

Financial Strategy 2011-2017

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(note: the capital plan will be incorporated into the final financial strategy - this report is considered as a separate agenda item)

A. PURPOSE AND SCOPE OF THE STRATEGY

1. The Financial Strategy sets out the framework of the council's budget by detailing how available resources will be allocated between services, reflecting council priorities, and providing the framework for the preparation of annual budgets. In particular it:
 - sets out the council's medium term financial aims;
 - sets out the measures to be taken to ensure they will be achieved;
 - sets out the council's approach to delivering improved services and value for money over the next few years;
 - describes the council's arrangements for developing the medium term financial plan, including:
 - the identification and prioritisation of spending needs
 - the key financial influences on our medium term financial planning and the assumptions made in developing the plan
 - the challenges and risks associated with the plan and how we will deal with them.
 - sets out the council's policy on reserves and balances.

The financial strategy covers all revenue and capital spending plans (the capital report is covered as a separate agenda item).

B. LINKS WITH OTHER STRATEGIES

2. The council's financial strategy and plan is linked with and supports service priorities and the council's other strategies and plans. These include:

- **The Strategy for York (formerly known as the Sustainable Community Strategy)**

The aim of the Strategy for York is to set out a long-term vision for the local area based on what matters most to local people. The document is prepared by Without Walls, York's Local Strategic Partnership, which is made up of representatives of public, voluntary and business organisations in York. The document includes actions that the Partnership will take in the short term to deliver the Strategy for York. These actions will shape the council's corporate strategy and performance management framework over the next three years.

- **The Council's Corporate Strategy**

The Corporate Strategy is fully aligned to the Strategy for York. The development of the milestones and the budget process run simultaneously, to ensure realistic targets are set to meet the council's commitments.

Service planning carries the golden thread of delivery to work plans, ensuring that the financial commitments made are delivered successfully. Progress and corrective action, if needed, are discussed at CMT on a monthly basis and by the Executive quarterly, completing the picture of full integration of the financial and corporate planning functions.

- **The Asset Management Plan**

The Capital Resource Allocation Model (CRAM) process invites bids from Directorates asking them to put forward their main capital priorities as identified through their asset management plans which are aligned to the Council's Corporate Strategy. The financial strategy manages the impact of decisions taken on the Capital Programme resulting from the Asset Management Plan.

- **The IT Strategy and work programme**

There are five themes within the IT strategy, of these the following themes reflect issues dealt with as part of this financial strategy, particularly through the council's Transformation Programme:

1. Use technology to improve the efficiency and effectiveness of Council Services and the internal working of the Council
2. Use technology to make services easy to access, high quality and efficient, effectively managed, and responsive to the particular needs of individuals and/or Customer groups.

- **The Procurement Strategy**

There is now a revised procurement strategy as part of the More for York workstream and its focus is in support of the Councils drive for efficiency over the next three years. Targets for savings from procurement activity have been identified and the strategy will set out how CYC intend to increase the effectiveness of expenditure control regimes, increase the commercial focus of the council's procurement activity and improve the future planning and visibility of its procurement activity.

- **The Treasury Management Strategy**

Treasury Management is the management of the Authority's cash flows its banking, money market and capital transactions, the effective control of risks associated with those activities and the pursuit of optimum performance associated with those risks.

In order to comply with the various statutory frameworks within which the Treasury function has to operate, the Treasury Strategy and associated Prudential Indicators have to be approved by Council prior to 1st April of each financial year.

Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council.

- **The HR Strategy and other related HR policies**

The Workforce Development Plan has key linkages to the Corporate Strategy and as such forms part of the golden thread from directorate and service plans to service delivery and their subsequent financial commitments, through the service planning process.

C. LOCAL AND NATIONAL PRIORITIES

Our priority themes

3. The corporate strategy is in the final year of its three year life, with milestones currently being updated to ensure the successful delivery of the three year commitments. This in turn will make a significant contribution to the aims of the sustainable community strategy, to which the corporate strategy has been fully aligned.
4. The development of the milestones and the budget process run simultaneously to ensure realistic targets are set to meet the council's commitments. Bids that are associated with the delivery of the corporate strategy milestones are given a higher weighting of importance than that of unrelated bids.
5. The corporate strategy milestones undergo a large amount of scrutiny before being finalised. This includes consideration by the corporate management team (CMT), the corporate leadership group and the Executive. This ensures that the strategy is fully embedded within the culture of City of York Council, and value for money is considered at many levels before final agreement at budget council. Thus the projects the corporate strategy committed to the public to deliver are funded where at all possible.
6. Service planning carries the golden thread of delivery to work plans ensuring that the financial commitments made are delivered successfully. Progress and corrective action, if needed, are discussed at CMT on a monthly basis and by the Executive quarterly, completing the picture of full integration of the financial and corporate planning functions.

7. The council's medium term financial planning is driven by these priorities. By integrating the development of the budget and financial plan with these priorities we seek to ensure that resources have been allocated to deliver the corporate priorities in a robust and sustainable manner. The financial strategy also seeks to make links with national priorities. In considering any proposals for investment the links to national priorities are considered. By planning over a number of years the financial strategy aims to ensure that local and national priorities are delivered in the long term and service improvement and realignment is planned in an effective manner.

D. CURRENT NATIONAL ISSUES

External Influences

8. Council tax provides for about 17% of the council's gross revenue spending, with the majority of the council's resources coming from central government in the form of grants. These constraints are heightened following recent developments on the national political landscape and these are explored in more depth below.
9. Consequently, the financial strategy is to some extent shaped by factors outside the council's immediate control. However, there are many facets to an effective financial strategy and the council must ensure it proactively manages its resources with a view to ensuring robust financial planning that delivers council priorities.

Change in Central Government

10. The result of the May 2010 General Election, with the change from a Labour administration to Conservative-Liberal Democratic coalition, is significantly changing the public services landscape. The new coalition's desire to implement a paradigm shift to decentralisation and localism has already had a number of impacts on Local Government including the abolition of the Audit Commission, Comprehensive Area Assessments and Local Area Agreements, and the June emergency budget which significantly reduced in year funding delivered by Area Based Grants.
11. Further changes were outlined in the Localism Bill published in December 2010, which will inevitably have varying impacts on the way the council operates, and included the following headline proposals:
 - i) Councils will have a "general power of competence", allowing them to do anything not specifically banned,
 - ii) Councils will be allowed to return to the committee structure if they want,
 - iii) Councils will have to publish a senior pay policy statement. If councils want to ignore it, there will have to be a vote at full council,
 - iv) Councils will lose the power to charge for bin collections,
 - v) The duty on councils to promote greater involvement in local democracy will be abolished,
 - vi) The Local Government Ombudsman rulings will become binding,

- vii) Voters will be given the power to veto excessive council tax increases. Any increase above a ceiling set by the DCLG Secretary will have to be approved in a referendum,
 - viii) Introduction of Tax Increment Financing (TIF),
 - ix) Closure of Redevelopment Agencies,
 - x) Reform of the Housing Revenue Account,
 - xi) Reform of the planning system.
12. Many of the changes outlined above will inevitably have monetary implications and therefore the council's financial strategy will have to be able to adapt and account for these issues as the proposals are developed.

Spending Review and Two Year Settlement

13. The October 2010 Spending Review set out the radical shift in public expenditure plans for the remaining four years of Parliament with some unprotected departments being expected to deliver in the region of 30% in savings over the period. Overall, unprotected budgets were on average 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.
14. 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 an impact on the council. 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.
15. In December, a two year settlement was announced that covered the first two years of the Spending Review (covering the years 2011-12 and 2012-13). The settlement for the subsequent two years will yield the results of the ongoing Local

Government Resourcing Review, the result of which are due early in 2011, and which will reflect the proposals outlined in paragraph 11. Settlements that cover more than one year are intended to improve the ability to forecast the overall financial position for the council. However there will remain significant uncertainties in long term planning as the level of grant is only part of a complicated set of assumptions used.

16. In order to meet all the challenges outlined above, this financial strategy seeks to ensure national priorities are considered alongside local priorities.

Efficiencies

17. In recent years, there has been a strong need to demonstrate efficiencies that have to be achieved through a greater focus on VFM and through a culture of innovation. One requirement that the new government has placed on councils is to demonstrate VFM by transparently publishing all spend over £500, which is designed to hold them to account for all of its expenditure
18. The council recognises the need to ensure VFM and this is reflected in the corporate strategy. To ensure the council can respond proactively to the major financial challenges it faces it launched the More for York programme during 2009. Savings from the programme are included in the 2011/12 budget and will continue to be a key feature of future budgets beyond.

Sustainability

19. Sustainability is a key performance measure. It is about long term social and economic benefits, ensuring a strong healthy and just society as well as environmental concerns. In order to ensure that the council's services and actions promote sustainability the council has developed a sustainability policy which contains principles and measures that are to be implemented over the coming years.

Significant Partnerships

20. In order to deliver more efficient services the council continues to work with a range of partner organisations throughout the area. In some cases it has entered into a formal agreement with partners for the delivery of services and projects, examples include:
 - Safer York Partnership
 - Joint commissioning with the health authority
 - Joint agency panel for out of authority placements
 - Learning disabilities integrated services
 - Yorkshire Purchasing Organisation
 - Waste PFI with North Yorkshire County Council

External Funding

21. The achievement of external funding is a key part in the demonstration of VFM. External funding opportunities include European funding and lottery funding. The council must carefully appraise the role that external grant resources can play in meeting its objectives. Decisions about bidding for external grants must be taken in the context of the priorities in the corporate plan.

E. THE FINANCIAL STRATEGY'S OBJECTIVES

22. The financial strategy is designed to maintain financial stability and, as far as possible, avoid the need for large unplanned increases in council tax and unaffordable borrowing, whilst ensuring we have sufficient resources to achieve the corporate aims and priorities. To this end, it is proposed that the medium term financial strategy should ensure the following specific objectives:

Objective 1 - Budgets are prudent and sustainable in the long term

23. This seeks to ensure that budgets recognise real cost pressures, and that no over reliance is placed upon any one-off savings, and/or use of one-off reserves. This will be achieved by ensuring:
- adequate provision is made for inflation pressures, current economic conditions, pay awards, and new legislation
 - the revenue budget is not supported by one-off savings, or any significant use of reserves
 - effective budget monitoring to ensure early identification of issues and action planning

Objective 2 - Financial plans recognise corporate priorities and objectives

24. This seeks to ensure that financial plans link with corporate planning and priorities, and that there is provision within the financial strategy for growth/development funding on an ongoing basis. This will be achieved by ensuring:
- additional investment and savings proposals make explicit reference to corporate priorities
 - local and national targets are considered
 - long term vision and objectives are considered within the report
 - provision within financial planning figures for growth and contingency amounts based upon perceived risk,
 - a review capital prioritisation process/option appraisal

Objective 3 - Significant risks are identified, and factors to mitigate against those risks are identified

25. Risk management is crucial in long term planning and it is essential that the financial strategy clearly identifies the associated risks and that this is supported by an embedded risk management culture within the organisation. This will be achieved by:

- risk management being embedded in corporate and service planning
- financial risks being specifically considered on an ongoing basis, and specifically reflected within the financial strategy
- targeting high risk areas when setting budgets and monitoring these areas closely throughout the year

Objective 4 - The capital programme is planned over a 5 year period, with the revenue implications of planned capital investment incorporated into the financial strategy

26. This seeks to ensure that advance provision is made within the financial strategy for the estimated revenue implications over the long term. This will be achieved by ensuring:

- the development of a 5 Year capital programme
- the clear identification of potential unsupported borrowing
- contingency funding is included within the capital programme
- a corporate approach to external funding opportunities to maximise resources to the council.

Objective 5 - Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account

27. It is important that the financial strategy is realistic and that there is a corporate awareness of the constraints on council funding. This will be achieved by ensuring:

- specific reference within each financial strategy of constraints and current issues
- regular reporting to Executive on local government finance issues
- awareness of the financial position within the organisation through an effective communication strategy

Objective 6 - Council tax increases will be kept below the government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the financial plans, recognising that these increases may be subject to change

28. The government may in the future require authorities to set out planned council tax increases for the next three years. It is important in developing the financial plan that an assumed council tax increase is included, ensuring that financial plans do not place over-reliance upon excessive council tax increases. This will be achieved by ensuring that financial plans take account of this level of council tax increase, government expectations on council tax increases, and, in particular, that target efficiency gains reflect the likely levels of council tax. However, it has to be recognised that additional burdens and demands can be placed upon local authorities, and that it may not always be feasible to achieve an increase in council tax in line with the inflation rate.

Objective 7 - Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the council

29. It is important to strike a balance between maintaining adequate reserves and contingencies and delivering priorities and achievement of VFM. This will be achieved by ensuring an annual review of reserves, linked to corporate priorities and treasury management implications.

Objective 8 - VFM and achievement of improved efficiency and service delivery underpin the financial strategy

30. VFM should be at the heart of everything the council does, and the pursuit of improved efficiency and performance needs to be established as an ongoing underlying principle. This is being achieved through:
- a corporate efficiency programme, linked to transformation through the More for York programme
 - a corporate approach to external funding
 - embedded finance and performance reporting to Members
 - benchmarking the costs and performance of our services

Objective 9 - The financial strategy supports the achievement of excellence in financial management and use of resources

31. A financial plan in isolation will achieve little. It needs to be supported by:
- effective financial governance arrangements
 - effective corporate governance embedding the principles contained within the CIPFA/SOLACE good governance framework, and the implementation and assurance of these principles through the council's improvement plan/business model
 - financial management that supports performance
 - effective monitoring arrangements
 - effective financial reporting

This will be achieved by:

- A highly visible improvement plan focused on core procedures and processes that an effective council needs to have in place
 - developing the financial culture within the council
 - financial reporting and documentation based upon stakeholder needs
 - continued improvement of financial systems
 - training and development - both financial and non-financial
 - integration of financial and non financial performance measures
32. These objectives are further explored throughout the report.

F. DEVELOPMENT OF THE FINANCIAL STRATEGY

33. As noted above, the development of the budget and medium term financial plan is driven by the council's priorities. The financial strategy aims to help Members to determine priorities and forecasts the changes in demand for services, and the likely financial implications of changes in legislation. The strategy also demonstrates the future cost of policies or proposals, and seeks to balance the demand for spending with the resources likely to be available. The strategy provides a financial framework within which departments and individual managers can plan their services.
34. The financial strategy comprises a 5-year revenue plan and a 5-year capital plan. The plans will be reviewed annually and rolled forward by a year.
35. The process, from the start of the review of the financial plans through to the approval and allocation of budgets, will span the whole year and will engage regularly with senior Members and senior managers throughout the council. Ownership and understanding of the financial strategy is crucial in ensuring effective long term planning within the council.
36. One of the key features of the budget process is the linkage between the corporate financial requirements and the operational needs and demands of the council. This is done through the service plans that identify funding requirements for the revenue and capital budget, performance outcome expectations and risk assessments.
37. The financial strategy will be communicated to staff and other key stakeholders.

G. CONSULTATION

38. The council's budget has been widely consulted on. The forms of consultation included the following:
 - the postal and web based survey of citizen's priorities for budget growth and savings
 - budget forums held separately for citizens and the business community where an in-depth analysis of the situation and options were discussed
 - Scrutiny Management Committee
 - Executive Member Decision Sessions (EMDS) where budget proposals, options and details, including service plans, were presented

H. FINANCIAL CONTEXT

39. Ever since York became a Unitary Council in 1996 its funding and spend position has been comparatively low compared to other the unitary authorities which were created at the same time. York has a comparatively low level of council tax, spend per head and receives one of the lowest grant per head settlements as the following three charts show.

40. In 2010/11 York had the second lowest Band D equivalent council tax of all 55 unitary councils, it had the lowest spend per head and received the 9th lowest government grant per head. Therefore York can be considered to be one of the lowest funded authorities in the country which is why decisions about the budget and the consequential impact on the council's priorities and services are difficult and important.

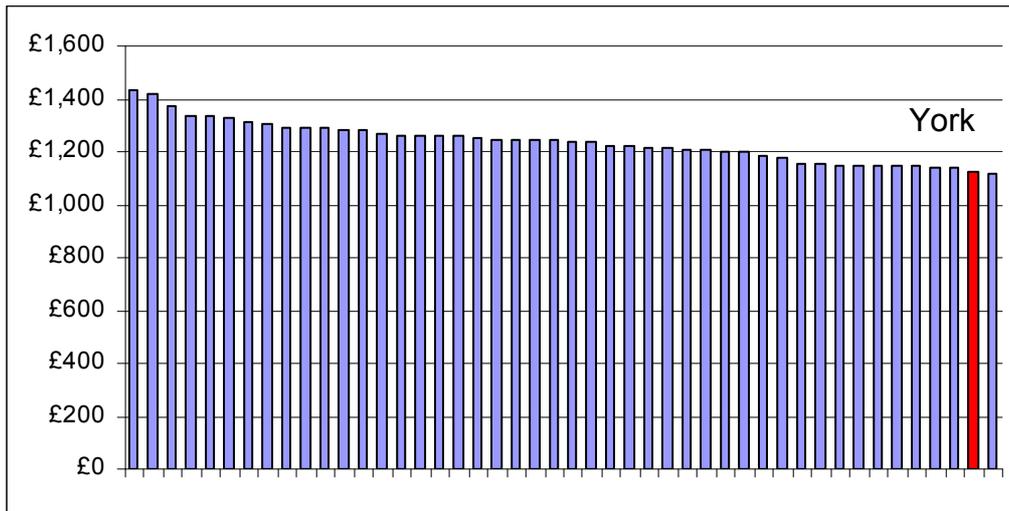


Chart 1 – 2010-11 Band D Council Tax - All Unitaries

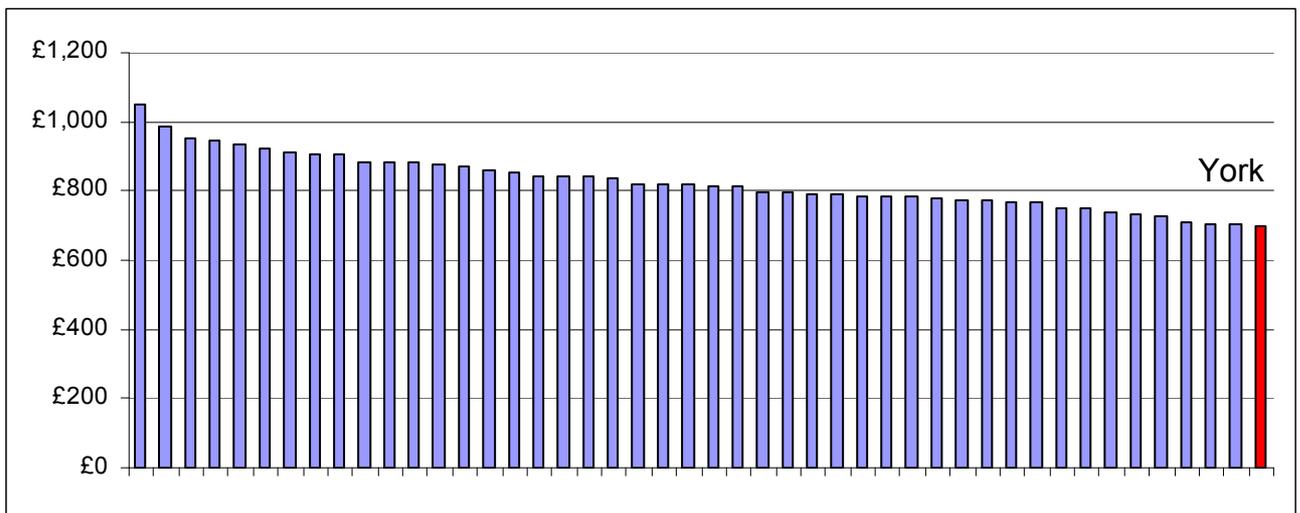


Chart 2 – 2010-11 Spend per Head - All Unitaries

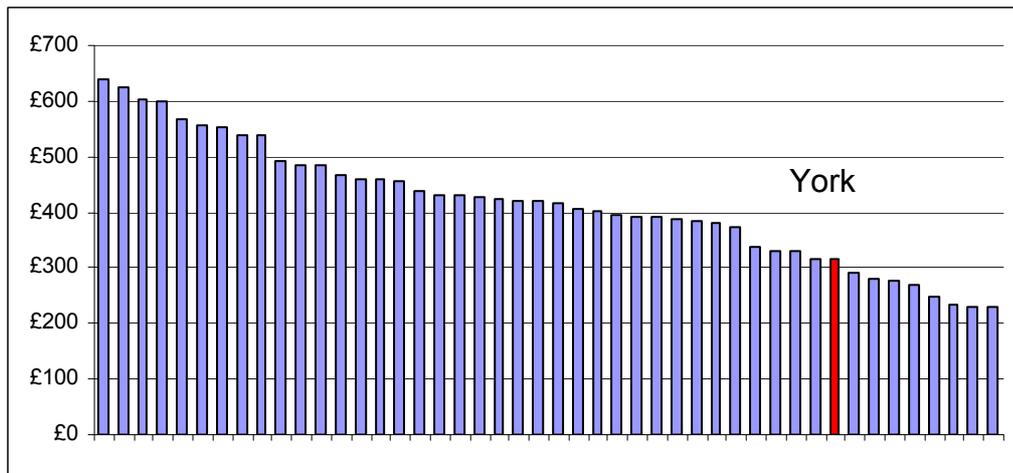


Chart 3 – 2010-11 Grant per Head - All Unitaries