

Report of the Director of Customer and Business Support Services

2011-12 Budget Update II – Grant Funding

Summary

1. This report seeks to provide Executive with an update on the 2011-12 budget process, with emphasis on the latest information available regarding funding and how this might effect the council's provisional grant settlement which is scheduled to be announced during December.

Previous Report

2. The last report brought before Executive on 16 November 2010 provided Members with an update on the current status of the 2011-12 budget process and focussed on the headline impacts of the recently announced Spending Review and outline plans for the More for York programme. To summarise the main headlines from the report, the council:
 - i) faced a 10.7% reduction in Formula Grant in 2011-12, approximately £4.8m at the 2010-11 base,
 - ii) would receive a grant in the region of £1.8m for each of the next four years should it opt to freeze Council Tax in 2011-12,
 - iii) would receive its grant funding in a radically different way following the de-ringfencing of the majority of Specific and Area Based Grants (ABG),
 - iv) had calculated approximately £11.5m of growth pressures, including £6.2m of unavoidable corporate items,
 - v) was facing a challenging target of having to deliver in the region of £15m in savings subject to the level of funding reductions announced in the provisional grant settlement.
3. Based on information regarding grant funding which has been released since the Spending Review, the next section of this report will outline the potential implications on York.

Grant Funding

4. Numerous information streams have been monitored continually by officers since the Spending Review, including ministerial statements and Central Government departmental plans, with a view to gathering as clear a projection on the implications for the council, and in order to ensure financial planning is as robust as possible. Clearly these projections are only conjecture and should be seen as that until more clarity is provided with the announcement of the provisional grant settlement during December. The latest available information shows that:

- i) at least 22 grants, previously delivered as Specific or ABG, and valued at approximately £14.3m in 2010-11 will be rolled into Formula Grant in 2011-12.
 - ii) a further 38 grants, previously delivered as Specific or ABG, and valued at approximately £6.9m in 2010-11 have as yet had no announcement on their continuation or delivery mechanism in 2011-12, and as such could be perceived to be 'at risk'.
 - iii) the precise grants feeding into the refined Dedicated Schools Grant and Early Intervention grant are still to be announced.
5. The rolling of grants into Formula Grant and the application of the published 10.7% reduction to each council's allocation poses Central Government with a problem in terms of appearing equitable. Each individual council's net budget is funded by a unique split between Council Tax and Formula Grant, usually characterised by its perceived deprivation level, with more deprived councils typically receiving more Formula Grant. York's split is 62% Council Tax and 38% Formula Grant, with other examples being Hull City Council (33% and 67%) and Windsor & Maidenhead (77% and 23%). This illustrates that there is a significant gulf between what each council currently receives in grant and subsequently, the negative impact of any potential funding reductions.
6. In order to overcome this problem, it is highly likely that Central Government will employ some form of smoothing mechanism, known as flooring and ceiling methodology, to ensure certain councils do not lose too much as a result of the funding reduction. In this case, it is expected that council's with a high proportion of their net budget funded by Formula Grant will receive some form of protection, at the expense of council's with a lower proportion. Current reports suggest that further to this councils may be placed into four bands based on perceived levels of deprivation with councils in the less deprived bands funding the impact of the cuts for council in the more deprived bands.
7. As a result of this, the council has to be prepared to receive a funding reduction higher than the original 10.7% announced at the Spending Review. Current projections are assuming a reduction in the region of 15% (or £8.2m using the re-aligned 2010-11 grant base) and officers are working hard to identify mitigation strategies and options for Members on how this may be dealt with.
8. It is important to highlight the council has been penalised by flooring and ceilings in the past having lost out on approximately £1.1m in each of the last three years (2008-09 to 2010-11), or £6.6m cumulatively.
9. The issue of grant distribution is further clouded by the fact that the Formula Grant distribution model is being updated and final details of the changes will not be known until the grant settlement is announced.
10. In order to fight York's cause and to ensure it isn't unfairly treated by the grant settlement, representations have been made to various arms of Central Government highlighting the punitive nature of flooring

methodologies whilst at the same time pointing out the following facts, namely that in 2010-11 City of York Council had:

- i) the second lowest Band D Council Tax out of all 55 Unitary Authorities,
 - ii) the ninth lowest Government Grant per capita out of all 55 Unitary Authorities,
 - iii) the lowest budgeted spend per capita out of all 55 Unitary Authorities.
11. As has already been highlighted, earlier paragraphs are based on analysis of various information streams and clarity will be provided when the provisional settlement is announced during December.
 12. A full analysis of the provisional settlement including the impact on the budget gap and implications for savings requirements will be provided to Members in time for the meeting of 14 December should it be announced before then.
 13. Work is continuing via the More for York programme in order to present Members with a comprehensive set of options that will ensure any funding reductions are dealt with appropriately and that a balanced budget can be produced in February 2011.

Analysis

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

Consultation

15. 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

16. 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

17. 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

18. 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 on the precise losses from grants following receipt of the provisional Local Government finance settlement and work is ongoing on the More for York savings proposals.

Recommendations

19. Members are asked to:
 - a. 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.

Contact Details

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