Ryedale District Council

REPORT TO:	**POLICY & RESOURCES COMMITTEE**
DATE:	**4 October 2007**
REPORTING OFFICER:	**Interim Chief Financial Officer, J L Patten**
SUBJECT:	**Budget Strategy 2008/9 and Medium Term View to 2011/12**
WARDS AFFECTED:	**All**

1.0 PURPOSE OF REPORT

To form the basis of budget preparation and planning.

2.0 RECOMMENDATIONS

Members are asked:

- To prepare for permanent revenue savings of between £744k and £1,174k over the next four years
- To make appropriate changes to the Council's statutory documents as detailed in the report
- To plan for changes in the delivery and range of services

3.0 REASONS SUPPORTING DECISION

- To achieve the political objectives of the Council
- To establish a balanced revenue budget for the next few years
- To finance the Council's capital programme

4.0 INTRODUCTION

The Council has agreed to embark on an ambitious programme of capital expenditure and investment over the next few years requiring the use of most of its capital resources. This has significant revenue and capital consequences which requires careful financial planning.

The anticipated changes to revenue grants and Government plans will have an adverse impact on the Council's revenue budget.

This report brings these factors together and suggests a number of options for consideration. These detailed figures are provisional but even if they change the overall impact of these policies will be similar in magnitude.

The Council is moving towards serious financial difficulties if immediate planning is not undertaken on the issues in this paper. To ensure that some or all of the political aspirations are achieved the nature, scope and range of services we deliver have to change and the staffing and management costs appropriately reduced.

5.0 POLICY CONTEXT

The Budget Strategy is a key document affecting all service delivery and linking to the Corporate Plan and all of the strategic plans as well as providing the means for attaining the Council's objectives and priorities.

6.0 REPORT

Capital

The budget book agreed by Council in March 2007 details the Council's plans for capital expenditure over the next four years to 20010/11. It was struck such that there were sufficient capital balances remaining at the end of that period to fund essential housing capital expenditure and subsidise the revenue account by £134k pa. Decisions since that time have increased planned capital expenditure and there has also been an offsetting increase in capital balances. The Council has also decided to borrow £2m to fund the overall programme since private sector funding on the leisure centre was not practical or good value. The full year cost of borrowing £2m and running this facility is estimated at £240k per annum and was fully detailed in the report to Council on 29 March 2007.

The other 'flagship' scheme(s) is Industrial development at Pickering and Malton. The latter appears to be the most cost effective scheme with running costs of around £150k per annum for the next three years. Both these schemes are estimated to commence at a similar time and thus have a full year cost on revenue account of £390k for some three years.

There may be other revisions to the capital programme. For the purposes of this paper I have assumed that there will be no annual bidding process but that only unavoidable or necessary capital projects will be added to the programme. Members may also want to consider whether priority housing capital expenditure really is all essential.

It is suggested that the capital programme be rolled forward a year with revised cash flows to calculate on the effect on revenue account plus interest earnings and that this be presented to members in December.

Revenue

For the current year there are a number of variations but overall with higher interest rates and low capital expenditure the Council already has an extra £50k earned on balances and an increase in income from charges. There have also been windfall grants of some £250k. This additional income can be factored into the calculations for 2008/9. But as soon as the management structure is agreed and capital commitments made on major schemes interest earnings will reduce. Any management or structural changes may be charged to suitable revenue balances already set aside.

The position on revenue account is far less certain after the current year as a result of the following, many of which are totally unknown:

- Possible further Gershon type savings of 3% pa cashable
- Complete review of grant distribution and next three year projections
- Review of LAGBI

- Inflation higher than anticipated
- Pending pay award
- Revised concessionary travel scheme

And locally…..

- A growth list of items never achieved
- Senior management review
- Structural changes required or targets not met

It is highly unlikely that given the decision on Unitary Councils and statements from the Government that there will be more revenue grant. Furthermore, the next round of Gershon type savings may be forced on local authorities by penalty arrangements through grant mechanisms so locally we should anticipate to find a 3% reduction in expenditure of around £227k pa cumulative.

There will also be the need to provide for some growth in expenditure, whether through statute or desire to accord with the Council's priorities. A sum of £75k pa is suggested for planning purposes. It is assumed that all the other variations in income and expenditure will have a generally neutral impact on overall spend and that managers will have to manage their budget to ensure a zero growth i.e. as with capital no bidding process as in previous years. It is suggested that next year's revenue budget be prepared with only unavoidable inflationary cost increase and maximising fees and charges income.

<u>Assets</u>

It is possible for the Council to sell assets to raise additional capital to finance expenditure or increase interest receipts. The two most significant problems with this idea is that the Council receives more in rental income than would be obtained through interest earnings and also that spending the capital would mean revenue account would be short of interest or net rental income.

<u>Summary</u>

It is critically important for the Council to plan ahead for the increased costs or savings detailed above. Not only is this essential as required under the Prudential borrowing Code but it is basic financial planning. The Council will be exposed to two major contracts which combined in size will be the largest in my experience of 25 years in the District, and also on a low resource base. Risks must be mitigated through careful planning.

The effect on next year's revenue budget of these major schemes will be negligible since borrowing and operational costs will not yet be incurred. However, the commitments will have been made.

7.0 OPTIONS

The exposure to increased costs can be split out over a period of years to take into account capital expenditure and running costs. It is also possible to assume that not all capital schemes will be achieved, or the cash spent within the period and borrowing has to be a decision of 'last resort'.

The current MTFP assumes an inflationary Council tax increase. With the above increases in expenditure, examining all sources of finance has to be an option. An increase in Council Tax

near the Government capping limit of 5% would raise an extra £65k each year assuming inflation runs at 3%. This is included in the tables below as extra income.
It should be remembered that current policies would still be in place i.e. 3 month moratorium on filling posts.

Scenario 1
Maximum exposure position. Capital programme fully spent in 'volume' and 3% savings

Detail	2008/9	2009/10	2010/11	2011/12
3% Gershon type Savings	227	452	679	679
Leisure Centre operational costs	0	60	60	60
Industrial Development operational costs	0	70	150	150
Borrowing Costs	0	45	180	180
Growth	75	150	225	300
Council Tax Increase offset	-65	-130	-195	-195
Total reduction needed	**237**	647	1099	1174
Incremental Increase Year on Year		**410**	**452**	**75**

Scenario 2
Capital programme under-spent by £1m, ID scheme costs capped at £75k pa, 3% savings

Detail	2008/9	2009/10	2010/11	2011/12
3% Gershon type Savings	227	452	679	679
Leisure Centre operational costs	0	60	60	60
Industrial Development operational costs	0	70	75	75
Borrowing Costs	0	23	90	90
Growth	75	150	225	300
Council Tax Increase offset	-65	-130	-195	-195
Total reduction needed	**237**	625	934	1009
Incremental Increase Year on Year		**388**	**309**	**75**

Scenario 3
Capital programme under-spent by £1m, 1.5% savings

Detail	2008/9	2009/10	2010/11	2011/12
1.5% Gershon type Savings	113	226	339	339
Leisure Centre operational costs	0	60	60	60
Industrial Development operational costs	0	70	150	150
Borrowing Costs	0	23	90	90
Growth	75	150	225	300
Council Tax Increase offset	-65	-130	-195	-195
Total reduction needed	**123**	399	674	744
Incremental Increase Year on Year		**276**	**275**	**70**

All figures are in £'000 and compared to the 2007/8 base estimates

This shows that years 2009/10 and 2010/11 require savings to be found of significant value and have a structural impact on the authority given a budget of £7.5m. For 2008/9 the savings of between £123k and £237k would be of manageable proportions given the existing level of savings this year.

8.0 LEGAL IMPLICATIONS

It is a requirement for the Council to have a balanced budget and Prudential code. It is best practice to establish a MTFP.

9.0 RISK ASSESSMENT

A full risk assessment will be undertaken when the budget is produced. The MTFP already includes a detailed risk assessment for this year's budget.

10.0 CONCLUSION

- Based on the options detailed above the minimum savings to be found on revenue expenditure for the next four years are £764k and the maximum £1194k. The implications of this require major and fundamental changes to the range and method of services to be delivered by the Council.
- These changes have to be planned well in advance
- The planning has to take effect now to ensure changes are ready for the difficult two years of 2009/10 and 2010/11.
- The MTFP, Prudential Code and budget framework for 2008/9 onwards must be revised and provisions made accordingly.
- CMT are instructed to bring forward proposals to meet these savings based on the results of the SIMALTO exercise currently being undertaken and due recognition of the Council objectives and targets.
- In order to facilitate this process CMT consider Service Unit Managers should appraise their services and costs so that the current budget less 10% is that provided for in 2009/10.
- CMT report to the December Policy and Resources Committee on the outcome of both capital and revenue reviews.

Background Papers:

Budget Strategy
Government and Economic Statements
Council Reports and Policies

OFFICER CONTACT: Please contact John Patten IPFA, Interim Chief Financial Officer if you require any further information on the contents of this report. The Officer can be contacted on 01653 600666 ext. 214 or email john.patten@ryedale.gov.uk