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**Executive****20th July 2010****Report of the Director of Customer and Business Support Services****2011/12 Budget Process Planning Framework and MTFF Update****Summary**

1. This report seeks to provide Executive with the first in a series of reports related to the 2011/12 budget process, and as such highlights emerging issues related to the council's medium term financial planning for context and contains an outline timetable.

**Emerging Financial Issues Impact Medium Term Financial Planning**

2. The UK's public services are currently facing unprecedented and uncertain times both in regard to how they are funded, and in terms of the services they actually provide. The new coalition Government has made a clear commitment to reducing the UK's current budget deficit and one of the key methods of achieving this is via significant reductions in public services expenditure.
3. The first impact of the new Government's approach was felt on 10 June 2010 when it announced £1.166bn of in year cuts to Local Government funding. The council's formula grant allocation (£44.570m in 2010/11) was not reduced and the ring fencing of certain grants were removed to provide flexibility. The main bulk of the reductions were to the revenue Area Based Grants (ABG) with York's share of the cut totalling £1.182m. A further £0.365m in revenue grant funding was cut and £1.620m in capital grants relating to transport projects have also been withdrawn.
4. These reductions all present significant challenges to the authority and actions are being taken to ensure the impact can be absorbed so that the council can spend within budget by the end of the financial year. Further details will be outlined in the first Monitor report of 2010/11.
5. The second impact was the Emergency Budget of 22 June 2010 where the new Government made a significant further commitment to cuts in public spending by amending spending plans effective from April 2011. The budget contained several items that will have a major impact on the council, namely:
  - i) Unprotected Government departments will receive real terms cuts of some 25% over the remaining four years of the parliament, posing the risk of significant cuts in the funding the council receives. This is an average figure, and the actual impact on local government could be higher.

- ii) A commitment that the Government would work with local authorities to achieve a freeze in Council Tax for one year in 2011/12, with further clarification in due course on how this will be implemented, with an indication that authorities who manage to keep Council tax increases to a certain level might receive a reward grant to bring the increase down to nil.
  - iii) A two year pay freeze for all public sector workers, except for those earning £21k or less who will receive an increase of at least £250 per year.
  - iv) The original proposed 1% rise in National Insurance employer contributions rates will proceed, the negative effects of which will be compensated in part by increasing thresholds by £21 per week above indexation.
  - v) The standard rate of VAT will rise from 17.5% to 20% on 4 January 2011, impacting on the council's income generating services. Without any mitigation through increased charges, the Council will lose around £150k in income, with the greatest impact in respect of car parking (£110k).
6. All of the above measures present challenges that have not have been felt in Local Government in a generation, if at all, and the council has to be prepared to adapt the way it operates as the new Government adopts the paradigm shift from 'Big Government' to 'Big Society'.
7. The budget report to Council in February identified that the organisation faced potential need to identify savings of around £10m per annum, with these taking into account likely reductions in public spending. Following the more recent public spending announcements, the latest projections indicate that for 2011/12 the level of savings will be at least £12m and that this could be more once the outcome of the Comprehensive Spending Review is known on 20 October 2010.
8. The council will be assessing its options in dealing with any potential funding shortfalls throughout the summer, in particular how these can be mitigated by the ongoing work of the More for York programme. Existing More for York workstreams will deliver some £3m of savings in 2011/12, and clearly there will be a need for further expansion of the programme, and detailed analysis of the main spending areas of the Council.

### **2011/12 Budget Outline Plan**

9. Throughout April, Finance consulted a number of stakeholder groups to ascertain where refinements could be made to the budget planning process and the feedback had a number of themes running through it, centred around the following three key requirements:
- i) Clearer timeline and earlier planning.
  - ii) Promote stronger communication between stakeholder groups.
  - iii) Greater education on what the process entails.
10. This part of the report focuses on providing a clearer timeline and demonstrating earlier planning, however the provision of emerging financial

issues is designed to be the first step in highlighting what will be required from the 2011/12 process.

11. Annex 1 contains the timeline in the form of a flow diagram and the following sections aim to describe the principles upon which the plan is based. The plan is designed to show inter-relationships between milestones and key pieces of work on a month by month basis across four key work areas (in column order):
  - i) The democratic process.
  - ii) Reports.
  - iii) Other key tasks/milestones.
  - iv) More for York.
12. The start point should be seen as the issuing of this report. Alongside this an initial budget manual, designed to educate stakeholders, will be issued as well as formal growth request forms for items exceeding £100k. These will be submitted by the end of July to dovetail with the reporting cycle for the 2010/11 Monitor 1, the first indication of significant ongoing pressures in the current financial year. At the same time, the More for York programme will be working throughout the summer to identify and ratify major efficiency areas.
13. The information gathered in this phase will be fed into the first series of Member, Directorate and Finance meetings at the beginning of September, to discuss major growth items. During this period, Directorates will be expected to have submitted an initial balanced budget outlining how they will deal with any pay and prices increases and any other growth items. It is also proposed that the budget consultation is brought forward to September to allow for a more reasoned assessment of participants views in the decision making process. The details of the consultation will be agreed with Executive over the summer period. It is felt that the consultation should be focused more on seeking general views on principles, ideas for efficiency or shifts in spending, as opposed to consulting on specific proposals.
14. Departmental budget plans will be subject to multiple round meetings, should they be required, throughout September and October. More time is built in for this task, than in 2010/11, to ensure proposals can be scrutinised appropriately and to enable a longer preparation period for new proposals should originals be rejected. The results of this process will be fed into a Budget Strategy Executive report on 14 December 2010. From the plan, it is evident that December and January are clear in terms of tasks and the reason for this is to create capacity to deal with any unforeseen problems, particularly centred around the results of the Comprehensive Spending Review on 20 October and the subsequent grant settlement in December.
15. Presentations with the Corporate Leadership Group will be arranged throughout the process, in order to keep senior managers of the organisation informed.
16. It is proposed that reports are taken to the relevant Executive Member Decision Sessions throughout January with the agreed proposals forming the

basis of the final budget report due before Executive on 15<sup>th</sup> February and Council on 24<sup>th</sup> February 2011. Scrutiny of the entire process will be achieved via the Effective Organisation Scrutiny Committee.

### **Analysis**

17. All the analysis of emerging financial issues is included in the body of the report.

### **Consultation**

18. Various stakeholder groups, including Members, Chief Officers and Finance Staff were consulted to formulate the 2011/12 budget process timetable.

### **Corporate priorities**

19. The early and comprehensive planning of the budget process is key to ensuring that the council meets its corporate priorities and underpins being an Effective Organisation.

### **Implications**

20. The implications are:
  - Financial - the financial implications are dealt with in the body of the report.
  - Human Resources - there are no specific 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 specific 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**

21. There are a number of risks associated with the emerging issues and budget timetable. The contents of the Central Government emergency budget poses considerable concern over future funding settlements for the council, however the impact will not be known until the results of the Comprehensive Spending Review are released on 20 October, and even then, the precise impact may not be fully realised until grant settlement documentation is received in early December. These issues all present risk in terms of the ability to produce a balanced budget.
22. It is therefore imperative that as much work is carried out as early as possible, both in terms of required growth and by the workstreams of the

More for York programme, to allow informed judgements to be made should the council lose out on more funding than anticipated. Furthermore, the new Government's ethos may bring significant changes in the way Local Government operates and the organisation has to be ready to respond to any new approaches to service provision that are announced in the coming months.

### Recommendations

23. It is recommended that Executive:

- a) Take note of the emerging issues highlight in the report and agree in principle to the outline timetable, and plans to commence the budget consultation in September.

*Reason: So that the 2011/12 budget can be prepared in a timely manner.*

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**Report Approved**

**Date** July 2010

**For further information please contact the author of the report  
Annex 1: 2011/12 Budget Process - Outline Timetable**