

**Report of the Director of Customer and Business Support Services**

**2011-12 Budget Update I – Spending Review Implications**

**Summary**

1. The purpose of this report was to provide Executive with an update on the 2011-12 budget process, with particular emphasis placed on the impacts of the recent Spending Review and an overview of forthcoming plans for the More for York programme.

**Spending Review Assessment**

2. On 20 October 2010, the Chancellor of the Exchequer for the new Coalition Government outlined his heavily anticipated Spending Review for the remaining four years of Parliament. Following on from the emergency budget of 10 June 2010, the announcement signalled yet a further radical shift in public expenditure plans with some unprotected departments being expected to deliver in the region of 30% in savings over the period. Overall, unprotected budgets have on average been reduced by 19% which, in real terms, will return public spending to 2008-09 levels. Three principles underpinned the announcement:
  - i) Growth – to enable a private sector led economy,
  - ii) Fairness – increasing social mobility by protecting health and school expenditure and reforming welfare,
  - iii) Reform – driven by decentralising power from Central Government and consistent with announcements on a move to more localised decision making.
3. The decentralisation of power to the local level, as driven by the reform principle, ensures that many of the announcements made in the Spending Review have a direct impact on Local Government and as a result, City of York Council. Many will present painful challenges, however there are potential areas of opportunity as well as reassurances over some significant areas of council expenditure. The following list outlines the most relevant financial headlines from 20 October:
  - i) Local Government funding to be cut on average by 7.1% per annum,
  - ii) a Council Tax freeze in 2011-12 funded by Central Government for each year of the review period at a rate of 2.5%,

- iii) devolution of control to the local level including un-ringfencing of grants from 2011 resulting in £4bn of grants being incorporated into Formula Grant,
  - iv) reduction in the number of core grants from 90 to 10, with a simplified Schools grant and new Public Health grant.
  - v) interest rates on Public Works Loan Board (PWLB) Loans increased to 1% above UK Government Gilts,
  - vi) capital funding to councils will fall by 45% over the four years.
4. Updates are being released by Central Government departments regularly which are being monitored by officers and the following passages seek to assess the financial headlines and most currently available information and how they affect the council and the city.

### Local Government Funding

5. The key headline from the announcement was that Local Government funding would be reduced on average by 7.1% per annum over the four year period of the review. This reported figure is in real terms, i.e. including the effects of inflation and when converted to cash terms, the average reduction moves closer to 5%, or 20% in total for the period.
6. However, the reported figure isn't all specifically relevant to grant passed onto Local Government, nor are the funding reductions profiled evenly. The table below shows the profiling of the cuts over the four years, equating to a cumulative reduction of 23.6%:

	2011-12	2012-13	2013-14	2014-15
% Reduction	-10.7%	-6.4%	-0.9%	-5.6%

7. From the table, it is clear that the cuts are front-loaded meaning that the biggest hit to the council will be in 2011-12 when it will receive a 10.7% cut in funding. The council's Formula Grant base in 2010-11 was £44.57m (£5.7m in Revenue Support Grant, £38.9m in redistributed business rates) and the table below shows the impact of these cuts on that base:

	2011-12	2012-13	2013-14	2014-15
% Reduction	-4.78	-2.55	-0.32	-2.07

Figures in £m

8. The Department for Communities & Local Government (DCLG), responsible for distribution of the Formula Grant, have subsequently announced that the Local Government settlement will be on a 2 + 2 basis meaning that funding for 2013-14 and 2014-15 is likely to be revised. This fits with the timeline for the Government's fundamental review of Local Government finance, and equally the announcement on 28 October by Eric Pickles, Secretary of State for DCLG, that part of the review will centre on allowing councils to retain the business rates they collect.

## Council Tax Freeze

9. The Spending Review guaranteed that councils who freeze Council Tax in 2011-12 will receive a grant the equivalent to a 2.5% rise in each of the four years of the review period, i.e. when the council implements a Council Tax rise the funding is recurring so to freeze in one year has an impact on funding in all subsequent years hence the Government being prepared to fund over the period. Acceptance of this does however present a future challenge for when the funding, as is being predicted, is removed from the system after 2014-15.
10. The council's 2010-11 net budget is £117.3m, of which it is predicated that approximately £72.8m is collected in Council Tax. On this basis, it can be assumed that should a Council Tax freeze be implemented in 2011-12, the council will receive a grant of approximately £1.82m per annum through to 2014-15, subject to any changes in the Council Tax base.

## Simplified Grants

11. Another key announcement was that in order to achieve devolution of control from Central Government, the majority of existing specific grants and Area Based Grants (ABG) will be rolled into Formula Grant. This will leave a much more simplified grant system of 10 core grants including a refined Dedicated Schools Grant, with the national schools budget receiving a 0.1% real terms increase in funding (0.6% per a reduction on a per pupil basis once increased pupil numbers are factored in).
12. This schools funding also includes a sum of £2.5bn (by 2014-15) to fund the new pupil premium, and the funding required to support new 'free schools'. The consequences of this are likely to mean that, although average per pupil funding across the country is not subject to significant reductions, there could be some significant redistribution of resources at individual school level. Grants supporting other Local Authority education and children's services (including Surestart) are expected to be merged into a new Early Intervention Grant, although the actual level of this grant is not yet clear. A new Public Health Grant will also be introduced from 2013-14.
13. This key change presents both challenges and opportunities. The main drawback of a specific grant is that it has to be fully spent on the designated purpose, so removing the ringfence means that local discretion is available on its usage. If Members wish to spend that money on other priorities, this offers the opportunity to do so. However, moving the grants into Formula Grant removes any previous protection they would have had and one can therefore assume that they will be subject to the cuts outlined in the earlier section of this report.
14. On the information available to date, approximately £14.3m of grants that have either previously been specific or ABG will be rolled in Formula Grant. Grants in this list include Supporting People (£7.1m in 10-11 but already scheduled for reductions) and Preserved Rights (£1.4m in 10-11). A further £1bn will be available nationally to support social care at local

authority level (significantly front loaded with £0.5bn in 2011-12) and this will also be delivered through Formula Grant. In addition the NHS has been allocated funding growing to £1 billion by 2014-15 within their settlement to fund new ways of providing services in partnership with Local Authorities, including reablement services.

15. On the assumption that they will be subjected to the same percentage cuts outlined in paragraph 6, a further reduction in funding of at least £1.53m could be expected.

#### Tying The Funding Strands Together

16. Paragraphs 5 to 14 provide a technical assessment of some of the key announcements from the Spending Review. From the information currently available, the council could lose in the region of £6.3m in funding, however this could be reduced to in the region of £4.5m should Members wish to freeze Council Tax in 2011-12.
17. This is clouded however due to the fact that the Formula Grant distribution model is under review, which would alter the baseline from which any grant reductions may be taken. Furthermore, the impacts of flooring will no doubt have an impact on the level of grant reduction that the council will receive. To illustrate with a simple example, York receives a relatively low proportion of its net budget from Formula Grant (38%), in comparison to Wakefield MDC (56%). Assuming a straight 10.7% reduction in 2011-12, Wakefield would lose more of its base funding than York, and therefore it may be that a higher reduction in grant is taken from council's like York to soften the reduction to council's like Wakefield.
18. York's precise settlement is scheduled to be released in late November or early December and information will be provided to Members to inform 2011-12 budget decisions in due course.

#### Capital & Borrowing

19. Two further announcements that will have a major impact on the council's strategic financial direction was that on average, capital funding to Local Government will be reduced by 45% and that interest rates on new Public Works Loan Board (PWLB) Loans (where the council borrows its money from) have been increased to 1% above UK Government Gilts.
20. This presents two interlinked challenges; firstly, the available grant from Central Government will be reduced, so in order to maintain capital programmes pressure is placed on local authorities to generate more capital receipts, or to borrow more. This latter option presents the second challenge in that as it costs more to borrow, pressure will be placed on revenue budgets to fund the increased interest costs (at current rates, £10m in new borrowing would create an additional revenue pressure of £75k per annum).

## Other Policy Shifts

21. The main policy focus apart from deficit reduction since the new Government came to power has been the localism agenda, with proposals to extend the range of providers of services and develop new ways of working such as social enterprises. The reduction in ring fencing should enable Local Authorities to have more freedom and flexibility in how they spend funds, which may also lead to wider reforms and different ways of working. Additional freedoms are likely to be developed with the Decentralisation and Localism Bill in areas such as housing, planning and governance.
22. There were numerous policy shifts that will have an impact on the council and the city in the future, however many of these will not materialise until 2012-13 and beyond:
  - i) Community Budgets – building on the Total Place piloting introduced under the previous government, 16 pilots including Hull and Bradford, have been introduced with a view to rolling the scheme out nationally from 2013-14. The pilots will decide which departmental budgets to pool locally under the broad theme of families with complex needs. In future there may be opportunities to pool budgets to support work on health, policing, worklessness and child poverty, with these decisions being taken at the local level.
  - ii) Benefit Reform – the Spending Review announced a new Universal Credit that will incorporate Housing Benefit, which is currently administered by the council. Furthermore, Council Tax Benefit will be localised by 2013-14. The introduction of a cap on benefits payments to households will impact the council as responsibility for policing whether this is breached or not is likely to fall on Local Authorities.
  - iii) Pay and Pensions – there is a commitment to continue with defined benefit schemes whilst re-balancing the cost between the employee and the taxpayer. This will result in a staggered and progressive increase in employee contribution rates, with a level of protection for the lower paid and higher increases for the higher paid. There will also be a £3.3bn saving from freezing public sector pay starting in 2011-12, although this cannot be enforced on local government.
  - iv) Performance Framework – the Government is ending the previous top-down performance framework for local authorities which will see the removal of reporting on a multitude of performance targets.
  - v) Housing Finance – the Government is pursuing its policy of reforming the Housing Revenue Account and replacing it with a devolved system of self financing for council housing. The implications of this for York as a housing stock operator are that whilst subsidy will no longer have to be paid over to the Government, a proportion of housing debt will be allocated to the council. The Government is also proposing that rents for new council housing tenants will be more closely linked to private sector levels by rising up to 80% of the market rate, and whilst this will not affect existing tenants, it is expected that this will have corresponding Benefit implications. Furthermore, it has subsequently

been announced that Private Sector Renewal funding has now ceased and the ongoing implications of this are being assessed as part of the 2011-12 budget process.

- vi) Transport Budgets – revenue funding from Central Government could be reduced by upto 40%. The Access York scheme has been included in the group of schemes which the Department for Transport will conduct further analysis on and invite best and final funding bids from the Major Schemes pot. Councils will be challenged to consider the cost, scope and possibility of local funding when bidding.
- vii) Tax Increment Financing – a method to use future gains in business rates to finance current improvements (which theoretically will create the conditions for those future gains). Further detail will be provided in the Local Government resource review from January 2011.

### Spending Review Summary

- 23. It is clear from the earlier sections that the Spending Review will present many difficult challenges to York, both in terms of the funding it receives and how it will be shaped in the future, however opportunities can be harnessed by the devolution of power afforded from Central Government.
- 24. As a result, the council will have to focus its efforts on meeting the challenges and maximising opportunities through the work of the More for York programme. In February the programme became the single mechanism for managing the delivery of all Council savings and efficiencies, in order to ensure clarity and cohesion in their delivery and monitoring.
- 25. To achieve savings of this size it will be necessary to fundamentally review what services are delivered by whom and to continue to maximise efficiency, drive out waste and increase productivity.
- 26. The council is already well positioned to deal with these challenges and the next section of the report will outline the plans for the More for York programme in 2011-12 and beyond.

### **More for York Update**

- 27. The More for York programme is set to deliver £6.9m of savings in the 10-11 financial year. This work continues to provide a recurring benefit to the council over and above the 10-11 savings into 11-12. It is projected that the continuation of existing work streams will deliver an additional £2.6m of new savings in 11-12 financial year.
- 28. In considering the approach to be taken for addressing the potential 2011-12 budget gap, CMT agreed the approach should focus on service reviews throughout the authority and that these reviews should:
  - i) Continue the drive for efficiency in all service areas.
  - ii) Consider statutory and non statutory services and service levels.

- iii) Assess alternative service delivery models and their ability to generate savings.
  - iv) Review the potential impact upon customers and staff.
29. The proposals generated to date are as result of a series of workshops including Departmental Management Teams and the More for York team. This is work in progress but the following sets out by directorate the approaches and work to date:

#### Customer and Business Support Services (CBSS)

30. Continuing on from the delivery of £3.5m of savings in 10-11, CBSS intends to deliver further efficiencies in 11-12 of £500k. These savings will be delivered by:
- i) Extend the level of savings and scope of existing blueprints.
  - ii) Improvements to the productivity and effectiveness of the York Customer Centre leading to the inclusion of customer services currently delivered by other teams across the Council. Focus on the further expansion of our online services and promotion of our telephone services which are both more cost effective channels of contact.
  - iii) Potential consolidation of the Health and Safety function across the authority.
  - iv) Review and consolidation of training arrangements across the Council.
  - v) Further stretch of the organisational review targets to reduce management tiers across the Directorate.
31. In addition CBSS proposals will seek to integrate further the individual support services (e.g. Finance, Legal, HR, ICT and Customer services) so that they work closely and operate where possible to consistent standards. Further options in terms of how the services can develop, and be provided over the medium term will also be reviewed. This will include a review of opportunities/options for the provision of service functions to other organisations to generate income, and working with other public sector organisations, and an initial scoping report will be brought to Members on this in near future.

#### Communities and Neighbourhood Services (CANS)

32. The CANS work programme is made up of 3 main elements in 2011-12:
- i) Extension of existing programme to introduce mobile working and more efficient process This will remove waste and duplication from the Cleaning services, Parking Admin and Enforcement, Household Recycling Centres, Waste Strategy.
  - ii) Development of area based working which will enable the Council to work with partners and community based organisations to make the most of the public sector spend in each area. This work will focus on the Council and its partners operating in 'virtual teams' allowing efficiency savings to be made through the improved coordination of

work and for the use of partner resources to be focussed on local priorities.

- iii) Improved management of the Council Fleet to reduce costs and reduce CO2 emissions via:
  - a. Improved purchasing, utilisation and maintenance of vehicles.
  - b. Home to School transport– renegotiation of bus contracts, reduction in the use of taxi services.
  - c. Reduced use of non CYC owned fleet.

### City Strategy

33. The City Strategy proposals focus around the main areas of work:

- i) Facilities Management - determining how York should provide its facilities management and how this will operate when the Council moves to West Offices. Subject to agreement by Members certain aspects of FM could be sourced differently.
- ii) Commercial Property Portfolio - Ensure the financial return from these assets is maximised wherever possible to generate an enhanced level of income whilst taking into account service objectives as appropriate.
- iii) Shared Services – Explore potential joint working opportunities with other authorities on archaeology, economic development and building control. In addition work will be taken forward to look at sharing property assets with public sector partners in the city and any appropriate sub regional partners.

### Adults Children and Education (ACE)

34. The proposals for ACE are an extension of the 10-11 programme to identify opportunities to improve the efficiency of all services. Work will concentrate upon:

- i) Work with partners to reshape the future of care for older people and drive down overhead costs to provide quality, personalised care packages that promote independence and meet the changing needs of an ageing population.
- ii) Ensure the effective functioning of the Reablement Service, which is responsible for assisting older people on the road to recovery with regaining their independence. This service is also pivotal in avoiding long-term care costs should older people not make an effective recovery.
- iii) Merge the Youth Offending Teams and the Young Peoples Services removing duplication.
- iv) Children's Residential and Respite Facilities - Maximise income from existing spare capacity by selling services to other Local Authorities.



## More for York Summary

35. It is expected at this stage that the plans outlined above will generate savings of c£9m. Further detailed work is currently being undertaken and will continue over the coming weeks. It has to be stressed this is an initial estimate of potential savings, and cannot be relied upon with complete certainty at this point in time.

### **Trade Union Facility Time**

36. Many workstreams in the More for York programme are now entering into their critical phases and as a result the corresponding requirement for trade union involvement is increasing. UNISON have specifically requested an additional 2 FTE's to work on the programme which will enable a much faster pace of change and allow the council to realise workstream savings earlier, over a two year period covering three financial years. There is an associated cost for the support of £13k in 2010-11, £54k in 2011-12 and £41k in 2012-13. This report seeks approval in 2010-11 for the £13k of costs to come from the existing investment fund, if resources allow, and to treat the 2011-12 and 2012-13 costs as a new investment which would require corresponding further savings to be identified in order to ensure the programme meets its savings target.

### **Implications on the 2011-12 Budget and Beyond**

37. The 2010-11 budget report approved by Council in February contained a Medium Term Financial Forecast (MTFF) which outlined a guideline financial plan for the council upto 2015-16. This was characterised by a period of low Council Tax and pay and price rises (1%-2%), 0% grant increases, and a general trend of increasing pressure on council services due to demographic changes as well pressures such as funding the pension fund deficit. The result was an approximate £10m budget gap each year that would have to be funded from efficiencies and other savings.
38. Following the change in Government, the emergency budget in June and subsequent policy announcements, the early strategy used for planning the 2011-12 budget was revised and based on the following key assumptions:
  - i) 0% Council Tax, with support provided by Central Government at 2.5%
  - ii) Formula Grant to be reduced by 7% per annum (25% over 4 years).
  - iii) Specific grants and ABG to be reduced by in between 7% and 10% per annum, but to be funded by reprioritisation of existing resources, or reduction in service.
  - iv) Pressures classed as 'unavoidable' to be funded corporately including any pay and pension costs, Treasury Management and investment to support the Waste PFI project.
  - v) Further to these assumptions, directorates have been working throughout the summer to assess needs for investment in services,

including areas that are causing issues in 2010-11 such as the rising demand in adult social care and issues related to the Economic Downturn.

- vi) The resultant gap to be funded by More for York programme savings and, if necessary, further service savings.

39. Following the results of the Spending Review, it has been necessary to amend assumptions accounting for the unexpected front loading of grant cuts in 2011-12, however the underlying strategy implemented earlier in the year remains robust. The table below shows the current position:

	<b>£m</b>
<b><u>Unavoidable Growth</u></b>	
Pay and Pensions	4.44
Treasury Management	1.00
Waste Management	0.75
	<u>6.19</u>
<b><u>Available Resources</u></b>	
Formula Grant (Loss to 10-11 Base)	4.78
Council Tax Grant Assistance	(1.82)
More for York - FYE 10-11 Savings	(2.60)
More for York -Service Reviews *	(9.00)
	<u>(8.64)</u>
<b>Initial Resources Available</b>	<b>(2.45)</b>
Initial Directorate Growth Bids (Appendix 1)	5.30
<b>Shortfall after Directorate Growth Bids</b>	<b>2.85</b>
Specific Grants:	
- Potential Losses in Other Grants	-
- Potential Reductions in Spending on Services Funded from Grants	-

\*Please note this is an initial estimate

40. The table shows that after accounting for unavoidable growth items, the loss to the existing Formula Grant base (paragraph 7), the Council Tax Grant assistance (paragraph 10) and if the full £9m projected savings from the new More for York (paragraphs 24 and 43) were to be achieved, then prior to consideration of initial directorate growth bids (for detail, see Appendix 1) and specific grants, approximately £2.45m is available. In addition to More for York proposals, it is clear that key components in the budget strategy will be the extent to which additional growth is allocated for specific areas, and also that a fundamental review of spending currently funded from specific grants is required.
41. The un-ringfencing of a host of specific grants offers the opportunity to review whether related spending is in line with local priorities. Any "savings" achieved in this expenditure could be used to maintain/invest in services considered to be a higher priority.

42. It should be reiterated that any losses related to grants are still to be verified and the position will become clearer when grant settlement information is released in late November/early December, however it should be assumed that what is presented here is a prudent estimate. Furthermore, it should be noted that work is ongoing to verify the full amount of savings available from the More for York programme and clarity will be provided as the budget process develops into the new year.
43. The following summary table takes the current available information and updates the MTFF:

	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b><u>Unavoidable Growth</u></b>				
Pay and Pensions	2.00	1.50	1.50	1.50
Treasury Management	1.00	1.00	1.00	1.00
Waste Management	0.75	0.75	0.75	-
	<b>3.75</b>	<b>3.25</b>	<b>3.25</b>	<b>2.50</b>
<b><u>Available Resources</u></b>				
Formula Grant (Loss to 10-11 Base)	2.55	0.32	2.07	-
Council Tax Grant Assistance	(1.82)	(1.82)	(1.82)	1.82
	<b>0.73</b>	<b>(1.50)</b>	<b>0.25</b>	<b>1.82</b>
<b>Initial Budget Gap</b>	<b>4.48</b>	<b>1.75</b>	<b>3.50</b>	<b>4.32</b>
Projected Directorate Pressures	5.00	5.00	5.00	5.00
Potential Loss to Grants Being Un-ringfenced	1.20	0.20	1.00	-
<b>Final Projected Budget Gap</b>	<b>11.41</b>	<b>5.45</b>	<b>9.75</b>	<b>11.14</b>

44. It is clear, even at this early stage that the ramifications of the Spending Review will not be confined to 2011-12 and as such, reinforces the need for the continuation of the More for York programme to identify savings and efficiencies over this period.
45. Furthermore, it is important to reiterate that the More for York programme has effectively become the vehicle by which the whole financial strategy with regard to budgetary reductions will be delivered, through one integrated programme, which seeks to maximize efficiency, challenge service delivery, and given the financial challenges ahead will also need to raise options in terms of the levels of service that are delivered.
46. A further report is scheduled to be presented to the Executive on 14 December 2010 which will provide further clarity on the information outlined in this report, and if available, details of the 2011-12 grant settlement.

## **Analysis**

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

## **Consultation**

48. The council's budget process has numerous consultation strands. There has been extensive consultation with Trade Union groups on the ongoing implications of the council's financial situation. Equalities advice is being sought, and implications noted, at all stages of the budget planning process. Furthermore, members of the public and business leaders will be consulted on the pressures the council is facing in the run up to setting the budget in February.

## **Corporate Priorities**

49. This is the second in a series of reports for the 2011-12 budget process and demonstrates that 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**

50. 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 specific equality implications to this report, however equalities issues are being accounted for at all stages of the budget process.
- 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**

51. There are a number of risks associated with the emerging issues outlined in this report, in particular with regard to the actual levels of grant cuts and levels of savings to be delivered by More for York. Clarity will be provided before the end of the year on the precise losses from grants and work is ongoing on the More for York savings proposals.

## Recommendations

52. Members of the Effective Organisation Overview & Scrutiny Committee are asked to note the recommendations that were made to the Executive, namely:

- a. to note the current position and the ongoing work that is being conducted in relation to developing the 2011-12 budget.

*Reason: So that the 2011-12 budget process can be completed in a timely manner.*

- b. to recommend to Council the approval of the use of £13k of investment costs in 2010-11, for Trade Union facility time, as requested by UNISON, and subject to the acceptance of recommendation c.

- c. to recommend to Council the approval of £95k for new investment costs for Trade Union facility time, as requested by UNISON, over the period 2011-12 and 2012-13, that are to be met by additional savings to be identified.

*Reason: So that the pace of change of the More for York programme is maintained, and that savings can be realised earlier.*

## Contact Details

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### Appendices:

Appendix 1 – Detail of Initial Directorate Growth Bids