**NORTH YORKSHIRE COUNTY COUNCIL**

**EXECUTIVE**

**5 February 2008**

# MEDIUM TERM FINANCIAL STRATEGY 2008/11 AND REVENUE BUDGET FOR 2008/09

**Joint Report of the Chief Executive and the Corporate Director – Finance and Central Services**

## 1.0 PURPOSE OF REPORT

1.1 To make recommendations to the County Council regarding the Medium Term Financial Strategy 2008/11 and Revenue Budget 2008/09.

## 2.0 CONTEXT

2.1 The County Council has a duty to provide efficient, value for money services. This remains the fundamental priority for the County Council and a high expectation from the public of North Yorkshire. Local authorities are not the only public service where needs and demands are outstripping resources - the Police and the Health Service as two other examples. Later on in this report there is reference to performance but at this point it is suffice to say that the County Council compares very well against the tests set by the Audit Commission and other Inspectorates as well as demonstrating overall value for money.

2.2 Particular challenges that are current and will be ongoing include the increasing number of older vulnerable adults who need support, the need to further improve the educational attainment of children and the skill levels of adults and the disposal of the large amounts of waste produced in the County in an environmentally acceptable way. The County Council priorities reflect the need to address these challenges and the Chief Executive’s Management Board alongside the County Council's Executive Members are very conscious of the need to keep under review both the challenges and the opportunities that arise.

2.3 The Government’s Comprehensive Spending Review covering the next three years was announced in the Autumn of 2007. Whilst this Review has given some certainty to funding levels from the Government to the County Council for the next three years there is also the requirement to generate 3% year on year efficiencies; this means a 9.3% target for the whole period. The difference between previous years and the forthcoming period is that these efficiency savings must be cashable. As an already low spending, low taxing and high performing Council, this particular target will be extremely challenging. Plans to deliver this target are now being worked up in detail by Management Board so that there is no unnecessary delay in implementing the measures that will be necessary to achieve the target.

2.4 Finally, we now know that the Government have decided to continue with two tier local government arrangements in North Yorkshire. This requires all local government organisations in the county area to find ways of cooperating to maximise the Council Taxpayers investment. The Management Board continues to examine very carefully the duties that we are required to deliver and to ensure that proposals for any growth in expenditure and service developments are essential.

## 3.0 BACKGROUND

### Introduction

3.1 The Medium Term Financial Strategy 2008/11 is designed to ensure that resources are effectively deployed to provide and improve County Council services to communities across North Yorkshire in line with the Council Plan. The County Council's detailed expenditure plans and Revenue Budget for 2008/09 seek to improve efficiency, to avoid service reductions but provide some investment and strengthening of services, to manage or reduce identified risks, and to raise performance.

### Council Plan

3.2 The seven key objectives of the Council Plan are as follows:

- ➔ Security for all – by promoting safe, healthy and sustainable communities
- ➔ Growing up prepared for the future – through good education and care and protection when it is needed
- ➔ Independence – through employment, opportunity and appropriate support
- ➔ Ensuring good access for all – with good roads and a safe and reliable transport system as well as providing new ways to interact with, and contact, the services they need
- ➔ Strengthening our economy – by supporting business, developing our infrastructure, investing in powerful telecommunications and helping people improve their skills
- ➔ Looking after our heritage and our environment – in our countryside and our towns and villages
- ➔ Keeping in touch – by listening to your views, engaging with you to meet your needs, and by letting you know what we are doing

### Performance

3.3 Performance has generally continued to improve in 2007/08, as evidenced by:

- ➔ an Audit Commission rating as 'excellent', a 4 star (out of 4) authority, that is improving well
- ➔ the Audit Commission Corporate Assessment rated the County Council as 3 out of 4

- ➔ a joint assessment by the CSCI and Ofsted has judged Services to Children and Young People at a score of 3 out of 4 with both Enjoying and achieving and Capacity to inspire at the maximum of 4
- ➔ for Key Stages, North Yorkshire results are in the top 15% in England for Key Stage 4 and in the top 10% for Key Stage 3
- ➔ the overall Adult Social Care rating is 2 stars out of 3 and Capacity for improvement has gone up to Promising
- ➔ the Audit Commission has assessed the Council's Environmental Services at a score of 4 out of 4
- ➔ progress on the LTP has been assessed as 'excellent'
- ➔ household waste recycled and composted has increased to 35.4%
- ➔ the Audit Commission has assessed the Council's contribution to Cultural Services at a score of 3 out of 4
- ➔ the Audit Commission Use of Resources judgement is 3 stars out of 4 with a very good VFM profile.

3.4 Last year's increase in Council Tax was +4.9%. However, the County Council remains in the lowest taxing quartile of English Shire Counties and is well below the average in terms of net expenditure per head of population. In terms of performance, PWC rank the County Council as second out of the 34 County Councils. Audit Commission figures show 65% of performance indicators improved during the year and 38% of indicators are in the best quartile.

**Medium Term Financial Strategy**

3.5 An MTFS is required in business process terms because it:

- ➔ identifies the resources needed to achieve corporate objectives over the medium / longer term
- ➔ links the Revenue and Capital budgets

and therefore

- ➔ enables forward planning to take place with reference to levels of available funding.

3.6 The objectives of the MTFS, as reaffirmed by the County Council in the 2007/08 Budget cycle, are as follows:

- ➔ to support the **achievement of the vision and corporate objectives** expressed in the Council Plan
- ➔ to **maintain and improve service quality** and the Council's improvement planning priorities so as to secure high performance which is sustainable over the medium term
- ➔ to meet and **respond to the perceived needs and priorities of local people**
- ➔ to **manage and minimise the risks** to local services and customers
- ➔ to achieve **effective use of all land and property assets**

➔ to **maintain unallocated revenue balances** equivalent to 2% of the net Revenue Budget

➔ to **contain any rise in the Council Tax to a reasonable level**

**Budget Cycle 2008/09**

3.7 Budget workshops were held for all Members on the 11th July and 12th December 2008.

3.8 At the Executive meeting held on 8 January 2008, Members received details of:

➔ the key points arising from the Provisional Local Government Finance Settlement for 2008/09 to 2010/11

➔ the implications of the Provisional Settlement for the Council Tax Precept

➔ the situation regarding capping

➔ an update regarding the expenditure assumptions in the MTFS

➔ consultation arrangements

3.9 Because of the lateness of the ODPM's announcement of the Provisional Settlement figures, the Executive was not in a position to provide details of any proposed Budget package to Members when the County Council met in December 2007.

3.10 Since that date a package of Budget proposals has been prepared by the Executive and used in the consultation process.

3.11 This report explains the details of that package, reflects the responses from the consultation process, and takes into account the details of the ODPM's Final Settlement figures so that a formal Council Tax Precept and associated Budget package can be recommended to the County Council.

3.12 **A copy of this detailed report, and the Executive Summary, will be circulated to all Members as part of the papers for the County Council meeting to be held on 20 February 2008 and will therefore be available to all Members before the Budget Workshop III on 11 February 2008.**

## 4.0 STRUCTURE OF REPORT

4.1 Based on the starting position outlined above this report will:

➔ outline the process and key parameters for the Budget process **(paragraph 5)**

➔ analyse the feedback from the consultation process **(paragraph 6)**

➔ explain the new VFM requirements and how they have been incorporated into the Budget process **(paragraph 7)**

➔ explain the expenditure and Council Tax implications for the County Council of the Final Local Government Finance Settlement figures announced on 24 January 2008 **(paragraph 8)**

➔ set out the proposed Revenue Budget package for 2008/09 **(paragraph 9)**

- ➔ roll forward the MTFS for the period to March 2011 **(paragraph 9)**
- ➔ identify the risks associated with the proposed package **(paragraph 10)**
- ➔ deal with a variety of technical and other matters associated with the Revenue Budget for 2008/09 **(paragraph 11)**
- ➔ satisfy the legal requirements of the LG Act 2003 in relation to Budget setting **(paragraph 12)**
- ➔ present Conclusions and Recommendations **(paragraphs 13/14)**

## 5.0 BUDGET / MTFS – PROCESS AND KEY PARAMETERS

5.1 There are a number of factors that have effectively dictated the way the Budget cycle has been managed this year viz

(a) the Government's intention to announce full 3-year grant Settlements accompanied by the clear message that authorities should expect the threat of capping of Council Tax increases to continue

(b) given the likely levels of future Government grant, the early financial projections for the County Council indicated that the funds available for service development were likely to be limited and therefore the self-help principle needed to be pursued wherever possible (eg efficiencies, review of service levels)

(c) an anticipation that the Government will continue with the concept of efficiency targets. Although the 3-year process of Annual Efficiency (Gershon) targets of 2½% per annum ends in 2007/08 this assumption was well founded in that the Government has now introduced a voluntary 3% Value for Money target, and linked this to the Use of Resources module of the Comprehensive Performance Assessment (CPA).

(d) for the reasons explained in the 8 January 2008 report the Grant Settlement cannot now be analysed meaningfully at service block level. Therefore, other than in relation to the Dedicated Schools Grant (DSG), the allocation of all the year on year additional funds available to the County Council will be based on prioritised service needs reflecting Council Plan objectives

(e) the declared intention of the Government to establish an Area Based Grant (ABG) that would effectively subsume a range of specific grants and provide a new flexibility at local level to allocate resources towards locally determined priorities. Therefore, the relationship between ongoing service commitments currently funded by specific grants and the new ABG regime will need to be carefully examined.

(f) a recognition from work done in preparing last year's MTFS, by looking again at spending pressures in the current year and by being aware of future legislative agendas that there are three service areas that are likely to require significant levels of additional funding in the period to be covered by the updated MTFS (ie to March 2011). These areas are:

- ➔ demand pressures in Adult Care services
- ➔ development of the integrated Children's Service
- ➔ Waste Strategy – both recycling and waste disposal

5.2 Given the factors referred to above there was clearly no sense in trying to prepare a Budget package for 2008/09 on its own – the emphasis has therefore been to look at the 3 year period (ie 2008/09 to 2010/11) and, in the case of the Waste Strategy, beyond 2011.

5.3 A diagram that illustrates how all the various internal and external factors link together in process terms as far as Budget preparation is concerned is provided at **Appendix A**. The Executive has been mindful of all of these factors at all stages of the MTFS / Budget process.

5.4 Members will be aware from previous Budget reports, the Quarterly Performance Monitoring reports and the Budget Workshops that there are spending pressures across all service areas The aggregate financial impact of all of these items is not affordable within the projected funding levels. The Executive therefore recognised that in preparing the eventual Budget package proposals, they would have to consider some or all of the following:

(a) reducing future spending needs via
- curtailing policy improvements
- and/or reducing service levels
- and/or increasing income levels

(b) finding cashable efficiency savings to offset the need for (a)

(c) looking at all of the above across the 1/2/3 year timescales of the MTFS and, if necessary, beyond.

5.5 To ensure that Value for Money was evident and/or being pursued across all Services, the Executive undertook a systematic analysis of the performance indicators, unit costs and other statistics available for each Service. Particular use was made of those statistics provided by the Audit Commission and the benchmarking figures for County Councils developed by PricewaterhouseCoopers together with other local indicators where deemed appropriate.

5.6 Because of this challenging scenario, the Executive has maintained the following 'design principles' for this year's MTFS/Budget package:

(a) the County Council is committed to being a high performing, value for money but low taxing authority on an ongoing basis

(b) the County Council will not breach any capping criteria set by the Government

(c) in the context of value for money, the County Council will aim to meet any future targets set by the Government

(d) a continuing commitment to the funding of schools – the fact that the level of Dedicated Schools Grant (now ringfenced for the Schools Block and £ for £ grant funded by the Government) takes into account the County Council's previous spending above Schools FSS in this area is reassuring (if not guaranteed indefinitely)

(e) the year on year increase in spending capacity would not be allocated on a formulaic basis to any particular Directorate nor will predetermined targets be set for each Directorate. Rather that the funds available will be treated as a single ‘pot of money’ which will be allocated based on the policies and priorities of the County Council.

5.7 To prepare the proposals contained in this Report a number of further modelling assumptions / methodologies have been applied:

(a) the Final Grant Settlement figure for 2008/09 together with the indicative figures now provided by the Government for 2009/10 and 2010/11. If the figures for Years 2 and 3 are subsequently amended by the Government in a years’ time, that will be addressed in next year’s Budget cycle

(b) Council Tax increases of +4.75% have been applied in each of the three years. Because of the pre-existing low tax base, but acknowledging the threat of capping, the Executive has chosen to adopt this % increase figure so that the maximum funds available to the County Council can be provided against the predicted spending needs; this is particularly important given the anticipated heavy cost impact of the Waste Strategy in 2011/12 and 2012/13 (effectively Years 4 and 5 of the MTFS).

(c) the County Council’s policy regarding a 2% minimum level of General Working Balance should be retained

(d) the Value For Money targets included in future years must be realistic – in a situation for Years 2 and 3 of the MTFS where the funds generated by Government grant and a 4.75% Council Tax increase are heavily consumed by inflation and known commitments, the ability to provide additional resources for service development is solely dictated by the level of net ongoing cashable savings.

(e) there is a need, referred to in **paragraph 5.2** above, to establish a recurring provision that will be available to offset the level of additional costs forecast from the Waste Strategy in 2011/12 et seq.

## 6.0 CONSULTATION

6.1 Consultation and discussion on the Budget proposals has been undertaken in accordance with the ‘Bronze level’ referred to in the Consultation Strategy for the Budget approved by the County Council on 20 December 2006.

6.2 A series of **public meetings** have been held, linked to the Area Committee meetings, during January and February 2008. Brief presentations were made by the Leader, Chief Executive and Corporate Director – Finance and Central Services and then the meetings were opened up to questions from the public and then the Committee Members. Details of all the issues raised have been recorded in the respective Area Committee minutes and made available to all Members of the

Executive and Management Board so that they could be factored into the final consideration of the Budget proposals contained in this report.

6.3 At the time the consultation was taken, a Council Tax increase of 4.9% was referenced because this was consistent with the current MTFS (ie as approved last year).

6.4 The feedback from these meetings has been mixed. Most speakers have been understanding of the County Council's overall level of performance and financial position and supportive of a steady state Budget. There has been a general recognition of the County Council's efforts to keep the Council Tax increase low and the proposed increase has drawn very little criticism. There was however concern expressed about the position of fixed income pensioners who faced a number of financial pressures (eg fuel bills) in addition to a prospective Council Tax increase above any inflation they might receive on their pension.

6.5 Specific issues that were often raised included:

- ➔ waste collection, disposal and recycling with a growing understanding that, whilst recycling is high profile, the key to this problem in the longer term is to produce less waste
- ➔ the ageing population and its impact on the demand for adult care services
- ➔ small rural schools under threat
- ➔ transport and roads in rural areas
- ➔ street lighting and who is responsible for what?

6.6 Information has been exchanged with the York and North Yorkshire **Chamber of Commerce.** Regular contact is made with the Chamber throughout the year and the Chamber have asked for a presentation to be made later in February on the County Council's Budget and performance by the Chief Executive and the Corporate Director – Finance and Central Services.

6.7 The third **Members' Budget Workshop** scheduled for 11 February 2008 will provide an opportunity for all Members to probe the proposals in detail. In previous Workshops Members have, in general, been supportive of a policy designed to minimise the level of Council Tax increase whilst avoiding service reductions wherever possible. The need to look at Budgets on a multi-year basis was understood and accepted and there was a growing recognition that the financial pressures the County Council was facing in its 2008/09 Budget were unlikely to ease in 2009/10 and 2010/11 (ie Years 2 and 3 of the MTFS)

6.8 Proposals for the use of Dedicated Schools Grant to fund the **Schools Block** have been the subject of separate and extensive consultations with schools and the Schools Forum. This was achieved by the circulation of a detailed Budget Commentary and a series of five roadshow meetings held in early December 2007. The meetings were informative to schools and provided helpful feedback on the formulation of a Schools Block budget package for 2008/09 – 2010/11 bearing in mind the requirement to fix School Budgets for each of 3 years.

6.9 The consultation also provided the opportunity to inform Schools of the significant changes which have been made in school funding arrangements. These changes together with outline details of the proposed Schools Block funding package are set out in the **Supplementary Paper III** . In addition to the challenges of formulating 3 year budgets, a review is nearing completion of the review of the formula used for distributing School Fund (LMS formula). Consequently it has been agreed to hold a further 'round' of consultations during early February 2008. The opportunity also has been taken to commence the consultations on changes to Primary School Catering in the light of the difficult financial position facing that service.

6.10 The Schools Forum met in November 2007 to consider the Schools Block Budgets and the LMS formula. A further meeting is to take place later in February to reflect on the outcome of the latest consultation. Final decisions on the Schools Block Budgets will then be taken in consultation with Executive Members at their meeting on 22 February.

6.11 Meetings have been scheduled with both the **Voluntary Sector** and **Independent Care Group** to explain the context and proposals for the County Council's Budget in 2008/09. The Independent Care Group represents providers from residential, nursing and domiciliary care providers within North Yorkshire; these discussions will therefore also necessarily address the market position and cost pressures within North Yorkshire, and will take into account the Strategic Commissioning Implementation plan.

## 7.0 VALUE FOR MONEY

### 3% Targets

7.1 As part of its Comprehensive Spending Review framework, the Government has introduced Value for Money (VFM) targets for local government set at 3% of each of the three financial years starting 2008/09. These targets effectively replace, or more correctly follow on, from the three years of Gershon efficiency targets set at 2½% per annum.

7.2 The key points are that:

- ➔ the targets are described as voluntary for each local authority but it is clear that VFM will feature in the Use of Resources (UoR) component of the CPA
- ➔ 3% x 3 years is equivalent to 9.3% cumulative over the 3 year period
- ➔ only cashable savings count against the target because they are, in the Government's terms, reinvestable in services and/or can be used to reduce the level of Council Tax
- ➔ recurring cashable savings can count in consecutive years whilst one-off savings can count only once.

7.3 It is the intention of the County Council, as part of this Budget package, to reinvest these cashable savings into service delivery over the MTFS period and beyond whilst still maintaining a low level of Council Tax amongst shire authorities.

7.4 The CLG guidance includes details of how to calculate the 3% - interestingly it includes both revenue and capital spend. For the practical purposes of the Revenue Budget / MTFS process, the value of the 3% has however been based on the net Budget requirement derived from the combination of grant and Council Tax yield increase added to last year's Budget. This produces the following figures for each of the Budget / MTFS years.

| | **£m** | |
|---|---|---|
| 2008/09 | 9.68 | (figures include inflation) |
| 2009/10 | 10.19 | |
| 2010/11 | 10.74 | |

7.5 Another way of presenting the figures that shows the challenge that faces NYCC, given that the County Council is already high performing / low spending, is as follows:

| Year | 2008/09 £m | 2009/10 £m | 2010/11 £m | Total £m |
|---|---|---|---|---|
| 2008/09 | 9.68 | 9.68 | 9.68 | 29.04 |
| 2009/10 | | 10.19 | 10.19 | 20.38 |
| 2010/11 | | | 10.74 | 10.74 |
| Total | 9.68 | 19.87 | 30.61 | 60.16 |

**Benefits if target achieved**

7.6 These 3% cashable VFM figures have been built into the Budget package because:

➔ the County Council is committed to the continuous search for VFM

➔ the funds released by VFM can be recycled into the Budget process to offset spending pressures.

**Risks if not achieved**

7.7 The principal risk is that if the level of VFM savings referred to above is not achieved or slips to any major degree within any of the three years, then the service developments factored into the Budget package will have to be re-assessed in subsequent Budget cycles. Year 1 (ie 2008/09) is considered the most vulnerable to slippage in achieving the target and therefore a judgement has been made, reflected later in the report, as to how to manage this potential risk in cash flow terms (see **paragraph 9.29(b)**).

7.8 A secondary risk is that under achievement of the 3% target in any year may impact on the UoR assessment of the County Council as far as the CPA process is concerned.

**How to achieve?**

7.9 The Management Board is very conscious of the fact that the only way to achieve a cumulative 9.3% VFM target over the next 3 years is to have a comprehensive package of measures that address all aspects of policy, process and spending across the County Council.

7.10 A Box methodology has been devised that will operate as follows:

| | | | | |
|---|---|---|---|---|
| | **Box A** | Policy changes | | |
| + | **Box B** | 3% reduction in ftes by 31/3/11<br>➔ expressed as £ target | | |
| + | **Box C** | Specified targets per Directorate but including ‘mandatory’ corporate themes, eg Procurement, Bright Office, Sickness absence | | |
| + | **Box D** | Balancing figure – pro rata (if necessary) | = | Target £ |

7.11 The Boxes are not intended to be mutually exclusive but focus on different aspects of the County Council’s activities and expenditure patterns that need to be considered in the VFM process. Many of the easier efficiency measures, especially relating to procurement, have already been achieved and scored under the Gershon arrangements. To achieve the new 3% targets will therefore require all managers to challenge the status quo and in particular change business processes or methodologies.

7.12 Therefore, a systematic process has been developed that will ensure that each Directorate not only pursues VFM in its own service context but also takes into account, and utilises where appropriate, the full range of corporate initiatives that have been developed to date as part of the Transformation process initiated in 2007/08. These have now been categorised as the 4Ps viz:

➔ Property (eg Bright Office Strategy)

➔ Procurement (eg corporate contracts)

➔ People (eg agency staff, management layers)

➔ Process (eg flexible working, contact centre, BPR)

7.13 A diagrammatic representation of the VFM process is shown at **Appendix B**. Its features will include:

➔ development of corporate standards for each of the 4Ps

➔ agreement by Management Board of detailed Directorate VFM Action Plans by 31 March 2008

➔ Management Board to monitor progress by each Directorate on a monthly basis

- ➔ progress will also be incorporated into the Quarterly Performance Monitoring Reports submitted to the Executive, meeting with the Chairmen of the Scrutiny Committees
- ➔ the release of service development funds, although allocated in the Budget package, will be linked to progress on these Directorate VFM Action Plans.

7.14 At this stage, the only Box that this has been fully defined is Box B whereby each Directorate has been given a “mandatory” target to reduce staff (full-time equivalent) numbers by 3% over the 3 years (ie by March 2011). Certain categories of staff (eg traded services with schools, grant funded) have been excluded and allowance has been made for the fact that this will necessarily be a gradual process with a 1% target for each year with a mid year notional impact. The algorithm is therefore as follows:

| | **Year 1** | **Year 2** | **Year 3** | **Day 1, Year 4** |
|---|---|---|---|---|
| Year 1 | ½ | 1 | 1 | 1 |
| Year 2 | | ½ | 1 | 1 |
| Year 3 | | | ½ | 1 |
| Total | ½ | 1½ | 2½ | 3% |

4 ½ VFM units
x £2.852m*

= £12.832m
over 3 years

ongoing
x £2.852m*

= £8.556m
saving
ongoing

[* **Note:** £2.852m = 3% of eligible salary cost base]

7.15 The allocation of the £12.8m between the Directorates is as follows:

| **£000** | **A&CS** | **BES** | **CYPS** | **CEG** | **F&CS** | **Total** |
|---|---|---|---|---|---|---|
| Year 1 | 603 | 199 | 373 | 107 | 144 | 1426 |
| Year 2 (including full year effect of Year 1) | 1808 | 597 | 1118 | 323 | 432 | 4278 |
| Year 3 (including full year effects of Years and 2) | 3012 | 995 | 1863 | 538 | 720 | 7128 |
| Total across 3 years | 5423 | 1791 | 3354 | 968 | 1296 | 12832 |

These figures have been incorporated in the Budget analysis per Directorate attached as **Appendix D**.

7.16 No decision has been taken at this stage of how the overall 3 x 3% will be allocated by Directorate over each of the 3 years. This reflects the nature of the services provided by each Directorate, the differing timescales over which the various VFM ideas will necessarily reach fruition both within and as between Directorates, and the fact that while the drive for efficiency is continuing, new expectations will be placed on services due to fresh legislation, changes in Government policy or priorities etc.

7.17 Examples of the VFM projects that are planned are as follows:

- ➔ a drive to maximise the use of office space thus reducing the number of sites required and this will be done by introducing home working, better supportive mobile working, improved office facilities including shared and hot desking
- ➔ a significant move towards the electronic storage and recovery of data (EDRMS)
- ➔ introduction of inputting of data at source, for example personnel records and changes of circumstances during employment
- ➔ further examination of the levels of skills required to undertake certain tasks is underway
- ➔ a review of line management levels and numbers of managers is in progress
- ➔ the overall balance of administrative tasks relating to front line activity is being reviewed across all Directorates and any changes will be supported by the actions that have been identified above
- ➔ the drive to improve procurement outcomes across the whole process from determining the need to purchase, the specification and the type of contract and how it is to be delivered. Particular attention will be paid to those areas that have not previously involved NPG, the procurement advisers.
- ➔ the significant spend on transport across the Council and with partners is subject to further work and efficiencies will be achieved over the term of the MTFS.

7.18 To underpin the incorporation of the VFM philosophy into the Budget/MTFS process, a VFM Strategy will be drafted for approval by Members before the start of the 2008/09 financial year. This will lay out in more detail:

- ➔ the targets to be achieved
- ➔ the methodology to be used
- ➔ the corporate components (ie the 4Ps) to be adopted
- ➔ monitoring / reporting arrangements

## 8.0 LOCAL GOVERNMENT FINANCE SETTLEMENT – FINAL FIGURES

8.1 Full details of the Provisional Settlement announced by CLG on 6 December 2007 were reported to Executive on 8 January 2008. Following a period of consultation that ended on 8 January 2008, Final figures were announced on 24 January 2008.

8.2 These Final figures do vary marginally from the Provisional allocation for every local authority as a result of

- ➔ more accurate data becoming available in certain areas, particularly in relation to supported borrowing approvals
- ➔ to correct data errors discovered by the CLG, or notified to them, by local authorities

- ➔ a base funding transfer for Public Law Family fees to reflect a policy change by the Court Service to adopt full cost recovery for proceedings under the Children Act (£36.6m nationally - £226k NYCC)

8.3 Reflecting the changes mentioned in **paragraph 8.2** above, features of the Final Settlement compared with the Provisional are as follows -

- ➔ no change to overall totals, although there had been a change to the 2008/09 baseline reflecting the Court Service funding transfer
- ➔ no change in headline increase of 4% in Aggregate External Finance in 2008/09, 4.4% in 2009/10 and 4.3% in 2010/11 (this includes schools and specific/special grants)
- ➔ headline formula grant increase reduces from 3.6% to 3.5% in 2008/09 but remains the same at 2.8% in 2009/10 and 2.6% in 2010/11
- ➔ redistribution effect between authorities arising from more accurate data, correction of data error, and new baseline adjustments
- ➔ NYCC grant reduced by £176k in 2008/09 consisting of a £402k reduction offset by the £226k baseline adjustment for Court Service
- ➔ NYCC year on year percentage increase in 2008/09 reduces from 6.7% to 6.3% (from 5.7% to 5.3% for Shire Counties and from 3.6% to 3.5% nationally)
- ➔ no change to year on year grant increases (and percentages) for NYCC or other authorities in 2009/10 and 2010/11
- ➔ no change to Grant floor levels (2% for Education / PSS authorities in 2008/09) but scaling back to fund below the floor authorities has increased (from 64.2% to 67% in 2008/09)
- ➔ no change to provisional Dedicated School Grant (DSG) allocations announced in November
- ➔ Minister reiterated expectation of average Council Tax increases being substantially less than 5% and capping warning
- ➔ Minister also reiterated expected 3% per annum efficiency gains for the 3 years covered by the Settlement

8.4 The Final figures notified for 2008/09 will not change. The Government also say that the allocations for 2009/10 and 2010/11 being made as part of this first full three year Settlement will also not change other than in exceptional circumstances. Separate consultation exercises for these latter two years will, however, take place in line with the usual Settlement timetable to comply with legislative requirements.

8.5 In announcing the Final Settlement, the Minister reiterated his threat of Council Tax capping, warning that the Government expect the average Council Tax increase in England in 2008 to be substantially below 5%, and that it will not hesitate to use its capping powers as necessary to protect Council Tax payers from excessive increases.

8.6 The Final formula grant figures for the County Council compared to the Provisional figures are as follows -

| Item | 2008/09 £000 | 2009/10 £000 | 2010/11 £000 |
|---|---|---|---|
| **Grant from previous year** | 80,188 | 94,660 | 99,323 |
| + Funding transfers (mainly PSS & Children's Services) | + 8,891 | − 235 | − 89 |
| = adjusted grant per CLG | 89,079 | 94,425 | 99,234 |
| + Increase | 5,581 (6.3%) | 4,989 (5.2%) | 5,121 (5.2%) |
| = Final grant notified by CLG on 24 January 2008 | 94,660 | 99,323 | 104,355 |
| Provisional grant 6 December 2007 | 94,836 | 99,496 | 104,530 |
| Reduction | − 176 | − 173 | − 175 |

8.7 Therefore, over the three year settlement period the County Council has lost £524k (£176k in 2008/09, £173k in 2009/10 and £175k in 2010/11) compared with the Provisional figures notified in December 2007. This is as a result of the factors mentioned in **paragraph 8.2** with a breakdown of the £176k lost in 2008/09 being as follows -

| | | | £000 | |
|---|---|---|---|---|
| ➔ | Increase in funding transfers (from £8,665 to £8,892) relating to Court Service Fees | + | 226 | |
| ➔ | Decrease in real year on year increase (from £5,983 to £5,581 or from 6.7% to 6.3%) | | | |
| | Relative needs formula | − | 220 | − 4.2% |
| | Increased grant damping | − | 182 | |
| = | Total cash reduction in 2008/09 | − | 176 | |

8.8 Therefore, the County Council's real grant increase (after funding transfers) has reduced from 6.7% to 6.3% in 2008/09.

8.9 The year on year increases in 2009/10 and 2010/11 remain virtually the same as provisionally announced, ie

- ➔ from £4,895k to £4,898k in 2009/10 (5.2%)
- ➔ from £5,123k to £5,121k in 2010/11 (5.2%)

Thus the only real changes have been made in 2008/09.

8.10 A breakdown of the County Council's formula grant into the Government's 4 block grant model is as follows -

| Grant Element | 2008 / 09 £000 | 2009/10 £000 | 2010/11 £000 |
|---|---|---|---|
| Relative Needs | 101,448 | 105,623 | 109,674 |
| Relative Resources | − 68,834 | − 70,835 | − 72,783 |
| Central Allocation | 69,766 | 73,273 | 76,676 |
| Floor Damping | − 7,720 | − 8,738 | − 9,212 |
| = Total Formula Grant | 94,660 | 99,323 | 104,355 |

8.11 A significant feature of the above table is that the County Council's grant allocation has been damped down by £7.7m in 2008/09 (£7.5m in the Provisional Settlement), £8.7m in 2009/10 and £9.2m in 2010/11, to help fund minimum grant increases to those authorities where initial formula grant fell below the prescribed floors. Thus, without damping the County Council's formula grant would have been £102.4m (ie £7.7m higher than the notified figure of £94.7m).

8.12 Following the Final Settlement, the position on damping is as follows -

(a) no change in damping arrangements or floor levels, which remain at 2%, 1.75% and 1.5% for authorities with Education and Social Services responsibilities

(b) the grant scaling down factors to pay for grant increases to authorities within the same class below the floor, has increased for Education and PSS authorities from 64.2% to 67% in 2008/09. There are also marginal increases in 2009/10 (to 72.9%) and 2010/11 (to 71.7%)

(c) in 2008/09 for the 149 authorities with both Education and Social Services responsibilities, initial formula grant for 60 fell below the 2% minimum, and was brought up to the floor at a cost of £686m. Therefore, the 89 authorities above the floor (including NYCC) had 67% of their grant increase above 2% clawed back to finance the floor (total of £686m with the clawback from NYCC being £7.7m)

8.13 Taking these Final Settlement figures, together with final tax base and Collection Fund surpluses notified by District Councils for 2008/09, and a Council Tax increase of 4.75% each year, the increased spending capacity available to the County Council is set out in **Appendix C** with a summary set out below.

| Item | 2008/09 £000 | | 2009/1`0 £000 | | 2010/11 £000 | |
|---|---|---|---|---|---|---|
| **Additional DCLG formula grant** | | | | | | |
| Funding transfers | + 8.891 | | − 235 | | − 89 | |
| Annual Increase | 5,581 | (+6.3%) | + 4,898 | (+5.2%) | + 5,121 | (+5.2%) |
| Sub-total (a) | 14,472 | | 4,663 | | 5,032 | |
| **Additional Council Tax raised at 4.75% increase** | | | | | | |
| Yield from 4.75% increase | 10,174 | | 10,769 | | 11,371 | |
| Yield from increased tax base | 2,335 | | 1,907 | | 2,017 | |
| Collection Fund surpluses | − 107 | | − 302 | | 0 | |
| Sub-total (b) | 12,402 | | 12,374 | | 13,388 | |
| **= total increase in spending available at 4.75% Council Tax increase (= a + b)** | + 26,874 | | + 17,037 | | + 18,420 | |

8.14 The figures shown above for 2008/09 are firm, whereas those for 2009/10 and 2010/11 are estimates at this stage, with ultimate final figures being dependent on

- ➔ final District Council Tax bases and Collection Fund surpluses for those years
- ➔ finally agreed Council Tax increase - 4.75% has been assumed for financial planning purposes
- ➔ any variation to Government Grant when Final allocations are announced for those years (**paragraph 8.4**)

8.15 The Provisional Dedicated Schools Grant (DSG) allocations of £311.1m in 2008/09 (+3.7%), £319.4m in 2009/10 (+2.6%) and £330.5m in 2010/11 (+3.5%) notified in November 2007, remain unchanged at this stage. As previously reported, however, these allocations are for financial planning purposes only and will be adjusted each year (in May or June) to reflect an actual January pupil number count.

8.16 A comparison of the Final Settlement total formula grant plus provisional Dedicated (DSG) is as follows -

| | 2008/09 | | | | | 2009/10 | | | | | 2010/11 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grant | Final allocation | | NYCC Ranking | Shire's increase | National increase | Provisional allocation | | NYCC Ranking | Shire's increase | National increase | Provisional allocation | | NYCC Ranking | Shire's increase | National increase |
| | £m | % | * | % | % | £m | % | * | % | % | £m | % | * | % | % |
| Formula Grant | 94.5 | 6.3 | 14th | 5.3 | 3.5 | 99.3 | 5.2 | 11th | 4.1 | 2.8 | 104.4 | 5.2 | 9th | 4.0 | 2.6 |
| DSG | 311.1 | 3.7 | 8th | 3.2 | 3.9 | 319.4 | 2.6 | 26th | 3.0 | 3.3 | 330.4 | 3.5 | 25th | 3.9 | 4.1 |
| Total | 405.8 | 4,3 | 10th | 3.7 | 3.7 | 418.7 | 3.2 | 18th | 3.3 | 3.1 | 434.8 | 3.9 | 19th | 3.9 | 3.4 |

* out of 34 Shire Counties

8.17 Therefore, it can be seen from the above table that NYCC has done relatively well compared with other similar Counties, and the national pattern over the three year period. On DSG, however, this is not the case; principally, as a result of relative falling pupil numbers. The 2008/09 DSG ranking is higher because NYCC does relatively well from two one-off "Ministerial Priority" funding streams.

## 9.0 MTFS / REVENUE BUDGET 2008/09 – PROPOSALS

### Approach

### Service Budgets

9.1 The key elements of the final MTFS / Budget proposals, on a service by service basis are provided in the **Supplementary Papers** pack as follows:

**I** Adult and Community Services

**II** Business and Environmental Services

Children and Young People's Services

**III** ➔ Schools

**IV** ➔ Children's Service Authority

**V** Chief Executive's Group

**VI** Finance and Central Services

**VII** Corporate Miscellaneous

9.2 The format used in the **Supplementary Papers** covers the 3 year period of the MTFS, and

➔ provides a contextual commentary by the Service Corporate Director

➔ identifies and explains the allocation of service development funds.

9.3 The figures shown in these service specific papers are summarised, year by year, in **Appendix D**. The analysis is complicated by the fact that:

(a) the Dedicated Schools Grant is now funded by a £ for £ specific grant from the DfES

(b) the remaining services are therefore funded by a combination of Government grant, fees and charges, a range of other grants and, of course, the Council Tax.

(c) the Government has transferred a number of grants and funding into mainstream funding and these adjustments are reflected on a cost neutral basis.

(d) the Government has introduced the Area Based Grant which has subsumed a range of hitherto specific grants.

9.4 An overall summary of **Appendix D** that highlights some significant points is as follows:

| | **Item** | | **2008/09** | **2009/10** | **2010/11** |
|---|---|---|---|---|---|
| | | | **£000s** | **£000s** | **£000s** |
| | Grant / funding changes | | 9846 | 170 | 50 |
| + | Inflation / increments / Landfill Tax | | 12938 | 12302 | 11968 |
| = | Standstill Requirement | | 22784 | 12472 | 12018 |
| + | Development Funds | | | | |
| | ➔ Services | | 5622 | 3621 | 8912 |
| | ➔ Corporate | | 2834 | 5943 | 2341 |
| | ➔ Pending Issues Provision | | 5314 | 5191 | 5889 |
| = | Sub Total | | 36554 | 27227 | 29160 |
| - | VFM targets (3%) | | -9680 | -10190 | -10740 |
| = | Net Year on Year Funding Increases | £ | 26874 | 17037 | 18420 |

9.5 The key points to emerge from the above analysis are as follows:

(a) **grant / funding changes** relate to service initiatives and/or switches of specific grant into mainstream grant that have been compensated for, by the CLG, in the overall Final Settlement. The items are therefore, in theory, cost neutral to the County Council.

(b) **Inflation** in the 'basket of goods' for the County Council exceeds 3% per annum largely due to factors beyond the day to day control of the County Council (eg pay awards, fuel prices, care packages, landfill tax).

(c) the **additional resources allocated to services** are detailed in the **Supplementary Papers**.

(d) The **additional resources for corporate purposes** essentially involve three strands:

(i) to meet the cost of servicing the increasing size of debt created by the Capital Plan as offset by interest earned on working balances – this is particularly noticeable in 2009/10

(ii) to provide for the ongoing additional cost of job evaluation particularly from 2009/10 onwards

(iii) the need to establish provisions for certain recurring and non-recurring liabilities

These items are explained in more detail later in this section of the report.

(e) There is a 3% VFM target figure for each year – see **paragraph 7** for full details.

(f) the **Net Funding** increases shown at the bottom of the table are effectively the year on year net additional spending capacity – they represent the aggregate of the year on year increase in Government grant and the yield of the proposed 4.75% increase in Council Tax (see **Appendix C**)

**Waste Strategy**

9.6 The inevitability of additional funds being required in future years to address the waste issue is referred to in several places in this report. In summary, taking into account inflation, the annual increase in Landfill Tax, the introduction of LATS, and the increasing costs over time of recycling and residual waste disposal (as delivered by the PFI scheme currently in a tender process) is estimated to increase long term recurring costs as follows-

| **Financial Year** | | **Year on Year increase £000** | **Base Budget £000** | **% increase** | |
|---|---|---|---|---|---|
| | | | | **Year on Year** | **Cumulative** |
| | 2007/08 | | 16017 | | |
| MTFS period | 2008/09 | + 2573 | 18590 | + 16.1 | + 16.1 |
| | 2009/10 | + 2527 | 21117 | + 13.6 | + 31.8 |
| | 2010/11 | + 4864 | 25981 | + 23.0 | + 62.2 |
| Sub Total | | + 9964 | N/A | N/A | N/A |
| | 2011/12 | + 4709 | 30690 | + 18.1 | + 91.6 |
| | 2012/13 | + 9649 | 40339 | + 31.4 | + 151.8 |
| Total Increase | 2007/08 – 2012/13 | + 24322 | N/A | N/A | N/A |

9.7 What the above table shows is that by the end of the 3 year period covered by the MTFS, the estimated increase is £9.96m (=62.2%) whilst over the extended 5 year period to 2012/13 it is £24.3m (= 151.8%). These figures will clearly place additional pressure on the County Council's budget for the foreseeable future.

9.8 In addition to the Landfill tax / LATS issue within this period there are costs included for household waste recycling and residual waste treatment. Members will also be aware that the County Council has, in conjunction with the City of York Council, secured PFI funding for waste treatment facilities. The PFI Project is well underway with the tendering process to begin shortly.

9.9 The significance of the figures shown in **paragraph 9.6** clearly extend beyond the period of the MTFS. Thus the difference (£14.4m) between the total projected additional cost (£24.3m) and that falling in the MTFS period (£9.96m) is effectively the projected cost of a known liability, the size of which will place severe pressure on the annual Budget of the County Council for 2011/12 and 2012/13. Indeed, without some preparatory financial planning at this stage, the extent of that pressure will necessarily have an adverse effect on the ability of the County Council to maintain its other key services to the performance standard being delivered at the time because funds will have to be reallocated to the waste budget. The preparatory financial planning referred to is explained further in **paragraph 9.29(b)** below.

**Dedicated Schools Grant**

9.10 The Dedicated Schools Grant (DSG) is effectively now ringfenced from the rest of the County Council's Budget. However as the Children's Service Authority (CSA), the County Council is still the key player in the allocation of the funds provided by the DSG.

9.11 Full details including the proposed allocation of DSG funds is provided in **Supplementary Paper III**.

**Specific Grants**

9.12 The Settlement has made a number of important changes to funding through Specific Grants. More detailed explanations are provided in the **Supplementary Papers** for each Directorate.

9.13 A number of ongoing specific grant programmes have ended, with the equivalent funding made available as part of the general Revenue Support Grant. In broad terms, the effect of this has been cost neutral. The main changes are:

➔ ACS – Access and Systems Capacity Grant (£5,820k)
➔ ACS – Delayed Discharge Grant (£1,085k)
➔ CYPS – Children's Fund (£1,365k)
➔ BES – Waste Performance and Efficiency Grant (£351k)

9.14 There have been a number of new grants, or new grant elements introduced within the Area Based Grant (ABG) (see **paragraph 9.18** below). Of those where allocation details have been announced, the more significant of these, where over £100k will be received in 2008/09 are:

➔ ACS – Social Care Reform Grant (£835k)
➔ CYPS – Extended Schools – Sustainability Grant (£936k)
➔ CEG – Local Involvement Networks (Link) (£222k)

9.15 In all cases, the grants are linked to clear expectations of the services to be provided, and the Budget proposals assume they will be earmarked accordingly.

9.16 Most other existing grants have been subject to change in real terms after allowing for the effect of inflation. This includes a number of grant elements which go to make up the new Area Based Grant (ABG). Details of the more significant issues are highlighted in the **Supplementary Papers**. In the main, the assumption is that any reduction in real terms will be matched by a corresponding reduction in related spend. Similarly any increase will be spent on the programmes linked to the grant purpose.

9.17 The Recommendation at the end of the report (**paragraph 14)** authorise expenditure under the terms of these new grants.

**Area Based Grant**

9.18 As part of the CSR 2007 framework, the Government announced details of a new Area Based Grant (ABG). The ABG comprises of a number of former specific and other grants with the recently notified allocations for NYCC being summarised as follows:

| Revenue Grant | 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|
| | £000 | £000 | £000 |
| Supporting People (from 2009/10) | - | 14,735 | 14,077 |
| All other ABG | 27,318 | 28,708 | 27,505 |
| Total NYCC ABG | 27,318 | 43,443 | 41,582 |

9.19 A full list of the individual grants making up the above totals is attached as part of **Appendix E**.

9.20 The ABG is defined by the CLG as "a general grant providing additional (to RSG) revenue funding to areas according to specific policy criteria. The difference between ABG and RSG is that ABG is allocated according to specified criteria rather than general formulae."

9.21 The ABG will be paid to local authorities as a single "non-ringfenced" grant, which means that, in principle, there are no conditions about how the grant can be used. In theory therefore it is very similar to the RSG in terms of the freedoms a local authority has over its utilisation, it is just allocated out to local authorities in a different manner. There are no additional Government reporting requirements attached to the ABG, other than it having to be identified separately in the Annual Statement of Final Accounts (SOFA).

9.22 As part of the Settlement ABG figures have been provided for three years (2008/09 to 2010/11) to give certainty and stability to local authorities for planning purposes. For this Settlement the Government has provided a detailed breakdown of the ABG allocations into individual funding streams (the former individual specific grants) but indications are that for the next three year Settlement only a total allocation will be provided.

9.23 Over this three year period the Government may add further streams of funding into the ABG, otherwise they do not intend to alter the indicative allocations unless in exceptional circumstances.

9.24 Elements of some funding streams within the County Council's total ASB allocation will need to be paid out to partner organisations such as District Councils and the PCT.

9.25 The County Council has to formally reallocate the ABG grant into its constituent parts as part of this Budget process – this includes the grants to be allocated to partners.

9.26 The practical implications of the ABG have therefore been examined in depth by the Management Board. As a result, the following proposals are put forward for the allocation, management and reporting of the ABG grant.

(a) that the indicative 3 year allocations provided by the Government for the grants to be subsumed into the ABG for 2008/09 to 2010/11 be used as the basis for allocating the total ABG grant to Service Directorates within the County Council and to partners. **Appendix E** provides this detail (including comparative figures for 2007/08).

(b) that the performance KPIs and targets for these individual grants, as now allocated, be incorporated into the pre-existing Performance Monitoring regime of the County Council. In practice, this already happens in 2007/08 despite the fact that the grants are 'specific'.

(c) because the County Council is the Accountable Body for all of the ABG, those grants allocated to partners (eg Aggregates Levy Substainability Fund) should be the subject to funding agreements that will specify targets, reporting arrangements etc.

(d) in practice, the Chief Executive should consult with partners about the basis of these allocations but given the information provided by the Government, the allocations for the first three years are effectively already determined.

(e) these principles to apply to all ABG funds that are revenue based.

9.27 In addition to the revenue based grants referred to above, there are indications that 'Single Capital Pot' grants will be allocated to the County Council on a similar basis in the future. At this stage, this only applies to the Waste Infrastructure Capital Fund. The precise details of this Grant are not yet clear therefore it is proposed that the Corporate Director – Business and Environmental Services be authorised, in consultation with the appropriate Executive Member, to consult with the Waste Partnership on the most appropriate method of allocating this Grant. The funding agreement methodology referred to in **paragraph 9.26(c)** will then need to be applied for any grant allocated to a District Council.

**Pending Issues Provision**

9.28 In developing a financial strategy that would ensure sufficient recurring funds are available in 2011/12 et seq to meet the predicted year on year additional costs relating to the Waste Strategy, an element of the additional funds available each year (from grant and the Council Tax increase) have been put aside in a Pending Issues Provision (PIP).

9.29 The PIP has itself been split into two strands in recognition of the fact that in addition to the Waste Strategy there are some Service related, or policy, issues that may require recurring funding, but the details are not precise at this stage to warrant a specific allocation in the Budget.

9.30 The two strands are as follows –

(a) **Recurring** (£2m)

this will meet the costs, subject to specific approval by the Executive, of the following if they materialise

- ➔ a trading deficit in the School Catering Service; this has been heavily impacted by a range of issues, including Job Evaluation and nutritional standards. Even after the thorough review currently being undertaken by the School Catering Board, it may not be possible to operate the Service to the quality required without a trading deficit

- ➔ any cost overrun on Job Evaluation. Full details of the position to date are provided in **paragraph 11.20**. Because the Stage 2 review process is still ongoing, projected figures have been used in that paragraph – the Fund is exhausted so if the projections are understated, further ongoing provision will be required

- ➔ at the Executive meeting on the 30 October 2007 a report was considered that addressed the undervaluation of County Council property and its impact on the ability of A&CS to develop Extra Care Housing (ECH) facilities with partner organisations. This provision would enable the Executive to substitute, back into the Business Case, the notional interest value of the `lost' capital receipt thereby facilitating the development of ECH schemes by A&CS

The extent to which this Provision had been used during 2008/09 will be reviewed in the next Budget cycle. If any part of it is then deemed unnecessary, the funds can be released "back into the system" to fund recurring service development priorities

(b) **Non- recurring**

this is the funding stream that will accumulate to eventually fund the longer term Waste Strategy costs referred to in **paragraph 9.9 above**. Until that date the funds can be spent, but only on non-recurring items, eg to fund capital project financing charges that otherwise would be a recurring impact on the Revenue Budget

Notwithstanding the fact that it can be used in any given year in the MTFS the Provision accumulates in base Budget terms as follows -

| | **£000** |
|---|---|
| 2008/09 | 3314 |
| 2009/10 | 5191 |
| 2010/11 | 5889 |
| | 14394 |

The £14.4m above matches the figure referred to in **paragraph 9.9**. It is unlikely that either the funding figures or the Waste Strategy cost projection will materialise exactly as indicated above but their approximation, and the fact that the Budget strategy explicitly provides for this accumulation of recurring funding, will provide assurance that the County Council will be able to fund the costs of the Waste Strategy as they impact, without the need for material service reductions in other areas.

As with the Recurring Provision, the Executive will allocate the funds available on a non-recurring basis during the period of the MTFS. The Management Board will be asked to identify aspects of their Revenue and Capital requirements that might most beneficially be funded in this way.

The other benefit of this Provision is that if there is any shortfall in the delivery of the VFM targets, it will generate a cash shortfall that will accumulate in a given financial year –the Provision will be able to fund this shortfall.

**Other specific funding requirements**

9.31 There are a number of other specific issues which need to be funded as part of this Budget package. These relate primarily to legislative requirements that must be met in a short timescale and infrastructure developments that are necessary to underpin the VFM Strategy, and in particular its Transformational component. Details are as follows –

(a) Boilers / Kitchens / Display Energy Certificates

Under recent legislation the County Council is required to upgrade the ventilation in all boiler houses and kitchens in premises that use gas-fired equipment / appliances.

The Management Board has already considered a detailed report on this matter, and sanctioned an Action Plan to be co-ordinated by the Corporate Property Landlord Unit to ensure that

(i) all necessary work to be completed in boiler houses by June 2008, and

(ii) to kitchens by April 2009.

The estimated cost for all non-school properties (including fees ) is £600k. It is proposed that £400k of this be funded from the Corporate Miscellaneous underspend in 2007/08 (see Q3 report to Executive 19 February 2008) and the balance in 2008/09.

In addition, the Corporate Asset Group (CAG) meeting on 21 January 2008 considered a report that explains the requirement to produce Display Energy Certificates for all properties >1000m$^{2}$. The County Council has 227 of these, of which 179 are schools. The costs of employing in-house staff would be far cheaper than using registered assessors. CAG has therefore asked CPLU to develop a proposal that can, over time, be funded by fees charged to the establishments (including schools). A provisional Year 1 cost of this is

£100k for two staff.

(b) One of the key components of the enabling infrastructure for the Business Process review element of the VFM programme is the **Electronic Document Record Management System** (EDRMS). To date, projects of this kind have been pump primed (if they are ongoing such as the Contact Centre) and /or funded from the Transformation Fund held in Corporate Miscellaneous.

Due to the number of different projects that have been initiated in 2007/08 (eg Bright Office Strategy, Flexible Working, Video Conferencing, e-Recruitment, GIS) the Transformation Fund is unable to fund the initial outlay on software and equipment that the EDRMS project requires if it is to meet the implementation deadline of its pilot, the SEN Service. It will effectively go overdrawn, and will then have no further funds available to meet its existing commitments to other projects in 2008/09, et seq.

It is, therefore, proposed that £600k of the initial outlay costs for EDRMS, to enable the SEN pilot to meet its implementation date, be funded on a one-off basis from the Corporate Miscellaneous underspend in 2007/08. The balance of the costs, primarily related to the Project Implementation Team, can then be met from within the Transformation Fund with no further call for additional resources.

(c) Another essential component of the corporate framework necessary to sustain the VFM agenda is a “fit for purpose” ICT infrastructure.

Over recent years the County Council has sanctioned projects to introduce the Standard Desktop (which now covers 5900 PCs and lap-tops), the development of a Wide Area Network (the WAN) that connects 343 schools and 169 other County Council establishments, and finally the upgrade and standardisation on a county-wide basis, of the telecoms network. All of these are necessary if subsequent VFM projects are to enjoy the maximum benefit of the IT network and the equipment that enables flexible working.

There is, however, a “fourth component” of the ICT infrastructure that now needs to be addressed if the three other components referred to above are to operate to their maximum efficiency.

The SDT / WAN / Telecoms are all essentially hardware networks – they are joined up and made functional by local office networks, servers, operating systems, security / firewall software, etc. In addition, all of these need comprehensive Disaster / Service Continuity back-up arrangements. Due to lack of investment in these facilities over the years, because of the greater priority given to the need to do the SDT / WAN / Telecoms projects, there is now a requirement to invest in the refresh and upgrade of this fourth component of the ICT infrastructure.

A pro forma ICT Infrastructure Strategy has been considered recently by the Management Board. This will now be developed into a full 6-year Strategy for approval by Members before 31 March 2008.

The original plan was to finance this Strategy at £500k per annum for its duration. However, the urgent need to proceed immediately with certain aspects of the draft Strategy (eg Disaster Recovery facility) has produced an indicative cash flow that is uneven as follows -

| | **£000** | |
|---|---|---|
| 2007/08 | 500 | |
| 2008/09 | 1200 | |
| 2009/10 et seq | 1200 | (300 x 4 years) |
| | 2900 | |

Subject to approval of the ICT Strategy by the Executive in due course, it is proposed the above figures be included in the Budget / MTFS on a "to be approved in due course" basis; the £500k for 2007/08 can be financed on a one-off basis from the Corporate Miscellaneous underspend in 2007/08.

All three of these issues are effectively one-off or short-term, and the funds involved will be released back into the pool of funds available for other service development purposes in later years.

**Council Tax**

9.32 The effect of these proposals for the Council Tax is as follows:

- ➔ a year on year increase for 2008/09 of 4.75% - this is formal recommendation to the County Council
- ➔ an indicative year on year increase for 2009/10 and 2010/11 of 4.75% - this takes into account the level of grant increase that is likely to be made available for those years following the CSR 2007. The County Council has prepared Budget scenarios for these 2 years based on this, and a number of other assumptions – the County Council will need to review these assumptions in due course

9.33 The Executive has also considered the implications for the Budget of lower levels of Council Tax increase. Taking into account the terms of the Final Settlement the year on year increases in total spending that are possible can be illustrated as follows:

| Council Tax Increase | | 2008/09<br>£m |
|---|---|---|
| @ 2.5% | | 22.0 |
| @ 3.5% | | 24.2 |
| @ 4.5% | | 26.3 |
| @ 4.75% | | 26.9 |
| @ 4.9% | | 27.2 |

Because the grant figure is now fixed, the key variable in this table is the level of Council Tax increase – a 1% increase or decrease is equivalent to an estimated £2.16m in 2008/09.

## 10.0 RISK ASSESSMENT

10.1 The County Council has a formalised and systematic approach to assessing and evaluating risk. The corporate level risk assessment has recently been considered by both the Executive and the Audit Committee, and relevant issues are reflected in both the Revenue and Capital strands of the MTFS.

**Service Risks**

10.2 There are particular service risks associated with the Budget proposals which are referred to in the Service based Contextual Commentaries contained in the **Supplementary Papers**. Some of these are risks which the County Council has managed for many years – such as bad weather (winter maintenance and flooding), increasing demand for services and market pressures on costs – others reflect relatively new issues, such as the implementation of the Children Act, the changes in Adult Social care arising from the White Paper `Our Health, Our Care, Our Say' including the move towards self-directed care and individualised budgets, and the increasing regulatory requirements regarding disposal of waste.

**Financial Impact**

10.3 As described in **paragraph 12** of this report, the robustness of the estimates and the adequacy of the resources is a measured judgement offered by the S.151 officer. The risks and assumptions inherent in the 2008/09 Budget package are explained in **paragraph 9**.

10.4 These risks will continue into Years 2 and 3, and beyond, of the MTFS - an assessment of their potential financial impact in these years has been reflected in the expenditure and funding figures used in **Appendix D** and is expressed at service level in the **Supplementary Papers**.

10.5 Examining the key financial components of the Budget reveals where the financial risks lay. Thus, using a simple High / Medium / Low rating system, the risk assessment of things not going to plan is as follows -

- ➔ **Government Grant** is fixed for three years **L**

- ➔ the County Council has determined a level of **Council Tax** increase for three years – this may be subject to change, with a 1% increase or decrease adding or subtracting £2m of spending capacity **L/M**

- ➔ **income from fees and charges** is potentially more volatile – see **paragraph 10.6** below for details of a review undertaken as part of the Budget process **L/M**

- ➔ the level of the **General Working Balance** (GWB) has been reviewed and 2% is deemed to be adequate (see **paragraph 12.11** for more details) **L**

- ➔ the Reserves/Provisions have been reviewed and are assessed as adequate for their purpose (see **paragraph 12.9** for details) **L**

- ➔ this leaves the annual expenditure budget and for potential adverse volatility that it contains. Reference has already been made to the robustness of the estimates (see **paragraph 10.3** above) and **Appendix I** refers to the linkage between the budget monitoring arrangements and the GWB. The pressures that exist to create adverse volatility are as follows:
  - unplanned, but eligible demand for services **L/M**
  - single, unpredicted events (eg flood) **L**
  - non achievement of the planned VFM cashable savings **M**

- ➔ regarding the MTFS the problem, if left unaddressed, is the impact of the Waste Strategy in 2011/12 et seq. This Budget report addresses this issue. If it did not, the MTFS would carry a HIGH risk assessment. **(H)**

10.6 An aspect of the Budget that has received particular attention in this Budget cycle is the level of anticipated income from fees and charges.

10.7 A significant part of the County Council budget (£70m) is financed by income from fees and charges, or for services recharged to external partners.

10.8 The Financial Procedure Rules state:-

> *Except where they arise from existing contracts which regulate the matter, fees and charges within the control of the Council shall be subject to review at least annually ( or as otherwise agreed by the Corporate Director - Finance and Central Services (CDFCS)) by a Director and the CDFCS except as provided in any specific agreements between the Council and relevant third parties. If the review results in a proposal to change the policy under which a fee or charge is determined the review shall be reported to the Executive before it is implemented.*

10.9 The main income streams, and details of the reviews carried out in respect of the 2008/09 Budget year are set out in **Appendix F**. It shows the estimated yield arising out of the review in budget terms. Typically the specific details of the charging schemes will be covered in existing agreements, or will be agreed with the relevant Executive portfolio holder, where no change in policy is proposed.

10.10 Best practice is seen to be that charges should be reviewed in such a way that the yield will at least keep pace with inflation and/or the overall cost increase of the service for which the charge is made.

10.11 Because of the overall financial position of the County Council, the need to review whether charges should increase beyond this level and contribute to meeting Budget targets is particularly important. For example this is a key feature of the consideration being given by the Corporate Director - Adult and Community Services to the budget package for that Directorate, and it should be noted that the figures shown in **Appendix F** do not reflect any above inflation element to charges at this stage, pending the outcome of that review process.

10.12 Income yield can be volatile for a number of reasons. This might include the impact of external factors, or the impact of new charging rules and a willingness/ability on the part of service users to meet the charges. The assessment in **Appendix F** indicates the level of risk to the yield on a High/Medium/Low (H/M/L) scale, with comments where appropriate. The exercise has been completed for each of the 3 years of the MTFS period, but as the outcome is similar in later years, only the 2008/09 information is shown in **Appendix F**.

10.13 Corporate Directors are very aware of the need to monitor both income, and expenditure, on a regular basis. Those income streams assessed as High Risk will be the subject of particular attention in the ongoing budgetary control regime.

**Corporate Risk Register**

10.14 An exercise has also been undertaken to map the proposals in the Budget/MTFS package against the strategic risks reflected in the current Corporate Risk Register. The details of this analysis are presented in **Appendix G.**

## 11.0 TECHNICAL ISSUES AND ASSOCIATED MATTERS

11.1 Within the proposed Budget package, and as part of the Budget process generally, there are a number of technical issues and associated matters that need to be addressed in this report.

**Calculation of Council Tax Precept**

11.2 There is a formal requirement for this calculation to be included in the Budget report. Full details are therefore provided in **Appendix H.**

**Capping**

11.3 The Government has made it clear that it expects that the average Council Tax increase in England will be substantially below 5% in 2008/09, and that they will not hesitate to use their capping powers as necessary to protect Council taxpayers.

11.4 To help Members assess the risk attached to this current Budget package, a briefing note is attached as **Appendix I – paragraph 11** thereof includes a table comparing the capping criteria used by the Government since 2004/05 against the relevant figures for the County Council.

11.5 **If the Budget is approved with a Council Tax increase of 4.75% it is considered unlikely that the Government will apply capping to the County Council.**

**Capital Plan**

11.6 An updated Capital Plan (for the period up to 31 March 2011) will be submitted to the Executive on 19 February 2008 as part of the Quarter 3 Performance Monitoring report for 2007/08. The report will include reference to the 10 year Capital Forecast which was initiated by the County Council as part of the 2004/05 Budget/MTFS process, and updated in subsequent Budget cycles, and will refer to the review of the Capital Plan process which is currently being undertaken.

11.7 The revised Capital Plan will be based on the version approved by Executive on 20 November 2007 but updated to incorporate

- ➔ additions or variations to schemes that are self-funded (ie through grants, contributions and revenue contributions and earmarked capital receipts)
- ➔ updated Highways LTP allocated notified in November 2007
- ➔ variations in spend profile and/or allocations received in relation to schemes funded by specific supported borrowing approvals from the Government
- ➔ rephasing of expenditure between years
- ➔ virements between schemes resulting from variations in scheme costs (eg arising from a tender process) and ongoing re-assessment between priorities within a finite control total
- ➔ additional schemes approved by the Corporate Asset Group (CAG) and Executive for inclusion in the Capital Plan
- ➔ various other miscellaneous refinements

11.8 Although a detailed Capital Plan is not being submitted to this meeting (see **paragraph 11.6** above), the expenditure / financing requirements of the Plan are available in sufficient detail to enable the reports referred to below in **paragraph 11.10** to be submitted to this meeting.

11.9 Therefore, the financing costs (interest and principal) required to finance this updated Capital Plan are reflected in the 2008/09 Revenue Budget package within Corporate Miscellaneous - see **Supplementary Paper VII**. Financing costs for the subsequent two years 2008/09 and 2009/10 are reflected within the MTFS papers (see **Appendix D**).

11.10 Members will be aware that the way in which the borrowing requirements for the Capital Plan of the County Council are now managed and financed is directly linked to:

- ➔ the **Treasury Management** arrangements
- ➔ the **Prudential Indicators**

Because of these close links, reports on both of the above are also included on this Agenda and need to be recommended to the County Council as part of the "Budget set".

11.11 Because of the direct links between the size of the Capital Plan and the impact of consequential financing costs on the Revenue Budget / MTFS, the Treasury Management report referred to in **paragraph 11.10** above contains a new proposal to cap the level of capital financing costs as a proportion of the annual net Revenue Budget. The level proposed (@ 11%) will accommodate the impact of the Capital Plan (as referred to in **paragraph 11.6** above) but will place a constraint, unless Members consciously reset the %, on the extent to which the Capital Plan can be expanded in future particularly by the use of locally determined Prudential borrowing. As indicated in the Treasury Management report, the % will be automatically reviewed annually as part of the Budget / MTFS process.

**Local Authority Business Rates Growth Incentive Scheme (LABGI)**

11.12 As previously reported to Members, the LABGI scheme was introduced by the Government in 2005/06 for a three year period up to 2007/08. The basis of the Scheme is to provide an incentive for authorities to maximise local economic growth by allowing them to retain a proportion of the growth in local business rates, rather than it being paid into the national business rates pot.

11.13 Funding received by the County Council to date, and its agreed utilisation is as follows –

| **Year of Receipt** | | **£000** | |
|---|---|---|---|
| 2005/06 | | 635 | Transferred into the General Working Balance |
| 2006/07 | | 1,413 | Paid into Equal Pay/Job Evaluation Fund - |
| 2007/08 | | 425 | see **paragraph 11.20** |
| Total cash received to date | | 2,473 | |
| Estimated to be received | | 1,600 | see **paragraph 11.14** |
| Forecast Total | £ | 4,073 | |

11.14 The £425k received in 2007/08 relates to a reassessment of the year 2005/06 and 2006/07 by the Government following successful judicial review proceedings brought against CLG by Corby and Slough on the methodology used to calculate LABGI. A further allocation in relation to the final year 2007/08 was due to be paid out before 31 March 2008, but this has recently been delayed after further legal challenges. This funding will now be received in 2008/09 with a guesstimate of £1.6m for the County Council which will be paid into the Job Evaluation / Equal Pay fund.

11.15 It is worth noting that in two tier areas approximately two thirds of the distributable growth is paid to Districts, and on third to County Council. Therefore, based on the County Council having received £2.5m to date, the 7 District Councils have received about £4.8m.

11.16 Following CSR 2007, the Government are currently consulting on a new scheme to replace the current LABGI scheme. This new scheme will commence in 2009/10 (ie there will be no scheme in 2008/09) but the total funding being earmarked (£50m nationally in 2009/10 rising to £100m in 2010/11) is much less than the current three-year scheme (£1billion over 3 years). It is intended that the new incentive scheme will become a permanent part of the local government finance system, and will work within the context of three year local government finance settlements.

**Local Public Service Agreement (LPSA) Performance Reward Grant**

11.17 The County Council's LPSA with the Government covered the period 1 April 2003 to 31 March 2006, and a Performance Reward Grant (PRG) claim was submitted to CLG in December 2006. A subsequent response from the CLG in February 2007 confirmed that total PRG of £7,871k would be paid to the County Council. Of this sum, however, £1,304k is payable to the District Councils as part of the agreement with them in relation to their input into certain performance targets. This leaves £6,567k PRG for the County Council which is being paid over two instalments in 2006/07 and 2007/08.

11.18 Following advice from the Audit Commission, the full sum was reflected in the County Council's 2006/07 amounts and transferred into the Job Evaluation / Equal Pay Fund (see **paragraph 11.20)** as previously agreed by Members.

11.19 The information available from the Equal Pay and Job Evaluation exercises is now such that the full value of the PRG is required to help offset the costs arising from Equal Pay and Job Evaluation.

**Job Evaluation / Equal Pay**

11.20 Although certain aspects of the Job Evaluation process remain to be completed (ie Stage 2 reviews), the latest position regarding funding and costs presented below. Members will recall that the Fund principle was introduced to cover the additional net costs arising from Equal Pay and Job Evaluation for the two years 2006/07 and 2007/08. For subsequent years, (ie 2008/09 onwards) any recurring costs would be reflected in the base budget of services.

| | £m | £m | |
|---|---|---|---|
| **Funding** | | | |
| **LPSA reward grant** | | 6.567 | **(paragraph 11.17)** |
| **LABGI** | | | |
| received to date | 1.838 | | |
| estimate of further receipts expected | 1.600 | 3.438 | **(paragraph 11.13)** |
| | | 10.005 | |
| **Costs identified (actual and forecast)** | | | |
| **Equal Pay** arrears and associated costs | 2.100 | | |
| **Job Evaluation** | | | |
| 2007/08 | 4.545 | 10.037 | |
| 2008/09 | 3.392 | | |
| **Shortfall** | | **.032** | |

11.21 As the above table shows, the Fund is exhausted by the end of the 2008/09 financial year and absolute certainty of the figures will not be available until all the outstanding Stage 2 reviews have been concluded. The possibility of a cost overrun is, therefore, addressed in **paragraph 9.30(a)** above.

11.22 The ongoing implication of Job Evaluation is an estimated net recurring cost of £3m, that will need to be funded each year after 2008/09. In addition, there is a consequential impact on the employer contributions rate payable to the North Yorkshire Pension Fund (see **paragraph 11.23** below). Both of these additional requirements have therefore been incorporated into the 2009/10 Budget and updated MTFS as part of the Corporate Miscellaneous budget; they will be allocated to Directorates as part of the next Budget cycle.

**North Yorkshire Pension Fund**

11.23 The County Council as an employer is required to pay contributions into the North Yorkshire Pension Fund (NYPF) on behalf of those members of staff who have joined the Fund.

11.24 At present the contribution rate is 18.8% equivalent to £28.6m per annum. Of this £10.8m relates to staff employed by schools and traded services so the figure of £17.8m (ie £28.6m - £10.8m) represents the impact on the Net Revenue Budget for the purposes of the Budget process.

11.25 The County Council is the administering authority for North Yorkshire Pension Fund on behalf of 60 employers in addition to itself. Every three years a full Actuarial Valuation has to be undertaken to validate that the level of employer contributions is appropriate to finance the long term (ie staff pension) liabilities that are accruing in the Fund.

11.26 The latest Triennial Valuation, based on employee data at 31 March 2007, will be signed off by the Pension Fund Committee at its meeting on 14 February 2008, and the revised employer contribution rates will come into effect for three years beginning 2008/09.

11.27 The Valuation has been complicated this year by a number of factors:

- ➔ the introduction by CLG of a 'New Look' scheme with revised benefits
- ➔ a continuing rise in the Actuary's life expectancy forecasts
- ➔ changes to key financial assumptions used by the Actuary notably falling yields on Government Bonds (Gilts) and a less optimistic view of the global financial markets
- ➔ a reduction in the allowance for ill-health retirements as the previous level of allowance was too high.

11.28 The net result of all these factors, some of which serve to offset each other within the overall Valuation exercise has enabled the Pension Fund Committee to propose to most of the larger employers in the Fund, including NYCC, a scenario that maintains their current contribution rate (ie 18.8% for NYCC).

11.29 There is however a further 'local' complication for the County Council. The impact of Job Evaluation has not been reflected in the Actuarial Valuation because the new pay scales were implemented on 1st April 2007 (not 31 March 2007). In addition not all the new pay details would have been available for all staff (eg Stage 2 reviews).

11.30 The need to reflect the results of the Job Evaluation process in the Valuation exercise are based on the fact that:

- ➔ the accrued service years to 31 March 2007 of those staff who were "winners" under Job Evaluation and had their pay uplifted, are now an enhanced liability within the Fund because the final pay has effectively increased with no scope for retrospective contributions.
- ➔ for those staff who were 'losers' under Job Evaluation, the pay level was protected both in real terms and within the Pension Fund for the purposes of calculating the actuarial liability

11.31 Taken together, these two factors mean that the employer contribution rate referred to in **paragraph 11.28** above is effectively understated and it is not considered prudent to ignore this fact until the next Triennial Valuation in 2010.

11.32 Following earlier discussions in the Pension Fund Committee, it had been agreed that any employer in this position can add a supplement to the employer contribution rate derived from the formal Valuation provided this is approved, as part of the overall Valuation report, by the Committee on 14 February 2008.

11.33 Based on payroll data that includes job evaluation, and taking into account the likely results of Stage 2 reviews, the Actuary has calculated that a supplement to the contribution rate of 0.4% would be sufficient to offset, over the longer term, the effects within the Fund of the factors referred to in **paragraph 11.30** above. The recurring cost of this is £0.4m per annum and this has been added pro tem to the base budget for Corporate Miscellaneous.

## 12.0 STATUTORY REQUIREMENTS OF THE LOCAL GOVERNMENT ACT 2003 IN RELATION TO BUDGET SETTING

**Background**

12.1 A full analysis of the requirements of the 2003 Act as it affects the Budget setting process is provided as follows:

- ➔ an explanation of the statutory requirements particular in relation to Section 25 that relates to the Budget process – see **Appendix J**.
- ➔ a risk assessment methodology for Balances / Reserves which is also required under Section 25 – see **Appendix K.**
- ➔ a subsequent review of the County Council's Balances and Reserves – see **Appendix L.**

**Section 25**

12.2 Under the terms of Section 25 of the Local Government Act 2003 the S.151 Officer is required to report to the County Council, at the time when it is making its Precept, on two specific matters viz:

- ➔ **the robustness of the estimates** included in the Budget, and
- ➔ **the adequacy of the reserves** for which the Budget provides

12.3 The County Council then has a statutory duty to have regard to this report from the S.151 officer when making its decisions about the proposed Budget and consequential Precept.

12.4 The County Council has recently been assessed as a 3 (out of 4) for its Financial Standing and associated management procedures as part of the recent CPA Use of Resources assessment, and received a positive Audit and Inspection Annual Letter from the External Auditor in relation to the 2006/07 financial year.

**Robustness of the estimates**

12.5 In accordance with the principles laid out in **Appendix J**, the Corporate Director – Finance and Central Services has undertaken a full assessment of the County Council's potential financial risks in the period 2008/09 to 2010/11 including:

- ➔ the realism of Revenue Budget estimates for
  - pay awards and the ongoing impact of job evaluation
  - price increases
  - fee / charges income
  - expenditure related to those specific grants and funding streams that are now absorbed into the Area Based Grant

- loss/tapering of the remaining specific grants and/or changes to their eligibility requirements
- proposals for achieving the 3% value for money target
- provision for demand led services including Waste, Adult social care, Special Educational Needs, Home to School Transport, Highways Winter Maintenance and others
- the financing costs arising from the Capital Plan; the proposal to establish a cap on the level of capital financing charges as a proportion of the annual net Revenue Budget provides additional assurance on this aspect of the Budget

➔ the realism of the Capital Plan estimates in the light of

- the potential for slippage and underspending of the Capital Plan
- the possible non achievement of capital receipts targets and its implications for the funding of the Capital Plan

➔ financial management arrangements including

- the history over recent years of financial management performance
- current financial management arrangements

➔ potential losses including

- claims against the County Council
- bad debts or failure to collect income
- major emergencies or disasters
- contingent or other potential future liabilities

12.6 An assessment has also been made of the ability of the County Council to offset the costs of such potential risks – the MTFS therefore reflects:

➔ the provision of a contingency fund in the Corporate Miscellaneous budget

➔ specific provisions in the accounts and in earmarked reserves

➔ a commitment to maintain the level of the General Working Balance at its 2% policy target level

➔ comprehensive insurance arrangements using a mixture of self funding and external top-up cover

12.7 Estimates used in the MTFS for the years 2009/10 and 2010/11 are also based on realistic assumptions taking into account:

➔ future pay and price increases applied consistently across all services

➔ commitments in terms of demographic changes and other factors that create demand for services

➔ known changes in legislation and taxation

- ➔ known changes in the levels of specific grants and the implications of the introduction of the Area Based Grant in 2008/09
- ➔ the provisional grant settlements announced for Years 2 and 3
- ➔ policies and priorities as expressed in the Council Plan and associated Service Plans
- ➔ the need to plan for the forecast cost impact of the Waste Strategy in the years beyond 2010/11.

12.8 It should be recognised however that whilst these estimates for future years are based on realistic assumptions, some elements thereof are subject to a degree of potential variance as actual expenditure in these future years can be significantly affected by factors outside the control of the County Council that occur after the annual Revenue Budget is approved. For budgetary control purposes the County Council operates a system of cash limits for each Directorate. Then, with rules permitting the carry forward of under and overspends, it is accepted that within these cash limits for each Directorate there is an expectation placed on both the Executive Portfolio Holder and the respective Corporate Director that expenditure pressures in one part of their Budget will be managed against underspendings elsewhere and/or across financial year ends. These cost pressures and variances are monitored on a regular basis and reported, alongside other key performance information, to the Executive on a quarterly basis. The Budget process also provides an annual opportunity to comprehensively recalibrate the future years within the MTFS.

**Adequacy of Reserves and Provisions**

12.9 As explained in **Appendix L** all the current balances and reserves had been examined as to their adequacy and purpose using the methodology/criteria detailed in **Appendix K**.

12.10 Based on this analysis, the Budget proposals reflect:

(i) maintaining the policy target level of 2% for the General Working Balance (see **paragraph 12.11 et seq** below**)**

(ii) the transfer of funds received under LABGI (**paragraph 11.13**) and the LPSA PRG (**paragraph 11.17)** in 2007/08 and 2008/09 into a Fund for offsetting the costs of Equal Pay claims and the Job Evaluation exercise. As explained in **paragraph 11.21**, this Fund is likely to be exhausted by the end of 2008/09 when the ongoing costs will thereafter have to be funded from the Base Budget for 2009/10 et seq.

**General Working Balance (GWB)**

12.11 Members will be aware that the MTFS policy set a year ago was to achieve a level of the GWB equivalent to 2% of the net Revenue Budget by 31 March 2011.

12.12 This policy is accompanied by a set of "good practice rules" (see **Appendix L** for full details). The Executive remains committed to maintaining this target level throughout the MTFS period and recognises that the “rules” are part of the financial discipline required to ensure the County Council achieves that policy aim.

12.13 This target figure was however achieved at the end of the 2006/07 financial year.

12.14 Taking into account the fact that the net Revenue Budget increases each year, the likely year end figures for the GWB as compared to those a year ago are summarised below (see **Appendix M** for full details).

| Year End Date | MTFS 2007/10 | | MTFS 2008/11 | |
|---|---|---|---|---|
| | £000 | % of Net Revenue Budget | £000 | % of Net Revenue Budget |
| by 31 March 2007 | 5880* | 2.1 | 6,880º | 2.5 |
| 31 March 2008 | 5880 | 2.0 | 7,300 | 2.5 |
| 31 March 2009 | 6200 | 2.0 | 7,300 | 2.3 |
| 31 March 2010 | 6500 | 2.0 | 7,300 | 2.2 |
| 31 March 2011 | 6800 | 2.0 | 7,300 | 2.0 |

**[Note : * projected º actual]**

12.15 On the basis of the GWB at 31 March 2007 (£6.88m) and the projected GWB at 31 March 2008 (£7.3m) it is evident that the County Council has exceeded its policy target level of 2%. However, if the figure of £7.3m is retained it neatly satisfies the 2% target by the March 2011 date set last year.

12.16 Clearly within the report, reference is made to the creation of a number of provisions (see **paragraph 9.28**). These are identified as such so that Members can address particular and potential issues without compromising the GWB.

**Section 25 opinion of the Corporate Director – Finance and Central Services**

12.17 **Taking all these factors and considerations into account the Corporate Director - Finance and Central Services is satisfied that the figures used in the Revenue Budget 2008/09 and the MTFS, as proposed, are realistic and robust and that the associated level of balances/reserves is adequate within the terms of the approved policy in relation thereto.**

## 13.0 CONCLUSIONS

13.1 The reality is that Government prescribed standards and targets, and customer expectations will continue to rise. The County Council has major challenges in service delivery and improvements to meet. Feedback from the consultation process suggests no public appetite for reductions in service, although there are growing worries for people on fixed incomes about Council tax increases above the rate of inflation.

13.2 Members will be fully aware of the tension between the cost of service improvements and priorities as compared to Government grant provision for these items. After taking account of achievable efficiencies, the balancing figure is always the Council Tax. The ringfencing of schools funding into the Dedicated Schools Grant has increased the sensitivity of Council Tax to the level of spend.

13.3 The aim of maintaining services and meeting national standards in 2008/09 underpins the Revenue Budget proposals, which involve a net Budget increase of 5.9% and an increase in Council Tax of 4.75%.

13.4 The updating of the Medium Term Financial Strategy has identified significant investment needs relative to potentially available resources. The challenge facing the County Council for the next 2/3 years, will be to continue the work on the MTFS so that options to reconsider policies, identify opportunities to reduce costs without effecting performance or service quality etc, can be factored into the Budget cycles for 2009/10 and beyond. The Value for Money campaign which will now embrace the Transformation process started last year will make an essential contribution to this process.

13.5 Notwithstanding these challenges the County Council continues to have robust financial systems and procedures on which it can rely to provide the financial information necessary to make the difficult decisions that will continue to be required into the future.

## 14.0 RECOMMENDATIONS

14.1 That the Executive recommends to the County Council the following:

(i) that for the year beginning 1 April 2008, a Council Tax precept of £226.708,000 be issued to billing authorities in North Yorkshire, such precept to be paid in instalments on dates to be determined by the billing authorities

(ii) that a net Revenue Budget requirement for 2008/09 of £322,670,000 be approved.

(iii) that the allocations to each Directorate, various corporate initiatives, and precepts/levies/contributions be as detailed in **Appendix D** and the **Supplementary Papers** for this report, subject to: the Corporate Director – Children's and Young People Service being authorised, in conjunction with Executive Members, to take the final decision on the allocation of the Schools Block for the period 2008/09 to 2010/11.

14.2 That the Executive recommends to the County Council:

(i) that Corporate Directors be authorised to incur expenditure under the terms of any new specific grants (**paragraph 9.14 et seq**)

(ii) that the revenue elements of the Area Based Grant be allocated and managed in accordance with the procedures detailed in **Appendix E** and **paragraph 9.26** respectively

(iii) that in relation to the Waste Infrastructure Capital Fund (**paragraph 9.27**), the Corporate Director – Business and Environmental Services be authorised, in consultation with the appropriate Executive Member, to consult with the Waste Partnership on the most appropriate method of allocating this grant, and having done so, to adhere to the management procedures referred to in **paragraph 9.26(c)**

(iv) that the policy target for the level of the General Working Balance be retained at 2% of the net Revenue Budget

(v) that the funds related to LABGI and LPSA Performance Reward Grant be transferred into the provision for the costs of Equal Pay claims and the Job Evaluation exercise (**paragraph 11.20**)

(vi) the establishment of the Pending Issues Provisions and their approval arrangements as detailed in **paragraph 9.30**

(vii) the allocation of short term funds to boiler / kitchen ventilation works, EDRMS and the ICT Infrastructure Strategy as detailed in **paragraph 9.31**

14.3 The Executive draws to the attention of the County Council, the Section 25 assurance statement provided by the Corporate Director – Finance and Central Services regarding the robustness of the estimates and the adequacy of the reserves **(paragraph 12.17)**

14.4 The Executive recommends to the County Council the Medium Term Financial Strategy, and its caveats, as laid out in **paragraph 9** and **Appendix D.**

JOHN MARSDEN
Chief Executive

JOHN MOORE
Corporate Director – Finance and Central Services

County Hall
Northallerton

3 February 2008

**Background Documents**

➔ **Provisional Local Government Finance Settlement 2007/08 :** Reported to Executive (8 January 2008) — Contact Steve Knight ext 2101

➔ **Grant Settlement Working Papers** — Contact Peter Yates ext 2119

➔ **Budget / MTF68**
➔ **Working Papers** — Contact John Moore ext 2531

**5 FEBRUARY 2008**

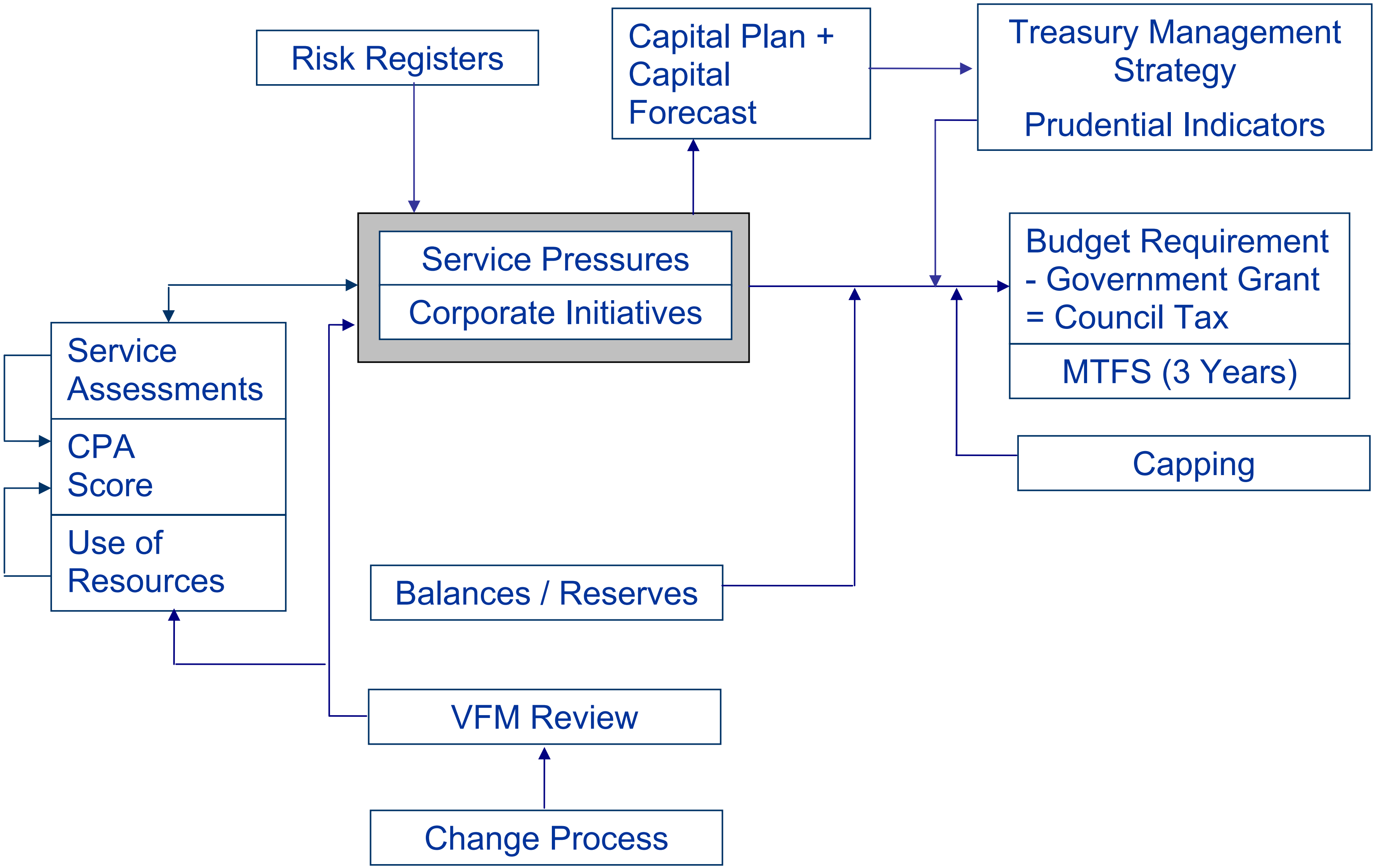
**SCHEDULE OF APPENDICES**

**TO**

**MEDIUM TERM FINANCIAL STRATEGY AND REVENUE BUDGET 2008 / 09**

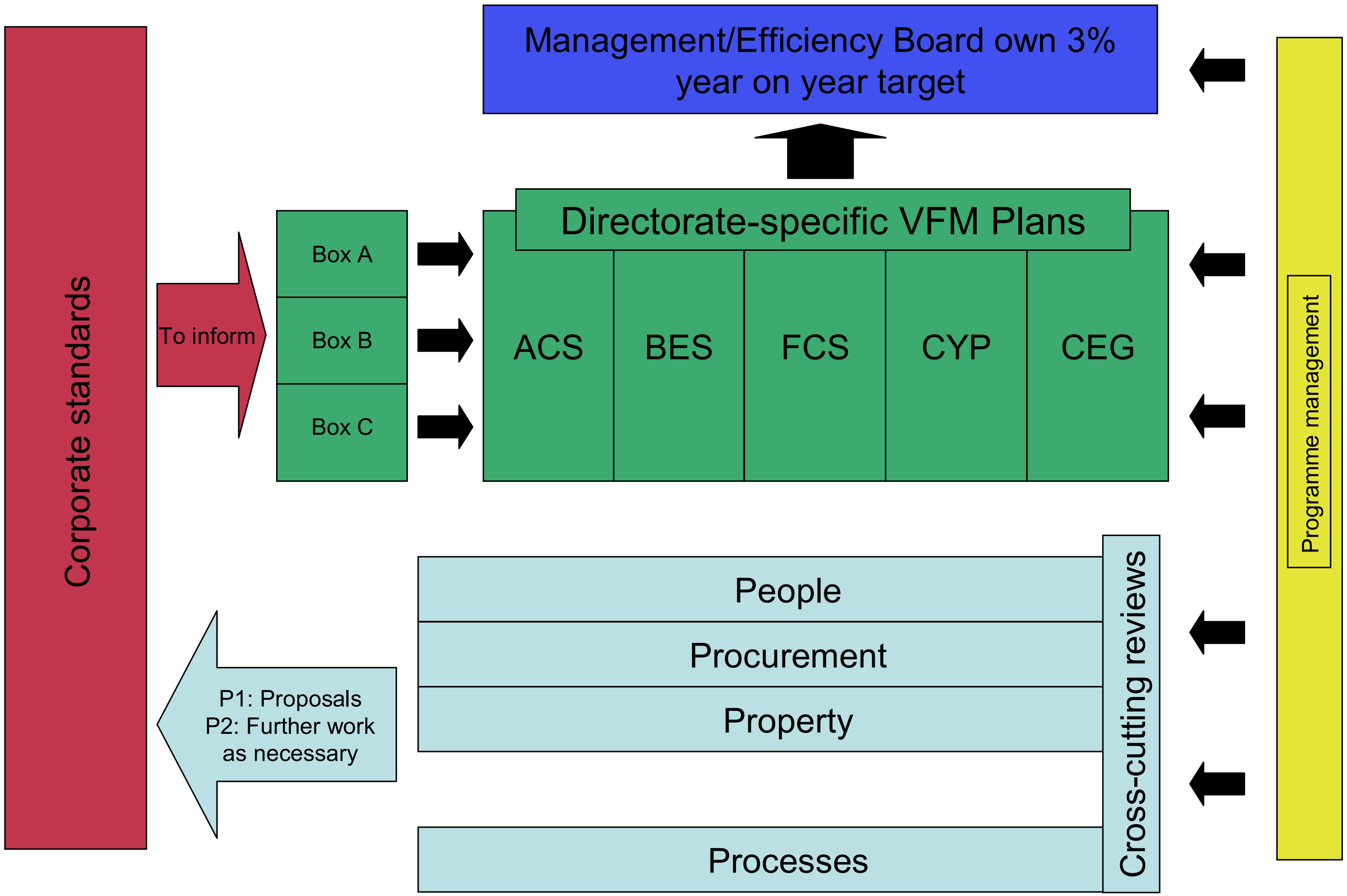
| Appendix | Title | Cross Reference in main report |
|---|---|---|
| **A** | What's in the mix ? | paragraph 5.3 |
| **B** | VFM Process | paragraph 7.13 |
| **C** | Exemplification of Precept / Council Tax requirement in relation to Government Grant | paragraph 8.13 |
| **D** | Medium Term Financial Strategy - Exemplification of Directorate spending<br>(i) 2008 / 09 Sheet A<br>(ii) 2009 / 10 Sheet B<br>(iii) 2010 / 11 Sheet C | paragraph 9.3 |
| **E** | Area Based Grant | paragraph 9.17 |
| **F** | Risk Analysis of Main Income Streams | |
| **G** | Corporate Risk Register – analysis of impact of MTFS / Budget proposals | paragraph 10.14 |
| **H** | Calculation of Council Tax Precept 2008/09 | paragraph 11.2 |
| **I** | Briefing note re Capping procedure | paragraph 11.4 |
| **J** | Statutory Requirements of the Local Government Act 2003 in relation to Budget setting | paragraph 12.1 |
| **K** | Balances / Reserves – risks assessment methodology | paragraph 12.1 |
| **L** | Review of Balances / Reserves | paragraph 12.1 |
| **M** | Projection of General Working Balance | paragraph 12.14 |

# What's in the mix?




**APPENDIX A**

# VFM Process




APPENDIX B

APPENDIX C

## GRANT, SPEND & COUNCIL TAX EXEMPLIFICATION 2008/09 TO 2010/11

**Based on a Council Tax increase of 4.75% & the Final Grant Settlement announced on 24 January 2008**

| | | 2007/08 Actual £000s | 2008/09 Provisional £000s | 2009/10 MTFS £000s | 2010/11 MTFS £000s |
|---|---|---|---|---|---|
| **BUDGET REQUIREMENT (BR)** | | | | | |
| **Start with previous years BR** | | **280103** | **295796** | **322670** | **339707** |
| **Increased spend at CT increase of 4.75%** | | | | | |
| Base transfers into grant (see (i) below) | | -498 | 8891 | -235 | -89 |
| Spend grant increase as per (ii) below | | 4473 | 5581 | 4898 | 5121 |
| Increase Council Tax by 4.75% | | 9930 | 10174 | 10769 | 11371 |
| Tax base increase | | 1614 | 2334 | 1907 | 2017 |
| Collection Fund surplus variations | | 174 | -107 | -302 | 0 |
| | | **15693** | **26874** | **17037** | **18420** |
| **= Budget Requirement (BR)** | | **295796** | **322670** | **339707** | **358126** |
| **= BR %age increase - cash** | | **5.6%** | **9.1%** | **5.3%** | **5.4%** |
| **- after base transfers** | | **5.8%** | **5.9%** | **5.4%** | **5.4%** |
| **GRANT** | | | | | |
| Previous year | | -76213 | -80188 | -94660 | -99323 |
| other net transfers to / from formula grant | (i) | 498 | -8891 | 235 | 89 |
| =adjusted formula grant per DCLG | | -75715 | -89079 | -94425 | -99234 |
| increase | (ii) | -4473 | -5581 | -4898 | -5121 |
| = total grant | | **-80188** | **-94660** | **-99323** | **-104355** |
| **Increase on adjusted base per DCLG** | | **5.9%** | **6.3%** | **5.2%** | **5.2%** |
| **Memo item - grant analysis into 4 block model** | | | | | |
| Relative needs (formula - data at service block level) | | -84760 | -101448 | -105623 | -109674 |
| Relative Resources (strength of local tax base) | | 60824 | 68834 | 70835 | 72783 |
| Central Allocation (balance of Nat Pot on pop basis) | | -61616 | -69765 | -73273 | -76676 |
| Damping (to achieve min & max % increases) | | 5364 | 7719 | 8738 | 9212 |
| | | **-80188** | **-94660** | **-99323** | **-104355** |
| **COLLECTION FUND SURPLUSES** | | **-1409** | **-1302.2** | **-1000** | **-1000** |
| **BALANCE FROM COUNCIL TAX** | | **214199** | **226708** | **239384** | **252771** |
| **TAX BASE** | | | | | |
| Gross estimate per DCLG | | 227498 | 230027 | 231925 | 233842 |
| - costs / losses etc to arrive at Districts forecast | | -3432 | -3619.38 | -3705 | -3792 |
| = Districts net forecast | | 224066 | 226408 | 228220 | 230050 |
| + additional second homes | | 2950 | 2970 | 3000 | 3030 |
| = total net tax base for Council Tax setting | | 227016 | 229377.62 | 231220 | 233080 |
| **%age increase in tax base** | | 1.75% | 1.03% | 0.80% | 0.80% |
| **COUNCIL TAX** | | | | | |
| **Band D calculation ( @ 4.75% increase)** | | **£943.54** | **£988.36** | **£1,035.31** | **£1,084.48** |
| **Increase (2006/07 actual £899.47)** | | | | | |
| £ | | **£44.07** | **£44.82** | **£46.95** | **£49.18** |
| % | | **4.90%** | **4.75%** | **4.75%** | **4.75%** |
| **Variations on Council Tax** | | | | | |
| 1.0% | | 2142 | 2164 | 2285 | 2413 |
| £1m | | 0.47% | 0.46% | 0.44% | 0.41% |

31-Jan-08

**APPENDIX D**

# MEDIUM TERM FINANCIAL STRATEGY

## Exemplification of Directorate Spending

| | |
|---|---|
| 2008/09 | Sheet A |
| 2009/10 | Sheet B |
| 2010/11 | Sheet C |

## SUMMARY ANALYSIS OF YEAR ON YEAR INCREASE IN BUDGET REQUIREMENT 2008/09

Latest Version 31/01/2008

**2008-09 Revenue Budget**

| Directorate | 2007/08 Base Budget | Subsequent Base Budget Adjustments | 2007/08 Revised Base Budget | Grant Funding Changes | Increments | Base Budget Inflation | Landfill Tax Inflation | Inflated Base Budget | Additional Resources | VFM Target | Net Directorate Bid | Net Directorate Budget Requirement | Net Year on Year Requirement | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) £000s | (c) £000s | (d) £000s | (e) £000s | (f) £000s | (g) £000s | (h) £000s | (i) £000s | (j) £000s | (k) £000s | (l) £000s | (m) £000s | (n) £000s | |
| Adult & Community Services | 117,258 | 1,234 | 118,492 | 6,905 | 1,143 | 4,035 | | 130,575 | 2,340 | -603 | 1,737 | 132,312 | 13,820 | |
| Business & Environmental Services | 56,054 | 1,732 | 57,786 | 807 | 173 | 1,951 | 1,754 | 62,471 | 299 | -199 | 100 | 62,571 | 4,785 | |
| Children & Young People's Service - CSA | 71,080 | 407 | 71,487 | 1,864 | 398 | 2,524 | | 76,273 | 1,160 | -373 | 787 | 77,060 | 5,573 | |
| Chief Executive's Group | 9,628 | 1,092 | 10,720 | 270 | 197 | 291 | | 11,478 | 323 | -107 | 216 | 11,694 | 974 | |
| Finance & Central Services | 11,333 | 122 | 11,455 | 0 | 149 | 323 | | 11,927 | 1,500 | -144 | 1,356 | 13,283 | 1,828 | |
| **Directorate Sub Total -ex- Schools DSG** | **265,353** | **4,587** | **269,940** | **9,846** | **2,060** | **9,124** | **1,754** | **292,724** | **5,622** | **-1,426** | **4,196** | **296,920** | **26,980** | (a) |
| | | | | | | | | | | | | | | |
| Capital Financing | 29,362 | 56 | 29,418 | | | | | 29,418 | 1,100 | | 1,100 | 30,518 | 1,100 | |
| Interest Earned on balances | -3,404 | -815 | -4,219 | | | | | -4,219 | 74 | | 74 | -4,145 | 74 | |
| Job Evaluation Base Allocations | -1,881 | | -1,881 | | | | | -1,881 | | | 0 | -1,881 | 0 | |
| Pension Fund JE Contributions (18.8% to 19.2%) | 0 | | 0 | | | | | 0 | 400 | | 400 | 400 | 400 | |
| Other | 6,366 | -3,828 | 2,538 | | | | | 2,538 | 1,261 | | 1,261 | 3,799 | 1,261 | |
| Pending Issues Provision - non recurring | 0 | | 0 | | | | | 0 | 3,314 | | 3,314 | 3,314 | 3,314 | |
| Pending Issues Provision- - recurring | 0 | | 0 | | | | | 0 | 2,000 | | 2,000 | 2,000 | 2,000 | |
| **Corporate Miscellaneous - Sub Total** | **30,443** | **-4,587** | **25,856** | **0** | **0** | **0** | **0** | **25,856** | **8,148** | **0** | **8,148** | **34,004** | **8,148** | (b) |
| **VFM - to be allocated** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **-8,254** | **-8,254** | **-8,254** | **-8,254** | (c) |
| **Overall Total-ex-Schools DSG** | **295,796** | **0** | **295,796** | **9,846** | **2,060** | **9,124** | **1,754** | **318,580** | **13,770** | **-9,680** | **4,090** | **322,670** | **26,874** | (a + b + c) |

| | | |
|---|---|---|
| **Year on Year Funding Requirement** | **322,670** | |
| Available to spend 2008/09 | -322,670 | @ +4.75% CT Increase |
| **Balance** | **0** | |

| | |
|---|---|
| **Increased Spend at CT Increase of 4.75%** | |
| Base Transfers into Grant | 8,891 |
| Spend Grant Increases | 5,581 |
| Increase Council Tax by 4.75% | 10,174 |
| Tax Base Increase | 2,335 |
| Collection Fund surplus variations | - 107 |
| | **26,874** |
| | |
| **2007/08 Base Budget + additional 2008/09 spend** | **322,670** |

**Key to Columns**
b = 2007/08 Approved Base Budget
c = Subsequent Base Budget adjustments (eg centralised repairs and maintenance)
d = b + c
i = d + e + f + g + h
l = j + k
m = i + l
n = m - d

**SHEET A**

## SUMMARY ANALYSIS OF YEAR ON YEAR INCREASE IN BUDGET REQUIREMENT 2009/10

**2009-10 Revenue Budget**

| Directorate | 2008/09 Base Budget | Grant Funding Changes | Increments | Inflation | Landfill Tax Inflation | Inflated Base Budget | Additional Resources | VFM Target | Net Directorate Bid |
|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) £000s | (c) £000s | (d) £000s | (e) £000s | (f) £000s | (g) £000s | (h) £000s | (i) £000s | (j) £000s |
| Adult & Community Services | 132,312 | 0 | 844 | 4,308 | | 137,464 | 2,660 | -1,205 | 1,455 |
| Business & Environmental Services | 62,571 | 0 | 165 | 2,082 | 1,630 | 66,448 | 627 | -398 | 229 |
| Children & Young People's Service - CSA | 77,060 | 170 | 329 | 2,156 | | 79,715 | 1,340 | -745 | 595 |
| Chief Executive's Group | 11,694 | 0 | 130 | 270 | | 12,094 | -106 | -216 | -322 |
| Finance & Central Services | 13,283 | 0 | 46 | 342 | | 13,671 | -900 | -288 | -1,188 |
| **Directorate Sub Total -ex- Schools DSG** | **296,920** | **170** | **1,514** | **9,158** | **1,630** | **309,392** | **3,621** | **-2,852** | **769** |
| | | | | | | | | | |
| Capital Financing | 30,518 | | | | | 30,518 | 2,367 | | 2,367 |
| Interest Earned on Balances | -4,145 | | | | | -4,145 | 395 | | 395 |
| Job Evaluation Allocations | -1,881 | | | | | -1,881 | 3,011 | | 3,011 |
| Pension Fund JE Contributions (18.8% to 19.2%) | 400 | | | | | 400 | | | 0 |
| Other | 3,799 | | | | | 3,799 | 170 | | 170 |
| Pending Issues Provision - non recurring | 3,314 | | | | | 3,314 | 5,191 | | 5,191 |
| Pending Issues Provision - recurring | 2,000 | | | | | 2,000 | | | 0 |
| **Corporate Miscellaneous - Sub Total** | **34,004** | **0** | **0** | **0** | **0** | **34,004** | **11,134** | **0** | **11,134** |
| **VFM - to be allocated** | **-8,254** | **0** | **0** | **0** | **0** | **-8,254** | **0** | **-7,338** | **-7,338** |
| **Overall Total-ex-Schools DSG** | **322,670** | **170** | **1,514** | **9,158** | **1,630** | **335,142** | **14,755** | **-10,190** | **4,565** |

| | |
|---|---|
| **Increased Spend at CT Increase of 4.75%** | |
| Base Transfer into Grant | -235 |
| Spend Grant Increase | 4898 |
| Increase Council Tax by 4.75% | 10,769 |
| Tax Base Increase | 1,907 |
| Collection Fund Surplus Variations | -302 |
| | **17,037** |
| | |
| **2008/09 Base Budget + additional 2009/10 spend** | **339,707** |

| |
|---|
| **Year on Year Funding Requirement** |
| Available to spend 2009/10 |
| **Balance** |

**Key to Columns**
b = 2008/09 Approved Base Budget
g = b + c + d + e + f
j = h + i
k = g + j
l = k - b

**SHEET B**

## SUMMARY ANALYSIS OF YEAR ON YEAR INCREASE IN BUDGET REQUIREMENT 2010/11

**2010-11 Revenue Budget**

| Directorate | 2009/10 Base Budget | Grant Funding Changes | Increments | Inflation | Landfill Tax Inflation | Inflated Base Budget | Additional Resources | VFM Target | Net Directorate Bid |
|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) £000s | (c) £000s | (d) £000s | (e) £000s | (f) £000s | (g) £000s | (h) £000s | (i) £000s | (j) £000s |
| Adult & Community Services | 138,919 | 0 | 577 | 4,500 | | 143,996 | 3,865 | -1,204 | 2,661 |
| Business & Environmental Services | 66,677 | 0 | 117 | 1,431 | 2,122 | 70,347 | 3,162 | -398 | 2,764 |
| Children & Young People's Service - CSA | 80,310 | 50 | 235 | 2,244 | | 82,839 | 1,885 | -745 | 1,140 |
| Chief Executive's Group | 11,772 | 0 | 76 | 277 | | 12,125 | 0 | -215 | -215 |
| Finance & Central Services | 12,483 | 0 | 32 | 357 | | 12,872 | 0 | -288 | -288 |
| **Directorate Sub Total -ex- Schools** | **310,161** | **50** | **1,037** | **8,809** | **2,122** | **322,179** | **8,912** | **-2,850** | **6,062** |
| | | | | | | | | | |
| Capital Financing | 32,884 | | | | | 32,884 | 1,987 | | 1,987 |
| Interest Earned on Balances | -3,750 | | | | | -3,750 | 235 | | 235 |
| Job Evaluation Allocations | 1,130 | | | | | 1,130 | 100 | | 100 |
| Pension Fund Contributions (18.8% to 19.2%) | 400 | | | | | 400 | | | 0 |
| Other | 3,970 | | | | | 3,970 | 19 | | 19 |
| Pending Issues Provision - non recurring | 8,505 | | | | | 8,505 | 5,889 | | 5,889 |
| Pending Issues Provision - recurring | 2,000 | | | | | 2,000 | | | 0 |
| **Corporate Miscellaneous - Sub Total** | **45,138** | **0** | **0** | **0** | **0** | **45,138** | **8,230** | **0** | **8,230** |
| **VFM - to be allocated** | **-15,592** | **0** | **0** | **0** | **0** | **-15,592** | **0** | **-7,890** | **-7,890** |
| **Overall Total-ex-Schools** | **339,707** | **50** | **1,037** | **8,809** | **2,122** | **351,725** | **17,142** | **-10,740** | **6,402** |

| | |
|---|---|
| **Year on Year Funding Requirement** | |
| Available to spend 2010/11 | |
| **Balance** | |

| | |
|---|---|
| **Increased spend at CT Increase of 4.75%** | |
| Base Transfer into Grant | -89 |
| Spend Grant Increase | 5,121 |
| Increase Council Tax by 4.75% | 11,371 |
| Tax Base Increase | 2,017 |
| Collection Fund Surplus Variations | 0 |
| | **18,420** |
| | |
| **2009/10 Base Budget + additional 2010/11 spend** | **358,127** |

**Key to Columns**
b = 2009/10 Approved Base Budget
g = b + c + d + e + f
j = h + i
k = g + j
l = k - b

**SHEET C**

## 2008/09 - Grants to be channelled through Area Based Grant - Final settlement 2nd January 2008

SHADING DENOTES GRANTS PREVIOUSLY RECEIVED AS LAA POOLED FUNDING

| Grant | Partner Recipient | Govt Dept | 2007/08 allocation | NOTIFIED ALLOCATIONS 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|
| | | | £ | £ | £ | £ |
| Supporting People Administration | NYCC ACS | CLG | 385,412 | **366,141** | **337,235** | **289,059** |
| Supporting people (from 09/10 onwards) | NYCC ACS | CLG | | **0** | **14,734,962** | **14,076,822** |
| 14-19 Flexible Funding Pot | NYCC - CYPS | DCSF | 295,820 | **176,189** | **175,374** | **174,455** |
| Care Matters White Paper | NYCC - CYPS | DCSF | | **229,643** | **308,997** | **353,952** |
| Child Death Review Process | NYCC - CYPS | DSCF | | ***43,986*** | ***45,027*** | ***46,669*** |
| Children's Social Care Workforce (formerly HRDS & NTS) | NYCC CYPS | DCSF | 195,000 | **111,099** | **110,650** | **110,206** |
| Children's Fund | NYCC CYPS | DCSF | 1,133,447 | **1,133,447** | **1,133,447** | **1,133,447** |
| Choice Advisers | NYCC CYPS | DCSF | 31,252 | **33,008** | **33,008** | **33,008** |
| Connexions | CONNEXIONS (CYPS) | DCSF | 4,400,000 | **4,474,612** | **4,247,696** | **4,216,686** |
| Education Health Partnerships | NYCC CYPS | DCSF | 148,350 | **148,360** | **148,360** | **148,360** |
| Extended Rights to Free Transport | NYCC CYPS | DCSF | 98,378 | **211,828** | **309,080** | **406,331** |
| Extended Schools Start Up Costs | NYCC CYPS | DCSF | 906,946 | **1,332,010** | **2,525,182** | **1,038,462** |
| Positive Activities for Young People | NYCC - CYPS | DCSF | 112,041 | **112,041** | **192,481** | **249,938** |
| Secondary National Strategy - Behaviour & Attendance | NYCC - CYPS | DCSF | 125,800 | **125,800** | **125,800** | **125,800** |
| Secondary National Strategy - Central Coordination | NYCC - CYPS | DCSF | 272,752 | **282,452** | **283,477** | **283,934** |
| Primary National Strategy - Central Coordination | NYCC - CYPS | DCSF | 333,614 | **321,691** | **322,432** | **322,490** |
| School Development Grant (Local Authority element) | NYCC - CYPS | DCSF | 1,095,300 | **1,095,300** | **1,095,300** | **1,095,300** |
| School Improvement Partners | NYCC CYPS | DCSF | 372,770 | **392,370** | **392,370** | **392,370** |
| School Intervention Grant | NYCC CYPS | DCSF | 259,100 | **259,100** | **259,100** | **259,100** |
| School Travel Advisers | NYCC CYPS pass to BES | DCSF | 112,000 | **112,000** | **112,000** | **112,000** |
| Sustainable Travel General Duty | NYCC CYPS | DCSF | 56,217 | **56,217** | **56,217** | **56,217** |
| Teenage Pregnancy | NYCC CYPS | DCSF | 158,000 | **158,000** | **158,000** | **158,000** |
| Aggregates Levy Sustainability Fund | Yorks. Dales Millennium Trust | Defra | 287,000 | **308,000** | **308,000** | **308,000** |
| Detrunking | NYCC BES | DfT | 1,008,518 | **918,842** | **941,813** | **965,359** |
| Road Safety Grant | NYCC BES | DfT | 2,033,098 | **1,986,075** | **1,956,589** | **1,926,071** |
| Rural Bus Subsidy | NYCC BES | DfT | 2,312,730 | **2,371,124** | **2,433,522** | **2,495,920** |
| Adult Social Care Workforce (formerly HRDS & NTS) | NYCC - ACS | DH | 1,085,085 | **1,344,575** | **1,394,682** | **1,446,234** |
| Carers (NM knows split) | NYCC (SPLIT CYPS/ACS) | DH | 1,942,096 | **2,129,563** | **2,295,609** | **2,464,753** |
| Child & Adolescent Mental Health Services | NYCC CYPS | DH | 539,217 | **566,927** | **594,783** | **622,086** |

**APPENDIX E**

SHADING DENOTES GRANTS PREVIOUSLY RECEIVED AS LAA POOLED FUNDING

| Grant | Partner Recipient | Govt Dept | 2007/08 allocation | NOTIFIED ALLOCATIONS 2008/09 | 2009/10 | 2010/11 |
|---|---|---|---|---|---|---|
| Local Involvement Networks | NYCC CH EXECS | DH | 10,000 | **221,619** | **222,466** | **223,396** |
| Learning & Disability Development Fund | NYCC ACS | DH | *432,000* | **382,413** | **382,701** | **382,651** |
| Mental Capacity Act and Independent Mental Capacity Advocate Service | NYCC ACS | DH | 142,764 | **235,700** | **299,428** | **289,586** |
| Mental Health | NYCC ACS | DH | 1,131,536 | **1,219,690** | **1,284,538** | **1,348,444** |
| Preserved Rights | NYCC ACS | DH | 4,058,535 | **3,822,867** | **3,587,063** | **3,391,999** |
| Stronger Safer Communities Fund (revenue) | District Councils & PCT | HO | 635,160 | **635,160** | **635,160** | **635,160** |
| | | | **26,109,938** | **27,317,851** | **43,442,548** | **41,582,268** |

# RISK ANALYSIS OF MAIN INCOME STREAMS

| | |
|---|---|
| **Paper F1** | Adult and Community Services |
| **Paper F2** | Business and Environmental Services |
| **Paper F3** | Children and Young People's Services |
| **Paper F4** | Chief Executive's Group |
| **Paper F5** | Finance and Central Services |

**APPENDIX F**

# ADULT AND COMMUNITY SERVICES DIRECTORATE
# FEES AND CHARGES ANALYSIS 2008/09

| Service | Fees & Charges 2007/08 Base Budget £000 | 2008/09 Inflation proposed % | 2008/09 Inflation proposed £000 | Volume Change £000 | 2008/09 Other Change £000 | 2008/09 Target £000 sum cols b to f | Last Reviewed wef | Next Review wef | Risk Analysis (H/M/L of not achieving 08/09 target) | Comment |
|---|---|---|---|---|---|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) | (f) | (g) | (h | (i) | (j) | (k) |
| **Social Care** | | | | | | | | | | Social care charges are determined by individual assessment & national frameworks |
| Residential & Nursing Care | 21,968.2 | 2.5% | 549.2 | | | 22,517.4 | Apr-07 | Apr-08 | M | |
| Home Care | 3,505.7 | 2.5% | 87.6 | | | 3,593.4 | Apr-07 | Apr-08 | M | |
| Day Care | 342.8 | 2.5% | 8.6 | | | 351.4 | Apr-07 | Apr-08 | M | |
| Contrib. to meals | 535.0 | 2.5% | 13.4 | | | 548.3 | Apr-07 | Apr-08 | M | All income budgets are being subjected to further scrutiny to explore their scope to contribute to the target efficiency savings |
| Transport | 161.1 | 2.5% | 4.0 | | | 165.1 | Apr-07 | Apr-08 | L | |
| **Library and Community Services** | | | | | | | | | | |
| Registration Fees | 869.9 | 2.5% | 21.7 | | | 891.6 | Apr-07 | Apr-08 | L | |
| Library Fines & related charges | 160.2 | 2.5% | 4.0 | | | 164.2 | Apr-07 | Apr-08 | L | |
| Library Sales | 151.3 | 2.5% | 3.8 | | | 155.1 | Apr-07 | Apr-08 | L | |
| AV Rentals etc. | 219.7 | 2.5% | 5.5 | | | 225.2 | Apr-07 | Apr-08 | M | |
| Internet Hire Charges | 82.0 | 2.5% | 2.1 | | | 84.1 | Apr-07 | Apr-08 | M | |
| Archives Charges | 54.0 | 2.5% | 1.3 | | | 55.3 | Apr-07 | Apr-08 | L | |
| **Total** | 28,049.8 | | 701.2 | | | 28,751.0 | | | | |

**Paper F1**

# BUSINESS AND ENVIRONMENTAL SERVICES DIRECTORATE
# FEES AND CHARGES ANALYSIS 2008/09

| Service (a) | Fees & Charges 2007/08 Base Budget £000 (b) | 2008/09 Inflation proposed % (c) | 2008/09 Inflation proposed £000 (d) | Volume Change £000 (e) | 2008/09 Other Change £000 (f) | 2008/09 Target £000 sum cols b to f (g) | Last Reviewed wef (h | Next Review wef (i) | Risk Analysis (H/M/L of not achieving 08/09 target) (j) | Comment (k) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Support Services** | | | | | | | | | | |
| Highways Agency | 31.9 | 2.5% | 0.8 | | | 32.7 | Apr-07 | Apr-08 | L | |
| **Development & Countryside Services** | | | | | | | | | | |
| Minerals Planning Applications | 176.7 | 2.5% | 4.4 | | | 181.1 | Apr-07 | Apr-08 | M | Number of applications is variable from year to year. |
| Minerals Inspection Fees | 30.0 | 2.5% | 0.8 | | | 30.8 | Apr-07 | Apr-08 | M | Turnover of staff can hamper ability to deliver this income level. |
| PROW closure orders and diversions | 34.7 | 2.5% | 0.9 | | | 35.6 | Apr-07 | Apr-08 | L | |
| District Council Rents | 199.9 | 5.0% | 10.0 | | | 209.9 | Apr-07 | Apr-08 | L | |
| **Highways North Yorkshire** | | | | | | | | | | |
| NRSWA | 328.7 | 2.5% | 8.2 | | | 336.9 | Apr-07 | Apr-08 | M | Income variable as dependent on actions of third parties. |
| Rechargeable Works | 607.3 | 4.2% | 25.5 | | | 632.8 | Apr-07 | Apr-08 | L | Income directly related to expenditure incurred; therefore if income level not reached, should be corresponding expenditure saving. |
| Charges to RCS | 724.7 | 2.8% | 20.3 | -20.3 | | 724.7 | Apr-07 | Apr-08 | L | Set charges each year. |
| Land Searches | 221.1 | 2.5% | 5.5 | | | 226.6 | Apr-07 | Apr-08 | L | |
| Superintendence Charges | 268.3 | 2.5% | 6.7 | | | 275.0 | Apr-07 | Apr-08 | M | Income levels can fall off in any one year. |
| SBC Car Park Income | 90.0 | 2.9% | 2.6 | -92.6 | | 0.0 | Apr-07 | Apr-08 | L | Income to be incorporated into decriminalised parking fund. |

Paper F2

| Service<br>(a) | Fees & Charges 2007/08 Base Budget £000<br>(b) | 2008/09 Inflation proposed %<br>(c) | 2008/09 Inflation proposed £000<br>(d) | Volume Change £000<br>(e) | 2008/09 Other Change £000<br>(f) | 2008/09 Target £000 sum cols b to f<br>(g) | Last Reviewed wef<br>(h | Next Review wef<br>(i) | Risk Analysis (H/M/L of not achieving 08/09 target)<br>(j) | Comment<br>(k) |
|---|---|---|---|---|---|---|---|---|---|---|
| Skip Licences | 70.0 | 2.5% | 1.8 | | | 71.8 | Apr-07 | Apr-08 | M | |
| Externally Funded Admin Function | 71.8 | 2.5% | 1.8 | | | 73.6 | Apr-07 | Apr-08 | L | |
| **Waste Management** | | | | | | | | | | |
| Trade Waste | 2,004.1 | 0.8% | 16.0 | | | 2,020.1 | Apr-07 | Apr-08 | M | Nature of the income makes this difficult to predict. In year monitoring dependent on receiving timely information from District Councils. |
| Waste Disposal Rents | 480.6 | 4.1% | 19.7 | | | 500.3 | Apr-07 | Apr-08 | L | |
| **Integrated Passenger Transport** | | | | | | | | | | |
| Cross Boundary Bus Services | 109.8 | 2.5% | 2.7 | | | 112.5 | Apr-07 | Apr-08 | L | |
| **Trading Standards** | | | | | | | | | | |
| Various | 66.5 | 2.5% | 1.7 | | | 68.2 | Apr-07 | Apr-08 | L | Includes petroleum licences, explosive licences, weights and measures, poison fees and tyre pressure gauge. Low risk on achieving overall income level. |
| **Partnership Unit** | | | | | | | | | | |
| Contributions | 438.3 | 2.5% | 11.0 | | | 449.3 | Apr-07 | Apr-08 | N/A | Position for 2008/09 bring reviewed. |
| **Other BES Minor** | 52.7 | 2.5% | 1.3 | | | 54.0 | Apr-07 | Apr-08 | L | |
| **Total** | 6,007.1 | | 141.7 | -112.9 | 0.0 | 6,035.9 | | | | |

# CHILDREN & YOUNG PEOPLE'S DIRECTORATE
# FEES AND CHARGES ANALYSIS 2008/09

| Service<br>(a) | Fees & Charges 2007/08 Base Budget £000<br>(b) | 2008/09 Inflation proposed %<br>(c) | 2008/09 Inflation proposed £000<br>(d) | Volume Change £000<br>(e) | 2008/09 Other Change £000<br>(f) | 2008/09 Target £000 sum cols b to f<br>(g) | Last Reviewed wef<br>(h | Next Review wef<br>(i) | Risk Analysis (H/M/L of not achieving 08/09 target)<br>(j) | Comment<br>(k) |
|---|---|---|---|---|---|---|---|---|---|---|
| Outdoor Education Fees | 1,914.0 | 3.03% | 58.0 | 110.0 | 47.0 | 2,129.0 | Sep-07 | Sep-08 | H - cash reducing budget with constraint on price increases. Budget decrease linked to achieving higher income | |
| Music Service Tuition Fees | 1,694.0 | 2.53% | 42.9 | | 53.7 | 1,790.6 | Sep-07 | Sep-08 | H - external funding has been cash limited whilst service costs increase against backdrop of constraint on price increases | Executive Member approval for fees needed to apply the calculated increase in fees. This decision is not made until May 2008. |
| Adult Education Tuition Fees | 572.4 | 2.50% | 14.3 | -75.0 | 54.8 | 566.5 | ongoing | ongoing | M | Increase in first Full Level 2 provision and Skills for Life provision for which the learners do not pay a fee. |
| Recoupment for OLAs | 1,412.0 | 2.50% | 35.3 | 244.0 | | 1,691.3 | Jun-07 | Jun-08 | M - standard unit costs used to calculate charges. Income partially demand led from OLAs | |
| Contributions for Transport | 106.5 | 2.50% | 2.7 | | | 109.2 | Apr-07 | Apr-08 | L - Charges for Concessionary Seats | Dependant upon take-up. Recent trends suggest declining applications. Also commercial pressures. |
| Post 16 Income | 709.3 | 2.50% | 17.7 | -49.0 | -17.7 | 660.3 | Apr-07 | Apr-08 | M | Dependant upon take-up. Recent trends suggest declining applications. Also commercial pressures. |
| **Total** | 6,408.2 | | 170.9 | 230.0 | 137.8 | 6,946.8 | | | | |

Paper F3

# CHIEF EXECUTIVE'S GROUP
# FEES AND CHARGES ANALYSIS 2008/09

| Service<br>(a) | Fees & Charges 2007/08 Base Budget £000<br>(b) | 2008/09 Inflation proposed %<br>(c) | 2008/09 Inflation proposed £000<br>(d) | Volume Change £000<br>(e) | 2008/09 Other Change £000<br>(f) | 2008/09 Target £000 sum cols b to f<br>(g) | Last Reviewed wef<br>(h | Next Review wef<br>(i) | Risk Analysis (H/M/L of not achieving 08/09 target)<br>(j) | Comment<br>(k) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Legal Services** | | | | | | | | | | |
| Legal Services to Other Bodies | 273.8 | 2.5% | 6.8 | | | 280.6 | Nov-07 | Nov-08 | L | Services are linked to SLA and RPI |
| Searches/Legal fees | 52.2 | 2.5% | 1.3 | | | 53.5 | Nov-07 | Nov-08 | L | |
| **Total** | 326.0 | | 8.2 | 0.0 | 0.0 | 334.2 | | | | |

**Note 1**

| | |
|---|---|
| Probation | 4,520 |
| North York Moors | 78,410 |
| Yorkshire Dales | 16,320 |
| Pension Fund | 14,630 |
| Police Authority | 90,770 |
| Fire Authority | 38,990 |
| Other Bodies | 30,170 |
| | 273,810 |

Paper F4

# FINANCE AND CENTRAL SERVICES DIRECTORATE
# FEES AND CHARGES ANALYSIS 2008/09

| Service (a) | Fees & Charges 2007/08 Base Budget £000 (b) | 2008/09 Inflation proposed % (c) | 2008/09 Inflation proposed £000 (d) | Volume Change £000 (e) | 2008/09 Other Change £000 (f) | 2008/09 Target £000 sum cols b to f (g) | Last Reviewed wef (h | Next Review wef (i) | Risk Analysis (H/M/L of not achieving 08/09 target) (j) | Comment (k) |
|---|---|---|---|---|---|---|---|---|---|---|
| **Corporate Property Landlord Unit** | | | | | | | | | | |
| Income from Rents & Farm Tenancies | 530.9 | 0.0% | 0.0 | | | 530.9 | Nov-07 | Nov-08 | L | Increases not linked to financial years - Linked to a rolling programme of rent reviews |
| **Financial Services** | | | | | | | | | | |
| Financial Services to Other Bodies | 287.8 | 2.5% | 7.2 | -15.0 | | 280.0 | Nov-07 | Nov-08 | L / (H for Police £15k) | Services are linked to SLA and RPI Police Authority will receive Financial Services from West Yorks wef 2008/09. |
| **Print Unit** | | | | | | | | | | |
| Services to Other Bodies | 94.6 | 3.0% | 2.8 | | | 97.4 | Nov-07 | Nov-08 | L | 3% is linked to increased costs |
| **Emergency Planning** | | | | | | | | | | |
| Income from DC's | 67.2 | 2.5% | 1.7 | | | 68.9 | Nov-07 | Nov-08 | L | Services are linked to SLA and RPI |
| **Total** | 980.5 | | 11.7 | -15.0 | 0.0 | 977.2 | | | | |

**Note 1**

| | |
|---|---|
| North York Moors | 17,540 |
| Yorkshire Dales | 26,770 |
| Police Authority | 15,000 |
| Fire Authority | 50,000 |
| Audit (RDC) | 62,820 |
| Payrol Services | 115,660 |
| | 287,790 |

## CORPORATE RISK REGISTER 2007 – ANALYSIS OF IMPACT OF MTFS / BUDGET PROPOSALS

| RISK | | |
|---|---|---|
| **1** | Failure to deal effectively with a internal emergency eg significant staff shortage, ICT black-out, loss of key buildings, significant service performance failure resulting in reduced service delivery capacity and / or loss of reputation and / or litigation | A systematic Service Continuity Planning process is underway to identify and then address the key generic risks that will impact on service delivery. Based on a risk assessment of probability and impact, early consideration is being given to enhancing the resilience of the ICT infrastructure and planning for a pandemic 'flu / virus in the community, and therefore probably staff. |
| **2** | Failure to deliver the Waste Strategy resulting in significant consequential financial implications thereof | The MTFS incorporates funding provision in order to finance the Waste PFI Project. This will then ensure that the stringent targets for landfill diversion are met. In addition, the MTFS includes the cost of recycling, landfill tax, other contract costs and the projects LATS costs in advance of waste treatment facilities coming online. |
| **3** | Failure to secure efficiency improvements (particularly through new ways of working) and find innovative ways of containing new service pressures, results in the MTFS not being sustainable with consequential reductions in service performance / levels | The VFM target built into the Budget / MTFS process is supported by a process / methodology – see **paragraph 7** of main report. Progress will be monitored by Management Board and the Executive. The release of funds allocated for service development will be linked to the delivery of the VFM Action Plan. |
| **4** | Successful management of change to meet increasing needs and expectations of customers and peers within constrained resource framework | Successful implementation of the VFM programme will rely as much on the willingness of staff to change as it will on property / IT, etc. This carries over into improving responsiveness to customers. Management Board are very aware of this issue, and the CEX will be leading a Communication initiative to get the message across to all layers of management, and thereby supporting the managers who have to implement the changes that will be necessary. |

| RISK | | |
|---|---|---|
| **5** | Failure to plan or respond effectively to major emergencies in the community eg terrorist incidents / alerts, flooding, major transport network disruption resulting in ineffective response, citizen harm, waste of resources and public criticism | The Emergency Planning Unit is fully engaged with partners through the North Yorkshire Local Resilience Forum. Work continues on improving the various response Plans that are already in place. Emergencies will happen – the measure of success is how well the Plans dealt with the issue. Evidence of recent events suggests that the Plans do indeed work well, but there is always scope for improvement. |
| **6** | Failure to effectively engage with Partners, maximise opportunities for Partnership working and /or to place the Council at risk from ineffective Partnership governance arrangements, leading to loss of opportunities and unnecessarily incurred costs | Working with Partners will be an increasing feature of service delivery to the community in he future. Developments such as the LAA, NYSP and Area Based Grants underline the necessity for this.<br><br>The need for appropriate Governance of Partnerships will also become an issue, particularly if finance is involved. |

# APPENDIX H

## CALCULATION OF COUNCIL TAX PRECEPT 2008/09

1. Based on the Government's Final Grant Settlement figures announced on 24 January 2008 and a Council Tax increase of 4.75%, the Council Tax and Precept position is set out below:-

| | | £000s |
|---|---|---|
| | Budget Requirement | 322,670 |
| - | proceeds from Non Domestic Rates (NDR) and Revenue Support Grant (RSG) based on Final Settlement | |
| | Non Domestic Rates | - 83,093 |
| | RSG | - 11,567 |
| - | precept arrears from previous years notified by District Councils as being due to the County Council | - 1,302 |
| = | Council Tax Precept to be collected on the County Council's behalf by the North Yorkshire District Councils acting as billing authorities | 226,708 |

2. To produce a Council Tax per property, the amount required to be levied has to be divided by a figure representing the 'relevant tax base'. For the County Council, this figure is the aggregate of the 'relevant tax bases' of each of the seven District Councils.

3. Each District Council prepares an estimate of its 'relevant tax base' expressed as the yield from a Council Tax levy of £1 as applied to an equivalent number of Band D properties. This calculation takes into account the number of properties eligible for a single person discount, reductions for the disabled, anticipated property changes during the year and the extent to which a 100% recovery rate may not be achieved.

4. The following information has been received from the District Councils:-

| *Authority* | *Council Tax Base (equivalent number of Band D properties)* |
|---|---|
| Craven | 22,185.72 |
| Hambleton | 35,629.61 |
| Harrogate | 61,580.01 |
| Richmondshire | 19,109.10 |
| Ryedale | 20,813.08 |
| Scarborough | 41,024.10 |
| Selby | 29,036.00 |
| Total | 229,377.62 |

5. Using the above information the County Council's equivalent Council Tax precept for a Band D property would be as follows:

| | |
|---|---|
| Council Tax Total Precept<br>Relevant Tax Base | £226,708k<br>229,377.62 |
| @ Band D = | £988.36 |

6. Using the appropriate 'weightings' for other property bands as determined by statute, the Council Tax precept for each property would be as follows:-

| Band | 2007/2008<br>£ p | 2008/2009<br>£ p |
|---|---|---|
| A | 629.03 | 658.91 |
| B | 733.86 | 768.72 |
| C | 838.70 | 878.54 |
| D | 943.54 | 988.36 |
| E | 1,153.22 | 1,208.00 |
| F | 1,362.89 | 1,427.63 |
| G | 1,572.57 | 1,647.27 |
| H | 1,887.08 | 1,976.72 |
| | | =+4.75% |

(All figures are rounded to the nearest penny).

28 January 2008

# APPENDIX I

## BRIEFING NOTE RE CAPPING PROCEDURE

1. The reserve capping powers available to the Government were introduced in 1999 (under the Local Government Act 1999) and up until 2004/05 no local authority budget had been formally capped, although a number of authorities had been invited to explain their 'excessive' Council Tax increases each year.

2. In **2004/05** however the Government capped 14 local authority budgets (none of which were County Councils) following warnings that they would be looking closely at Council Tax increases for that year. Different criteria were used for different classes of authority; for County Councils it was a budget requirement increase of over 6.5% (NYCC 6.9%) together with a Council Tax increase of over 6.5% (NYCC 5.75%).

3. In **2005/06** 8 local authority budgets were ultimately capped, including Hambleton, with the standard criteria being a budget increase of over 6% (NYCC 6.1%) together with a Council Tax increase of over 5.5% (NYCC 4.94%). This was after the Government had given clear messages (via various announcements and a letter to all local authority Leaders) that they expected average Council Tax increases of less than 5%. They also said that the 2004/05 capping principles should not be considered a benchmark for 2005/06 thus making it clear that they were prepared to take tougher capping action than in 2004/05.

4. For **2006/07** the Government again announced (including a letter sent to all local authority Leaders) that they expected to see a Council Tax increase of less than 5% and they would take capping action if there were excessive increases. The standard criteria used was a budget increase of over 5% (NYCC 6.87%) together with a Council Tax increase of over 5% (NYCC 4.9%). Only two authorities broke the criteria (including City of York) but the capping was ultimately downgraded from "designation" to "nomination" which meant that budgets did not have to be reduced for 2006/07 thus avoiding re-billing, but was a strong warning for 2007/08 (see **paragraphs 9(e**) **and 9(f)** below). Other authorities marginally breached the limits but no action was taken.

5. For **2007/08** the Government again gave capping warnings by saying:

   - they had provided a stable and predictable funding basis for local services
   - they expected Local Government to respond positively as far as Council Tax was concerned
   - they expected to see average Council Tax increases in England of less than 5%
   - they would not allow excessive Council Tax increases
   - they had used their reserving capping powers in previous years to deal with excessive increases and would not hesitate to do so again if that proved necessary.

Based on the actual levels of Council Tax set however, no budgets were capped and no capping criteria were announced. The NYCC budget increase was 5.6% with a Council Tax increase of 4.9%. The overall average Council Tax increase in England was 4.2% (4.5% in shire areas, 4.1% for unitary authorities and 3.8% for Metropolitan Districts).

6. In announcing the Final Settlement for the years **2008/09 to 2010/11**, the Minister has repeated the 5% warning but this year has changed the emphasis by saving “we expect the average Council Tax increase in England to be substantially below 5% next year”. This theme is also emphasised in an earlier letter dated 17 December 2007 from the Local Government Minister John Healey to all Local Authority Leaders. In this letter the **Government’s expectation that the average Council Tax increase in England will be substantially below 5% in 2008/09 is clearly restated plus an indication that they will not hesitate to use their capping powers as necessary to protect council taxpayers.**

7. The principles/criteria to be used in determining whether an authority’s council tax increase is excessive (and therefore whether to cap or not) is usually only announced after budgets and council tax have been set in February 2008. The Minister’s letter referred to in **paragraph 6 above** says that no decisions have been taken on capping principles for 2008/09 but it would however be unwise for any authority to assume that capping principles set in previous years will be repeated. The Government intend to take decisions on principles after authorities have set their budgets but are prepared to announce the principles in advance if the circumstances suggest that is necessary.

8. In conclusion therefore, the reserve capping powers are flexible in terms of the criteria that might be used by the Government but the **County Council does have to be aware of the possible implications of breaching the criteria when it decides on its Council Tax increase.**

9. The principles and stages in the capping process are as follows:

   (a) Each local authority must inform the Government of their Budget and Council tax levels within 7 days of setting (must be set by 1 March). Thus for 2008/09 the County Council must inform CLG of the Budget it has set by 27 February 2008.

   (b) The CLG will decide whether the Council Tax and Budget Requirement increases for an authority is excessive. This is only announced after budgets have been seen and must be done in relation to a set of principles. The set of principles must contain a comparison with the Budget Requirement of a previous year. CLG may also determine categories of authorities and use a different set of principles for each category.

   Note Although Council Tax increases are not referred to in the 1999 Act they have been used in the past in deciding which authorities to 'warn' and also used as a key criteria in determining whether a Budget increase is excessive.

(c) In addition to the previous years comparison mentioned above the capping principles that may be adopted by the DCLG can incorporate other criteria as identified in the 1999 White Paper *Modern Local Government - In Touch with the People*.

➔ to look at the Council's budget increases over a number of years, allowing it to exempt Councils which had small increases in earlier years, or to limit the increases of Councils which had cumulatively increased by more than a prudent amount

➔ to allow Councils, whose increases were limited, to reduce their budgets over a number of years, rather than requiring them to make the full adjustment in one year

➔ where necessary, to require Councils to reduce their budget requirement to below that in previous years

➔ to set no limits on increases by Councils meeting certain criteria eg those whose Council Tax was only a small proportion of the total Council Tax bill faced by local tax payers, those with small budgets, those which provide only particular services

➔ to take into account factors such as the Council's performance in the delivery of best value, the support of the electorate for the Council's proposed budget and whether the Council has beacon status in deciding whether a Council's budget increase is excessive (presumably the CPA may be used on a similar basis).

(d) Once the principles have been announced (probably in March/April 2008) if the CLG determines an authority's Council Tax and/or Budget Requirement (BR) increase is excessive, it has two options - designation or nomination.

(e) **Designation** is for the year in question (ie 2008/09) and is the more serious option. Soon after the start of the financial year (ie May-June), the Government would notify an authority that it had been designated. A cap (ie maximum amount of BR) for the year would be notified to the authority, together with a target BR sum. The target sum is the maximum amount which the Government considers should be the BR for the authority without it being excessive. In most cases the maximum set will be the same as the target amount. However, if the Government consider that the authority should reduce its BR over several years to reach the target, a different maximum may be set for the immediate year.

The authority then has 21 days to accept the maximum amount or challenge it and put forward an alternative. If challenged, the Government will consider any information put forward by the authority and announce a maximum which may be greater, smaller or the same as that previously notified. The cap may also be removed and the authority nominated instead **(see paragraph (f) below).**

**After receiving a 'designation notice' an authority must recalculate its BR so that it does not exceed its 'maximum amount' within 21 days. The authority will then have to arrange, and meet the costs of, rebilling all Council Tax payers in its area.**

(f) **Nomination** is where the ODPM issues a warning that the authority will be, or may be capped the following year (ie 2009/10). The authority are informed of the principle(s) under they have been nominated and what the maximum BR would have been if the Government had decided to designate rather than nominate.

ODPM then has two further options

(i) **Designation after nomination** which in essence is pre signalled capping for the following year. As for the designation procedure the authority is informed of a maximum BR for the following year and a target BR (which may be the same as the maximum) and a year by which the target BR must be achieved. Although nomination would be in May/June, designation for the following year would not take place until the Provisional Settlement in November/December. The notified maximum BR can be challenged and must be approved by Parliament.

(ii) **No designation after nomination** means that an authority would be informed in May/June that it had been nominated. This would involve being informed of a target (notional) BR for the year in question (eg 2008/09) which would be used in future years when making comparisons to decide whether its BR in those years is excessive. The authority would have 21 days to challenge the BR notified.

10. If the Council was capped and designated (see **paragraph 9(v)** above), the costs of rebilling by each of the 7 District Councils would fall on the County Council. No precise figures are available but a cost in the region of £0.5m might be expected. There could also be potential cash flow implications for the County Council that would create a loss of interest from the investment of working balances.

11. To assist Members in their assessment of the possibility of capping in 2008/09, the following table compares the criteria used by the Government against the equivalent figures for the County Council since 2004/05.

| **Year** | **Budget Requirement Increase %** | | **Council Tax Increase %** | |
|---|---|---|---|---|
| | **Criteria** | **NYCC** | **Criteria** | **NYCC** |
| 2004/05 | + 6.5 | + 6.95 | + 6.5 | + 5.75 |
| 2005/06 | + 6.0 | + 6.10 | + 5.5 | + 4.94 |
| 2006/07 | + 5.0 | + 6.87 | + 5.0 | + 4.90 |
| 2007/08 | no criteria | + 5.60 | no criteria | + 4.90 |
| 2008/09 | ? | + 5.90 | ? | + 4.75 |

12. It is evident from the above table that in recent years the County Council has been in a situation where

- ➔ its Budget requirement increase has exceeded the criteria set by the Government.
- ➔ its Council Tax increase has been less than the criteria set by the Government.

Those Authorities that have been capped have usually exceeded both criteria in a given year.

Peter Yates
Finance and Central Services

28 January 2007

**APPENDIX J**

## STATUTORY REQUIREMENTS OF THE LOCAL GOVERNMENT ACT 2003 IN RELATION TO BUDGET SETTING

1.1 Sections 25 to 28 of Part 2 of the Local Government Act 2003 define a series of duties and powers that give statutory support to important aspects of good financial practice in local government. For the most part they require certain processes to be followed but leave the outcome of those processes to the judgement of individual local authorities. The following paragraphs explain these provisions and provide an analysis *(in italics*) of the position in the County Council.

1.2 **Section 25** requires the Chief Financial Officer (CFO) to submit a formal report to the authority regarding the **robustness of the estimates** included in the Budget and the **adequacy of the reserves** for which the Budget provides.

1.3 Section 25 requires the report to be made to the authority when the decisions on the Council Tax Precept are formally being made. However, Members will appreciate that those decisions are taken at the conclusion of a detailed and prolonged process involving consideration of the draft Budget by various parts of the organisation including the Executive, Members and the Management Board. The CFO has to ensure that appropriate information and advice is given at all stages on what would be required to enable a positive opinion to be given in his formal report.

1.4 *The Executive thoroughly reviewed and revised the Budget process of the County Council for 2005/06. This process has been further refined in subsequent years by:*

*(i) incorporating detailed work on comparative unit costs etc to ensure that the County Council is achieving value for money*

*(ii) establishing clear links between budget provision and the various performance indicators used in each service area*

*(iii) the development of the Quarterly Performance and Budget Monitoring Report submitted to Executive to include not only financial but also performance data, HR statistics and data relating to progress on the LPSA and AES plans*

*(iv) the Budget process of the County Council has subsequently scored as a 3 out of 4 in the 2005, 2006 and 2007 CPA Use of Resources assessments*

*1.5 In addition the County Council has always received full details of every aspect of the precept calculation at key stages in the Budget process – this will continue. The Corporate Director – Finance and Central Services will report formally to the County Council in February 2008 (as he did in February 2007 regarding the 2007/08 Budget), regarding the **robustness of the estimates** and the **adequacy of balances**. Regarding robustness of the estimates this will be an opinion based on the detailed nature not only of the Budget preparation process but also the Budget monitoring work that goes on continuously throughout the year. The methodology for assessing the adequacy of balances is referred to in more detail in **Appendix K*** *whilst **Appendix L** explains how these Best Practice principles have been applied in the County Council and the proposals that emerge for inclusion in the Budget report.*

1.6 **Section 26** gives the **Secretary of State the power to set a minimum level of reserves for which an authority must provide in setting its Budget**. The minimum would apply to "controlled reserves", as defined in Regulations. The intention in defining controlled reserves would be to exclude reserves that are not under the authority's control when setting its call on Council Tax, eg schools balances.

1.7 It was made clear throughout the Parliamentary consideration of these provisions that Section 26 would only be used where there were grounds for serious concern about an individual authority. The Minister said in the Commons Standing Committee debate on 30 January 2003:

> "The provisions are a fallback against the circumstances in which an authority does not act prudently, disregards the advice of its CFO and is heading for serious financial difficulty. Only in such circumstances do we envisage any need for intervention."

There is no intention to make permanent or blanket provision for minimum reserves under these provisions. Indeed, the Government has made no attempt to so far to define minimum reserves.

1.8 **Section 27** defines in more detail the responsibility of the CFO in reporting about the inadequacy of reserves in an authority where a Section 26 minimum requirement has been imposed.

1.9 *Provided the County Council acts prudently and takes into account the advice of the Corporate Director – Finance and Central Services regarding the level of reserves it is unlikely that the County Council will find itself in a position of being subject to a Section 26 determination. The examination of balances/reserves during the Budget process and the monitoring thereof that takes place (and is reported quarterly to the Executive) provides the County Council with every opportunity to take remedial action should any problems emerge that are likely to undermine the Medium Term Financial Strategy*.

1.10 **Section 28** concerns **Budget monitoring arrangements**. Essentially an authority is now required to review during the course of a financial year the planned levels of reserves incorporated in the earlier annual tax/precept setting calculations. If as a result of such an in year review it appears that there is a deterioration in the financial position the authority must take whatever action it considers appropriate to deal with the situation.

1.11 *As indicated above the Executive receives details of the position on reserves as part of the Quarterly Performance and Budget Monitoring Report. Provision also exists within the Financial Procedure Rules for further reports to be submitted if and when necessary should financial circumstances deteriorate between the quarterly reporting dates such that immediate action in relation to reserves, etc, is required*.

**Balances/Reserves**

1.12 One of the clear pointers from Sections 25/28 is the need for a transparent and formal assessment of the adequacy of balances/reserves.

1.13 A full explanation of this requirement and a description of the work undertaken in the Budget process is provided in **Appendices K and L** respectively.

1.14 As far as the proposed MTFS/Revenue Budget 2008/09 is concerned, the full rationale behind the proposals summarised at **paragraph 12.9 et seq** of the main report is provided in **Appendix L.**

**APPENDIX K**

## BALANCES / RESERVES – RISK ASSESSMENT METHODOLOGY

### Introduction

1.1 This Paper considers the Statutory requirements and Best Practice Guidance relating to Reserves/Balances published by CIPFA in 2003 and explains the methodology used to assess the adequacy of the current reserves now proposed as part of the Medium Term Financial Strategy, and Revenue Budget 2008/09.

1.2 The following paragraphs explain these considerations and provide an analysis (*in italics*) of the position in the County Council.

### 2.0 Specific Statutory Requirements

2.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and **precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.**

2.2 There are also a range of safeguards in place that militate against local authorities over-committing themselves financially. These include:

- the requirement to set a balanced budget
- s114 powers of the Chief Finance Officer (CFO)
- the external auditor's responsibility to review and report on financial standing.

2.3 As evidenced by the Audit Commission's annual reports on external audits of local authorities in England and Wales the balanced budget requirement is sufficient discipline for the vast majority of local authorities. This requirement is reinforced by section 114 of the Local Government Finance Act 1988 which requires the CFO to report to all the authority's councillors if there is, or is likely to be, unlawful expenditure or an unbalanced budget. The issue of a section 114 notice cannot be taken lightly and has serious operational implications. Indeed, the authority's full council must meet within 21 days to consider an s114 notice issued by their CFO.

2.4 Whilst it is primarily the responsibility of the local authority and its CFO to maintain a sound financial position, external auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based. In the course of their duties external auditors review and report on the level of reserves taking into account their local knowledge of the authority's financial performance over a period of time. However, it is **not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.**

2.5 The introduction of the **prudential approach to capital investment has reinforced these safeguards**. The Prudential Code requires the CFO to have full regard to affordability when presenting recommendations about a local authority's future Capital Plan. Such consideration will also include the level of long term revenue commitments. Indeed, in considering the affordability of its Capital Plan the authority will be required to consider all of the resources currently available to it, and estimated for the future, together with the totality of its capital expenditure and revenue forecasts for the forthcoming year and the following two years. The development of three year revenue forecasts by local authorities will inevitably attract greater attention to the levels and application of balances and reserves.

## 3.0 The Role of the Chief Finance Officer

3.1 Prior to the Local Government Act 2003, it was already the responsibility of the CFO to advise a local authority about the level of reserves it should hold and to ensure that there were clear protocols for the establishment and use thereof. Sections 25/28 (as described in **Appendix J**) now underline this responsibility and formalise the way in which **Members must consider reserves as part of the Budget process (and monitor their adequacy thereafter**).

3.2 Local authorities, on the advice of their CFOs, must make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary. A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a relatively low level of general reserves. There is therefore a broad range within which authorities might reasonably operate depending on their particular circumstances - hence the reference in **paragraph 2.4** above as to the lack of any specific advice/guidance about optimum or minimum levels of reserves.

## 4.0 Types of Reserves

4.1 When reviewing its Medium Term Financial Strategy and preparing the annual Budget, a local authority should consider the establishment and maintenance of reserves. These can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this usually forms part of a **general reserve**
- a contingency to cushion the impact of unexpected events or emergencies – this may form part of the general reserve or be held as a specific **contingency fund** within the annual Budget.
- a means of building up funds, often referred to as **earmarked reserves**, to meet known or predicted liabilities.

4.2 The most commonly established earmarked reserves are listed below:

| Category of earmarked reserve | Rationale |
| --- | --- |
| Sums set aside for major schemes, such as capital developments or asset purchases, or to fund major reorganisations | Where expenditure is planned in future financial years, it is prudent to build up specific reserves in advance |
| Insurance reserves | Self insurance is a mechanism used by many local authorities. In the absence of any statutory basis sums held to meet potential and contingent liabilities are reported as earmarked reserves |
| Reserves of trading and business units | Surpluses arising from in-house trading may be retained to cover potential losses in future years, and/or to finance specific service improvements, re-equipping etc. |
| Reserves retained for service use | Increasingly authorities have internal protocols that permit year-end underspendings at service level to be carried forward |
| School balances | These are the unspent balances of budgets delegated to individual schools |

4.3 For each reserve held by a local authority there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the management and control of the reserve
- a process and timescale for review of the reserve to ensure its continuing relevance and adequacy.

4.4 *The County Council operates each of the types of reserve referred to in **paragraph 4.1** above – the protocols referred to in **paragraph 4.3** above are also in operation (see **Appendix L**).*

## 5.0 Principles to assess the adequacy of the General Reserve

5.1 In order to assess the adequacy of the unallocated/general reserve when setting the Budget, a CFO should take account of the strategic, operational and financial risks facing the authority. The financial risks should be assessed in the context of the authority's overall approach to risk management.

5.2 Setting the level of the general reserve is just one of several related decisions in the formulation of the Medium Term Financial Strategy, and the Revenue Budget for a particular year. Account should be taken of the key financial assumptions underpinning the Budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

| **Budget assumptions** | **Financial standing and management** |
|---|---|
| The treatment of inflation and interest rates | The overall financial standing of the authority (level of borrowing, loan debt outstanding, debtor/creditor levels, net cash flows, contingent liabilities) |
| The treatment of demand led pressures on service budgets | The authority's capacity to manage in-year budget pressures |
| The treatment of planned efficiency savings/productivity gains | The strength of the financial information and reporting arrangements as well as the viability of the Plan(s) designed to achieve the savings, etc |
| The financial risks inherent in any significant new partnerships, major outsourcing arrangements or major capital developments | The authority's virement and end of year procedures in relation to budget under/overspends at authority and service level |
| The availability of other funds to deal with major contingencies and the adequacy of provisions | The adequacy of the authority's insurance arrangements to cover major unforeseen risks |
| Estimates of the level and timing of capital receipts | The authority's track record in budget and financial management including the robustness of the medium term plans |

5.3 These factors can only be assessed properly at local level. A considerable degree of professional judgement is required. The CFO may choose to provide advice on the level of balances in absolute terms (ie £x) and/or as a percentage of total (or net) budget so long as that advice is tailored to the circumstances of the authority for that particular year.

5.4 The advice should be set in the context of the authority's Medium Term Financial Strategy and should not focus exclusively on short-term considerations. Balancing the annual Budget by drawing on general reserves may be viewed as a legitimate short-term option. However, where reserves are to be deployed to finance recurrent expenditure this should be made explicit. Advice should therefore be given on the adequacy of reserves over the lifetime of the Medium Term Financial Strategy.

## 6.0 CPA Framework

6.1 An added impetus to the process of formally assessing and monitoring the level of reserves is provided by the Use of Resources (UoR) component of the CPA process.

6.2 Within the UoR assessment framework there is specific reference to the level of reserves held, their purpose and their materiality relative to such issues as overall levels of annual expenditure, provision of earmarked reserves, etc.

6.3 The CFO should, therefore, clearly have regard to the CPA assessment criteria in relation to reserves when formulating his recommendation to the authority. In reality, if the CFO follows a methodology such as that outlined in this Paper it is more than likely the CPA criteria will be satisfied.

6.4 The subject of reserves is part of the Financial Standing component of the CPA UoR assessment - the County Council scored 3 out of 4 for this component in the recent 2007 UoR assessment.

## 7.0 Monitoring/Reporting Framework

7.1 The CFO has a fiduciary duty to local taxpayers, and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.

7.2 Under Sections 25/28 of the Local Government Act 2003 the level and utilisation of reserves will have to be determined formally by the Council, informed by the advice and judgement of the CFO. To enable the Council to reach its decision, the CFO should report the factors that influenced his/her judgement (in accordance with **paragraph 5** above) and ensure that the advice given is recorded formally. Where the CFO's advice is not accepted this should be recorded formally in the minutes of the Council meeting.

7.3 CIPFA therefore recommends that:

- the Budget report to the Council should include a statement showing the estimated opening general reserve fund balance for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. Reference should be made as to the extent to which such reserves are to be used to finance recurrent expenditure

  *These matters are addressed in **Appendix M** of this report.*

- this should be accompanied by a statement from the CFO on the adequacy of the general reserves and provisions in respect of the forthcoming financial year and the authority’s Medium Term Financial Strategy

  *This opinion is provided in **paragraph 12.17** of the main report.*

- a statement reporting on the annual review of earmarked reserves (including schools' reserves) should also be made at the same time to the Council. The review itself should be undertaken as part of the Budget preparation process. The statement should list the various earmarked reserves, the purposes for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/ withdrawals and the estimated closing balances.

  *This analysis is provided in the Table attached to **Appendix L**.*

# APPENDIX L

## REVIEW OF COUNTY COUNCIL BALANCES / RESERVES

1.0 **Introduction**

1.1 As part of the Budget process all balances and reserves have been reviewed as to their adequacy, appropriateness and management arrangements.

1.2 A schedule of the Reserves/Balances held at 31 March 2007 together with forecast movements over the three years 2007/08, 2008/09 and 2009/10 is attached as **Table 1** to this **Appendix.**

1.3 All the Reserves/Balances listed in **Table 1** are reviewed and/or monitored on a regular basis by the Service Accountant and/or the Corporate Director – Finance and Central Services. The level of the General Working Balance is specifically reported to the Executive as part of the Quarterly Performance and Budget Monitoring report.

2.0 **Outcome of review process**

2.1 Based on **Table** 1 the total value of Balances/Reserves held at 31 March 2007 was £60.755m. This figure is sub-divided into types of Balances/Reserves in **Table 1** and these types are referred to in **paragraph 2.2** below.

2.2 The conclusions reached by the Corporate Director – Finance and Central Services, as a result of this review are as follows:

(a) that element of balances represented by the **underspendings at the year end by Service Directorates** (£6.569m) are actually a facet of prudent financial management across a financial year end rather than being a reserve or balance that can be allocated to another purpose. The County Council has agreed that these be carried forward into the current financial year (ie 2007/08)

(b) **Earmarked Reserves are set aside for major items** (£7.928m) as detailed below -

| | | |
|---|---|---|
| Insurance Fund | £7.792m | This is needed to offset the cost of known and potential claims – the level of the Fund balance is significantly less than the potential maximum liability of claims so any withdrawal of cash from the Fund would increase the potential risk of a shortfall at some point in the MTFS period |
| Asbestos | £0.136m | Required to support the CSA budget in meeting asbestos costs in Education properties |

(c) the balances of **Trading Units and those Business Units that "trade" with schools (**£1.120m) are linked to the Business Plans of those Units. These balances are therefore akin to the year end underspendings by Service Directorates (ie (a) above).

(d) **School balances and other LMS reserves** (£23.814m) belong to schools and although they appear in the County Council Balance Sheet, they cannot be regarded, for practical Budget purposes, as an NYCC asset.

(e) there are twelve reserves related to **specific initiatives** (£14.444m) most of which need to be retained through 2007/08 and into 2008/09; however the balances in these are scheduled to reduce significantly over the next 2/3 years.

(f) the **General Working Balance** (£6.880m) - (see below).

**General Working Balance (GWB)**

2.3 The current MTFS policy is to achieve a level of GWB equivalent to 2% of the net Revenue Budget.

2.4 This policy was established as part of the 2007/08 Revenue Budget, and was accompanied by a set of "good practice rules".

2.5 These "rules" are as follows:

(a) that any underspending on the Corporate Miscellaneous budget at the year end should be allocated to the General Working Balance

(b) that should there be any call on working balances during a year such that the Recovery Plan targets (ie as defined in each Budget cycle) will not be achieved at the respective year ends then

(i) that shortfall be addressed in the next Budget cycle and/or

(ii) that revenue or capital expenditure reductions be effected in either the current or following financial year, in order to offset the shortfall.

(c) that in order to implement (b) the Executive should review the position of the General Working Balance on a regular basis as part of the Quarterly Performance and Budget Monitoring report process

2.6 The targets for the current MTFS period, approved in the 2007/08 Budget cycle, and the updated targets are as follows –

| Year End Date | MTFS 2007/10 | | MTFS 2008/11 | |
|---|---|---|---|---|
| | **£000** | **% of Net Revenue Budget** | **£000** | **% of Net Revenue Budget** |
| by 31 March 2007 | 5880 * | 2.1 | 6880 º | 2.5 |
| 31 March 2008 | 5880 | 2.0 | 7300 | 2.5 |
| 31 March 2009 | 6200 | 2.0 | 7300 | 2.3 |
| 31 March 2010 | 6200 | 2.0 | 7300 | 2.2 |
| 31 March 2011 | 6200 | 2.0 | 7300 | 2.0 |

**[Note : * projected º actual]**

2.7 The situation at 31 March 2007 was that the County Council was ahead of its target and based on the information to be provided in the Quarter 3 Monitoring report to the Executive on 19 February 2008, the County Council will exceed the target for this year end.

2.8 Despite this healthy position there is still a fundamental question - is a figure of c£7m still considered to be an appropriate target level for the GWB?

2.9 Historically the major items that the GWB has been required to offset are the costs of:

- ➔ demand led overspendings on the Services budgets
- ➔ repairing flood damage (net of Bellwin Grant)
- ➔ the winter maintenance budget provision being exceeded in a bad winter
- ➔ one off planning enquiries or legal cases

2.10 Given the fact that:

(a) the level of the GWB now exceeds the policy target set last year despite the impact at various times of the items referred to in **paragraph 2.9**

(b) it is considered unlikely that two or more of these issues will arise in any single year and if they did the good practice rules (**see paragraph 2.5**) determine what action should be taken to address, and remedy, the position.

it is concluded that the current 2% policy level for the GWB is adequate.

2.11 **For practical purposes it is therefore proposed that the target figure for the GWB be retained @ 2% of the net Revenue Budget and that any short term funds above the 2% level be available for funding non-recurring items of expenditure that might otherwise create a long term impact on the Revenue Budget.**

## NORTH YORKSHIRE COUNTY COUNCIL - RESERVES & BALANCES

| Details | Directorate | 2006/07 Actual Balance 31 March 2006 | 2006/07 Actual Movement 2006/07 | 2006/07 Actual Balance 31 March 2007 | 2007/08 Forecast Planned Movement 2007/08 | 2007/08 Forecast Estimated Balance 31 March 2008 | 2008/09 Forecast Planned Movement 2008/09 | 2008/09 Forecast Estimated Balance 31 March 2009 | 2009/10 Forecast Planned Movement 2009/10 | 2009/10 Forecast Estimated Balance 31 March 2010 | 2010/11 Forecast Planned Movement 2010/11 | 2010/11 Forecast Estimated Balance 31 March 2011 | Comments |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **WORKING BALANCES** | | **£000s** | | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | |
| **Retained for Service Use** | | | | | | | | | | | | | |
| Children & Young Peoples | CYPS | 2,393 | 294 | 2,687 | -1,347 | 1,340 | -1,340 | 0 | 0 | 0 | 0 | 0 | £6.569m net underspend in 2006/07 carried forward to 2007/08 and consisted mainly of savings to assist in 2007/08 and subsequent years budgets, planned savings to support developmental initiatives in 2007/08 and spending planned for 2006/07 being deferred |
| Adult & Community | ACS | 0 | 1,486 | 1,486 | -255 | 1,231 | -1,231 | 0 | 0 | 0 | 0 | 0 | |
| Business & Environment | BES | 77 | 99 | 176 | 904 | 1,080 | -1,080 | 0 | 0 | 0 | 0 | 0 | |
| Chief Executive | CE | 406 | -161 | 245 | -175 | 70 | -70 | 0 | 0 | 0 | 0 | 0 | |
| Finance & Central Services | F&CS | 1,134 | 57 | 1,191 | 336 | 1,527 | -1,527 | 0 | 0 | 0 | 0 | 0 | |
| Corporate Miscellaneous | Corp | 1,418 | -634 | 784 | -784 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| **Sub Total** | | **5,428** | **1,141** | **6,569** | **-1,321** | **5,248** | **-5,248** | **0** | **0** | **0** | **0** | **0** | |
| **General Working Balances** | | 4,414 | 2,466 | 6,880 | 428 | 7,308 | | 7,308 | | 7,308 | | 7,308 | MTFS recovery target is to restore to 2% of net revenue spending. |
| Total Working Balances | | 9,842 | 3,607 | 13,449 | -893 | 12,556 | -5,248 | 7,308 | 0 | 7,308 | 0 | 7,308 | |
| **EARMARKED RESERVES** | | | | | | | | | | | | | |
| **Sums Set Aside for Major Schemes** | | | | | | | | | | | | | |
| Asbestos | CYPS | 223 | -87 | 136 | -136 | 0 | | 0 | | 0 | | 0 | Used for asbestos in school kitchens in 2007/08. |
| Yorwaste Reserve | Corp | 664 | -664 | 0 | | 0 | | 0 | | 0 | | 0 | Reserve fully utilised in 06/07 |
| Insurance Reserve | F&CS | 6,814 | 978 | 7,792 | | 7,792 | | 7,792 | | 7,792 | | 7,792 | Required for potential liability and motor claims |
| **Sub Total** | | **7,701** | **227** | **7,928** | **-136** | **7,792** | **0** | **7,792** | **0** | **7,792** | **0** | **7,792** | |
| **Reserves of Trading and Business Units** | | | | | | | | | | | | | |
| FMS | CYPS | 134 | -20 | 114 | -49 | 65 | 0 | 65 | 0 | 65 | 0 | 65 | Trading surplus of FMS team providing financial services to schools. |
| Contents Insurance | CYPS | 184 | 156 | 340 | 23 | 363 | 0 | 363 | 0 | 363 | 0 | 363 | Excess of contents premiums from schools. Surplus/deficit accounted for in following year. |
| IT Trading | CYPS | 34 | -105 | -71 | 5 | -66 | 66 | 0 | 0 | 0 | 0 | 0 | Balance of Schools ICT trading with schools. Surplus/deficit taken into account in charges for following year. |
| Health & Safety Training | CYPS | 16 | -1 | 15 | -12 | 3 | -3 | 0 | 0 | 0 | 0 | 0 | Accumulated surplus of providing a Health & Safety service to Schools. |
| Quality and Improvement | CYPS | 53 | 94 | 147 | 81 | 228 | -100 | 128 | 0 | 128 | 0 | 128 | Traded Advisory/CPD service to schools |
| Outdoor Education | CYPS | 394 | -7 | 387 | -279 | 108 | -108 | 0 | 0 | 0 | 0 | 0 | Accumulated position (surplus / deficit) of the trading operation of the Outdoor Education Service. |
| Professional Clerking | CYPS | 16 | 4 | 20 | 1 | 21 | 0 | 21 | 0 | 21 | 0 | 21 | Accumulated surplus of providing Professional Clerking services to Schools. |
| Staff Absence Insurance | CYPS | 500 | 50 | 550 | 0 | 550 | 0 | 550 | 0 | 550 | 0 | 550 | Surplus from sickness insurance scheme. Balance reflects actuarial assumptions |
| School Balances (LMS Reserve) | CYPS | 23,603 | 211 | 23,814 | -4,814 | 19,000 | -2,000 | 17,000 | -1,000 | 16,000 | 0 | 16,000 | Aggregate total of individual School revenue balances and other LMS Reserves. |
| BDM School Premises Reserve | CYPS | -90 | -134 | -224 | 224 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Self-funded reserve for Schools premises repairs from delegated budgets.Surplus/deficit carried forward. |
| Catering | CYPS | | -158 | -158 | 158 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Accumulated trading deficit of Catering Service at 31/03/07 will be funded in 2007/08 |
| **Sub Total** | | **24,844** | **90** | **24,934** | **-4,662** | **20,272** | **-2,145** | **18,127** | **-1,000** | **17,127** | **0** | **17,127** | |
| **Retained for Specific Initiatives** | | | | | | | | | | | | | |
| Community Educ.Districts | CYPS | 199 | -161 | 38 | -38 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Comm Ed Districts closed and balance written off |
| Standards Fund Summer Term | CYPS | 3,247 | -2,554 | 693 | -693 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Voluntary matched funding forms part of Schools Block activities. Unspent matched funding will be treated as unallocated DSG and carried forward as part of the Schools Block Reserve |
| Teachers Severance | CYPS | 1,732 | -205 | 1,527 | 0 | 1,527 | 0 | 1,527 | 0 | 1,527 | 0 | 1,527 | To meet annual severance payments following Teachers losing access to early pensions in 1996. |
| Catering Job Evaluation | CYPS | 37 | -37 | 0 | 350 | 350 | -350 | 0 | 0 | 0 | 0 | 0 | Reserve for outcomes of job evaluation expected to be applied in 2008/09 |
| SEN | CYPS | 0 | 399 | 399 | 500 | 899 | | 899 | 120 | 1,019 | -250 | 769 | Phased implementation of review of SEN & Behaviour |
| Childrens Centre | CYPS | 0 | 583 | 583 | 0 | 583 | -583 | 0 | 0 | 0 | 0 | 0 | Plan to utilise reserve on non-recurring capital expenditure in 2008/09 |
| Schools Block / DSG | CYPS | 0 | 1,818 | 1,818 | 227 | 2,045 | -845 | 1,200 | -974 | 226 | 0 | 226 | Use of 2006/07 funds offset by forecast Schools Block 2007/08 underspend |
| ICT Equipment | F&CS | 0 | 699 | 699 | -449 | 250 | -125 | 125 | -125 | 0 | 0 | 0 | Fund to replace Standard Desktop PC's over three years |
| Management Information System (Catering) | CYPS | 60 | 43 | 103 | -103 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Reserve fully utilised in 2007/08 |
| Job Evaluation Administration Costs | Corp | 180 | -180 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | Fund to cover costs of Job Evaluation process, pay and reward etc. |
| Waste Disposal Trading Scheme | BES | 322 | 1,763 | 2,085 | 0 | 2,085 | -2,085 | 0 | 0 | 0 | 0 | 0 | 2007/08, subject to 07/08 LATS allowance valuation.Will be nil in 08/09 and 09/10, not known for 10/11 |
| Winter Maintenance | BES | 0 | 239 | 239 | 761 | 1,000 | 0 | 1,000 | 0 | 1,000 | 0 | 1,000 | Strategy is to increase reserve to £1m based on forecast 2007/08 revenue outturn. |
| Connexions | CYPS | 150 | 0 | 150 | 0 | 150 | -150 | 0 | 0 | 0 | 0 | 0 | For on-going transitional issues. Expected to be fully utilised in 2008/09 |
| Job Evaluation / Equal Pay Costs | Corp | 0 | 6,110 | 6,110 | -4,350 | 1,760 | -1,760 | 0 | 0 | 0 | 0 | 0 | Fund to cover costs of job evaluation incurred up to 2008/09 |
| **Sub Total** | | **5,927** | **8,517** | **14,444** | **-3,795** | **10,649** | **-5,898** | **4,751** | **-979** | **3,772** | **-250** | **3,522** | |
| **Total Earmarked Reserves** | | **38,472** | **8,834** | **47,306** | **-8,593** | **38,713** | **-8,043** | **30,670** | **-1,979** | **28,691** | **-250** | **28,441** | |
| **TOTAL RESERVES** | | **48,314** | **12,441** | **60,755** | **-9,486** | **51,269** | **-13,291** | **37,978** | **-1,979** | **35,999** | **-250** | **35,749** | |

**APPENDIX L – TABLE 1**

## MTFS & REVENUE BUDGET 2007/08
## PROJECTION of GENERAL WORKING BALANCE

| | Working Balance | % age of Revenue Budget | Required balance at 2% of net Revenue Budget | |
|---|---|---|---|---|
| | £000s | % | £000s | % |
| **Balances at 31 March 2007** | | | | |
| Actual Balances 31 March 2007 | 13449 | | | |
| - Directorate underspends c/fwd from 2006/07 | -6569 | | | |
| = free balances at 31 March 2007 | **6880** | **2.5** | **5600** | **2.0** |
| **2007/08** | | | | |
| Treasury management | 2636 | | | |
| Other Corporate Miscellaneous | 63 | | | |
| Potential Directorate overspends to be written off in 2007/08 | -771 | | | |
| Proposals per paragraph 9.30 of main report | -1500 | | | |
| =forecast position 31/03/08 @ Q3 | **7308** | **2.5** | **5920** | **2.0** |
| **2008/09** (MTFS Year 1) | | | | |
| Additional contribution from Revenue | 0 | | | |
| = forecast at 31 March 2009 | **7308** | **2.3** | **6450** | **2.0** |
| **2009/10** (MTFS Year 2) | | | | |
| Additional contribution from Revenue | 0 | | | |
| = forecast at 31 March 2010 | **7308** | **2.2** | **6800** | **2.0** |
| **2010/11** (MTFS Year 3) | | | | |
| Additional contribution from Revenue | 0 | | | |
| = forecast at 31 March 2011 | **7308** | **2.0** | **7160** | **2.0** |

31-Jan-08