



Executive**15th December 2009****Report of the Director of Resources****2010/11 Budget Strategy and Medium Term Financial Planning
2011/12 to 2013/14****Summary**

1. This report seeks to update Members on the strategy being adopted for the development of the 2010/11 Revenue Budget, which will require approval from Council on 25 February 2010. The report also outlines longer term issues linked to public sector funding and the implications these may have on the council's medium term financial planning.
2. The current funding assumptions underpinning the development of the 2010/11 Revenue Budget are:
 - a) A Council Tax increase of 2.9%.
 - b) A Formula Grant increase of 2.5%, which is 0.5% below the average increase for unitary authorities and follows a 'damping' reduction of £1.155m. The settlement also sees the council as the 9th lowest out of all 55 unitary authorities in per capita funding, equating to £153.99 below the national average for each person in the city.

Background

3. The 2009/10 Budget Report approved by Council in February 2009 contained a Medium Term Financial Forecast (MTFF) which broadly outlined the council's financial strategy through to 2012/13. The MTFF set out the main financial risks faced by the council, indicated a balanced position for 2010/11 and was based on a number of key assumptions, i.e.
 - a) A Council Tax increase of 4%.
 - b) Efficiency savings delivered through a transformation programme which would remove the need for unstructured 'salami slicing' of budgets.
 - c) Resulting in additional financial capacity to allow investment in key corporate priority areas.
4. Since the MTFF was produced, the economic climate has deteriorated significantly resulting in pressures on income generating services and additional demand for services from residents who have been worst hit by the recession. In addition, demand for social care across the city has risen dramatically, resulting in ongoing financial pressures in 2009/10 which will need to be addressed as part of the development of the 2010/11 Budget.

5. At the same time, the council's corporate strategy has been refreshed which was approved by Council in April 2009. Any financial planning decisions that are made should therefore work towards meeting the revised aims and objectives outlined in the strategy.
6. A report on the arrangements for the development of the 2010/11 Budget was approved by Executive on 23rd June 2009, and this report seeks to provide further information to Members.

2010/11 Revenue Budget – Latest position

7. As part of the development of the 2010/11 Revenue Budget, a review of the MTFF has taken place and updates have been made in respect of key assumptions, which have been extended following a review of the council's reserves and an assessment of the areas where corporate growth is seen as essential for financial pressures deemed unavoidable.
8. The key assumptions underpinning the development of the 2010/11 budget are set out below:
 - a) A Council Tax rise of 2.9%.
 - b) A Formula Grant rise of 2.5%.
 - c) The cash limiting of budgets for directorates, with the need to self fund all non-exceptional budget pressures within this cash limit, including:
 - i) pay increases, i.e. operating on a cash standstill basis.
 - ii) inflationary increases, as above.
 - iii) any cost of appeals and increments arising from the Pay and Grading review.
 - iv) one-off growth items to reduce pressure on the council's reserves.
 - d) An assumed level of savings gained through the More for York programme.
 - e) The reinvestment of any such savings into priority areas identified as part of ongoing budget monitoring and from the corporate strategy.
9. The provisional Formula Grant settlement was confirmed on 26 November 2009 and it showed that York would be receiving a 2.5% increase in the grant for 2010/11, giving total funding of £44.570m. This is low overall as York does not have a high deprivation level in comparison to other councils, which is one of the key drivers for allocating the grant. In addition, York's annual increase is top sliced under the 'damping' system to guarantee other councils a minimum level of grant, meaning a loss of £1.155m in 2010/11. Annex 1, summarised in the table below, outlines the percentage increase in Formula Grant for all unitary authorities and shows that the average increase is 3.0% which is 0.5% more than York.

Unitary Authority	Rank	% Increase in Formula Grant - 2010/11
Rutland (Highest)	1	6.2
York	34	2.5
Wokingham (Lowest)	55	1.5
Average		3.0

10. The table below shows how much Formula Grant funding per person that York will be receiving in 2010/11 and compares this to other unitary authorities, the full results of which can be seen in Annex 2. It can be seen that York is ranked 47th out of the 55 unitary authorities (9th lowest) and receives £153.99 per person less in funding than the average.

Unitary Authority	Rank	Formula Grant Per Capita - 2010/11 (£'s)
Leicester (Highest)	1	639.56
York	47	224.19
Wokingham (Lowest)	55	126.69
Average		378.18

11. The self funding of non-exceptional budget pressures by directorates, along with the work being carried out through the More for York programme, is designed to promote efficient delivery of services whilst at the same time ensuring funding is available for investment in key priority areas across the council.
12. The 2009/10 budget monitoring process has identified areas of activity that currently have insufficient financial capacity to deal with the increased demands placed on those services. It is essential that priority is given to directing investment into these areas so that the planning and monitoring for service delivery can take place against an adequate resourcing platform.
13. As a result of this it is apparent that the following three areas need to be at the forefront of discussions for additional investment:-
- Children's Social Care – York's Looked After Children (LAC) population has risen by 32% since March 2008 and investment is required to ensure that this area is adequately funded. A new government requirement for 16/17yr olds to be classed as LAC will add pressures to this area anticipated to total approximately £2.1m.
 - Adult Social Care – throughout 2009/10, the council has faced dramatic increases in learning disabilities cases, home care contracts and care for the elderly which is expected to continue to rise due to the ageing population. This rise in demand equates to approximately £1.8m in investment.
 - Waste Management – includes the requirement to fund rising Government levies on Landfill Tax, the £8 per tonne increase of this costing the council a further £0.44m in 2009/10, as well as meeting household recycling targets.
14. As part of the 2009/10 Budget, the council made a specific budgetary provision of £400k to deal with the effects of the economic downturn, which has affected services such as car parking, planning and leisure and the prolonged effects of this suggests that it would be prudent to consider increasing this provision as part of the 2010/11 Budget, with anticipated pressures next year totalling £1.3m.

15. Additionally, consideration must be given to Treasury Management where an eventual upturn in the economy would ease current financial pressures, currently predicted to be £3.1m in 2010/11, as well as providing revenue support that will assist the council in meeting its long term objectives through the capital programme.
16. In summary, the council is facing spending pressures that, due to demands placed on services, greatly exceeds inflation. The council is committed to investing only in priority areas outlined in the corporate strategy which is exemplified by the fact that directorates will be expected to contain all pay and inflation costs within existing budgets.

Linking Financial Planning and Corporate Priorities

17. It is essential that the budget preparation process facilitates adequate resourcing of the council's priorities as expressed in the corporate strategy. Some of the priorities will be addressed through specific growth bids, however many will result from internal re-alignment of existing budgets within directorates. Officers in corporate performance are working closely with directorates to ensure that sufficient resources are in place to deliver against the milestones contained in the corporate strategy.
18. It is important that the process is transparent, and that there is seen to be a robust process of realignment of priorities, certainty over the way Directorates propose to meet the cost of pay and grading, and that it is demonstrated that funding has been allocated priority areas.
19. As a result each directorate will need to have demonstrated, and where relevant submitted, on the following:
 - a) Requests for priority growth areas.
 - b) Clearly set out any budget realignment that they are proposing – i.e. proposed internal savings that will fund any new priority areas or inflationary pressures.
 - c) Clearly set out how they will be dealing with the effects of Pay and Grading.

Timeline

20. A first round of budget meetings took place during November where each directorate was required to present the current pressures being faced, how they would fund these as well as explaining bids for corporate growth as outlined in paragraphs 12 to 15. For directorates where further work is required to reach a balanced position, a second round of budget meetings will be taking place in the middle of December.
21. Following this, each directorate will be taking a report to an Executive Member Decision Session during January where their plans will be considered in depth. Information made available will help form the basis of the 2010/11 Budget Report presented to Members in February.

Medium Term Financial Planning Implications

22. The 2010/11 budget will be the last to be prepared under the current three year Comprehensive Spending Review (CSR) financial settlement, which as outlined in paragraph 8 will be providing the council with a 2.5% increase in government funding compared to 2009/10.
23. Since the previous settlement was agreed, the UK's economic landscape has changed dramatically which has placed great strain on public finances. It is because of this that the council has to be prepared to accept that it will be subjected to cuts in the funding it receives from central government, with similar authorities predicting real term cuts of upto 5% year on year.
24. A revised three year MTFP upto 2013/14 will be included as part of the 2010/11 Budget Report which will have to display prudent assumptions on any future government funding. As a result, there is a need for significant debate over the coming months in terms of the council's readiness to deal with these potentially large funding reductions. This will require the council to change the way it delivers its services in ways that go beyond the work being carried out by the More for York programme.

Consultation

25. The budget strategy has been discussed and supported at Corporate Management Team level which has resulted in each directorate, via their Departmental Management Team's submitting budget proposals.

Corporate Priorities

26. The information and issues included in this report is designed to demonstrate that the council's financial planning is focussed on achieving the priorities set out in the council's corporate strategy (2009-12).

Implications

27. The implications are:
 - Financial - the financial implications are dealt with in the body of the report.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property - there are no property implications to this report.
 - Other - there are no other implications to this report.

Risk Management

28. It is clear that the current economic climate and the longer term implications this may have on central government funding represents a significant risk in

terms of preventing the council from delivering quality services and meeting its corporate priorities. All financial planning decisions that are made need to be assessed for their sustainability in view of reduced funding and set against expectations that significant efficiencies are derived from the way in which the council delivers its services.

Recommendations

29. It is recommended that Members:

- a) Note the principles being adopted for the preparation of the 2010/11 budget, in particular the fact that any additional resources will be used to invest in key priority areas across the council.
- b) Note that work is continuing to review the impact of future public spending reductions as part of the ongoing development of the Council's Medium Term Financial Strategy.

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Report Approved **Date** *December 2009*

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Report Approved **Date** *December 2009*

Specialist Implications Officer(s):

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

All

For further information please contact the author of the report

Annexes:

Annex 1 – Unitary Authority Formula Grant – Increases in Funding 2010/11

Annex 2 – Unitary Authority Formula Grant – Per Capita Funding 2010/11