusion of funding in general grant that could result in any allocation being subject to formula damping. If the damping position affecting York for 2007/08 were to be replicated for 2008/09 this would reduce any final allocation to between £240k and £420k per annum.

Area Cost Adjustment

The Area Cost Adjustment (ACA) reflects the varying cost of service delivery around the country and it is proposed to adjust the component parts of the calculation using 2005/06 spending information.

In addition to this, DCLG have also reviewed the geography of the ACA. Outside London, authorities are grouped into pre-reorganisation county areas, so York is included within North Yorkshire and DCLG does not propose to calculate ACA at a sub-county level. It does however propose changes to the groupings of authorities in the South East and London.

Issue for York: The proposals take no account of the higher costs of provided services in York than elsewhere in the region and the city's unique status within North Yorkshire.

Student Exemptions and the Council Tax Base
The tax base is used as a measure of an authority's potential capacity to raise council tax and is defined as the number of Band D equivalent properties in each authority. All other things being equal, the greater the tax base, the less formula grant received. With three-year settlements the tax base is projected using the mean of the two most recent years' percentage increase to predict the tax base for the following years.

The current calculation of the tax base takes into account the number of exempt student properties as at 10 October. Because this is so early in the academic year it is likely that the number of student exemptions declared is less than the final number. This results in an artificially inflated tax base and a consequent reduction in formula grant.

In 2007 student exemption data will be collected on both the 31st May and a date in mid-September. Because data as at 31st May has not been collected in previous years, any adjustment would only be applied to the starting position of the tax base. The annual percentage increases to be applied to the starting position would be calculated using the existing annual average percentage increase figures, consistent with the existing treatment of student exemptions.

The options given are dependent on all authorities producing the relevant data.

The first option uses just the 31 May data as an adjustment for student exemptions. This should mean that the eventual level of student exemptions is more fully reflected, but there is a risk that the figures will overstate student exemptions, since some properties may not be exempt for a proportion of the year.

The second option uses the average of the data at 31 May 2005 and the data collected in mid-September 2007 for the CTB1 form, which should reduce the risk or overstating the level of exemptions.

Issue for York: There are no exemplifications for these changes but it is hoped that as York has a sizeable student population the overall impact on funding will be positive. It would be logical, therefore, for York to support this change.

9.4.2. Other Proposals

Adjusting the Formula Grant Floor
Floors are included in the grant calculations to ensure that all authorities receive a minimum annual increase in their grant. This is paid for by scaling back the increase of all authorities above the minimum increase (the floor). The floor is required because at the beginning of each 3-year settlement period there will always be a degree of underlying distributional change. The rate at which this change occurs is determined by the level of the floor. Whilst the use of a floor is a permanent part of the system it does not have to be at the same level over all 3 years. The DCLG's proposal tapers the floor downwards over the 3-year settlement period.

The new formulae introduced in 2006/07 for Children's and Younger Adults' PSS resulted in considerable distributional change, meaning that some authorities saw a considerable decrease in their funding whilst others increased dramatically. To smooth the effects of these changes a minimum increase of 2.7% was awarded to all authorities. In order to pay for this, authorities that received more than a 2.7% increase had their awards scaled back. Whilst DCLG recognises the need for certain stability and predictability in the annual finance settlements it remains committed to fully implementing the new formulae. Therefore DCLG is asking for opinions on whether a specific floor for PSS should be maintained or removed.

Issue for York: Over the past two years York has suffered due to the application of the floor and formula damping. However due to the degree of uncertainty around future funding levels, especially with significant reductions potentially occurring through the day visitor allocations it may be inadvisable for the council to strongly campaign against this principal at this time.

Social Services for Older People
There is a Low Income Adjustment within the Older People's PSS formula which takes into account each authorities ability to raise income from fees and charges. DCLG is proposing to update the information used as a proxy for this in order that it will be more easily updated in future (current data used is based on the 2001 Census). The implied funding impact on York of this change is not significant.

Highway Maintenance
DCLG is proposing to update the information regarding winter and non-winter maintenance from 1998/99 spending to an average of 2003/04-2005/09 spending. The implied funding impact on York of this change is not significant.

9.4.3. Outline Response

It is apparent that the focus of the council's efforts needs to be on those areas which will have the greatest impact on funding, in this instance day visitors and arrangements for the payment of additional concessionary fare funding.

Responses may also be required in other areas, most notably in relation to proposals for adjusting Area Cost Adjustment which fail to meet York's historic representations to the DCLG and its predecessors. In addition any response should be supportive of the proposed changes in the calculation of the impact of students on the taxbase