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<b>PART B:</b>	<b>RECOMMENDATIONS TO COUNCIL</b>
<b>REPORT TO:</b>	<b>POLICY AND RESOURCES COMMITTEE</b>
<b>DATE:</b>	<b>7 FEBRUARY 2013</b>
<b>REPORT OF THE:</b>	<b>CORPORATE DIRECTOR (s151) PAUL CRESSWELL</b>
<b>TITLE OF REPORT:</b>	<b>FINANCIAL STRATEGY 2013/2014</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 The report sets out the budget for 2013/14, a proposed Council Tax level, the Financial Strategy, details of balances and reserves, the indicators under the Prudential Code for capital finance as required by the Local Government Act 2003 and the Pay Policy for 2013/2014.
- 1.2 Members should note that this report is prepared on the basis of the provisional Local Government Finance Settlement and a potentially significant further announcement on new burdens funding yet to be made. Further updates will be provided to the meeting.

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended:
- (i) To approve the Council's Financial Strategy (Annex A) which includes:
    - a. Savings/additional income totalling £721k (Financial Strategy Appendix A)
    - b. Growth Pressures totalling £616k (Financial Strategy Appendix A)
    - c. The Prudential Indicators (Financial Strategy Appendix B)
    - d. The revised capital programme (Financial Strategy Appendix D)
    - e. The Pay Policy 2013/2014 (Financial Strategy Appendix E)
  - (ii) a Revenue Budget for 2013/2014 of £7,173,800 which represents no increase in the Ryedale District Council Tax of £176.72 for a Band D property (note that total Council Tax, Including the County Council, Fire and Police is covered within the separate Council Tax setting report to Full Council);
  - (iii) that Members note that the budget, as presented, still includes an unallocated revenue budget of £50k and an anticipated draw down of £100k from reserves (the same as the 2012/2013 budget);

- (iv) to approve the special expenses amounting to £43,000;
- (v) to not implement a special expense for closed churchyards in 2013/2014;
- (vi) to approve the following Council Tax Exemptions:
  - (a) Class A, 12 months at 100%;
  - (b) Class C, 2 months at 100%; and
- (vii) to note the financial projection for 2014/15 – 2016/17 and note the proposals for the Resources Working Party on the 12 March to start the budget strategy process for 2014/15 including options for service cuts.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 To agree a balanced revenue budget for submission to Council for the financial year 2013/2014 and prepare the Council to deliver the same in future years.

### **4.0 SIGNIFICANT RISKS**

- 4.1 Section 9 of the Financial Strategy outlines the significant risks in the Council's finances and mitigating controls.

### **5.0 POLICY CONTEXT CONSULTATION**

- 5.1 The Financial Strategy is a key strategy document that affects all service delivery. It links to the Corporate Plan and all other strategic plans as well as providing the means for attaining the Council's objectives and priorities.
- 5.2 The Policy and Resources Committee is the Committee designated to make recommendations to the Council relating to the budget and levels of Council Tax. Consequently, recommendations from this Committee will inform the Council and subsequently the Council Tax resolution.
- 5.3 Budget consultation with the public took place last year through focus groups drawn from the Council's Citizen's Panel. This work is valid to inform the 2013/14 and 2014/15 budgets. A summary of this consultation is attached at Annex B.
- 5.4 Member consultation has been through the Resources Working Party and Member Briefing.

## **REPORT**

### **6.0 BACKGROUND AND INTRODUCTION**

- 6.1 The Financial Strategy sets out the Council's financial position in the medium term in detail, including issues around the Local Government Finance Settlement and efficiencies as well as the principles and procedures adopted by the Council to manage its finances to a high standard.
- 6.2 Monitoring of the 2012/2013 budget has taken place through the Group Leaders, Resources Working Party and this Committee who receive Revenue Budget Monitoring reports.

### **Budget and Council Tax for 2013/14**

6.3 Budgets have been drafted in line with Service Delivery Plans and the Budget Strategy. The following budget assumptions have been made in preparing the budget:

- General Inflation 3%
- Pay Inflation 1%
- Council Tax 0% (based on accepting the Council Tax Freeze grant)
- Fees and Charges 3.5% to 4.5% (with exceptions considered by the Commissioning Board, the Policy and Resources Committee and Council)

### **Grant Settlement and specific grants**

6.4 The government announced on the 8 October 2012 proposals for a Council Tax Freeze Grant for 2013/2014. Members will be aware that the Council has accepted the grant in the previous two years, the following table outlines the grant offers accepted and the latest offer:

<b>Budget Year</b>	<b>Offer</b>
2011/2012 Budget	Grant equivalent to 2.5% increase in council tax for those authorities who do not increase council tax. This funding was 'baselined' and therefore funding provided for subsequent years.
2012/2013 Budget	Grant equivalent to 2.5% increase in council tax for those authorities who do not increase council tax. This grant was a 'one-off' and therefore created a financial pressure in 2013/2014.
2013/2014 Budget	Grant equivalent to 1% increase in council tax for those authorities who do not increase council tax. This grant is payable in 2013/2014 and 2014/2015.

6.5 In addition to the above the Government has confirmed that any increases in Council Tax above 2% or £5 (whichever is the higher) in 2013/2014 would require a public referendum. A £5 increase would equate to a rise of 2.82%. Members should be aware that the estimated cost of such a referendum in Ryedale would be c£70k.

6.6 The Draft Local Government Finance Settlement was announced on the 19 December 2012, with the information arriving sporadically over the subsequent days. At the time of writing this report some information and the final announcement had not been received.

6.7 This year sees a fundamental change in the Local Government Finance System. Central Government support for local authorities in 2013/2014 in the main comes from:

- Retention of a proportion of Business Rates (based on an assumed business rates income less a fixed tariff) = £1.432m
- Revenue Support Grant (RSG) (under revised formulae) = £2.152m

6.8 The Business Rates proposals involve RDC retaining 40% of business rates collected in the District but having to pay over a fixed tariff to the Government. The tariff is index linked and the scheme is planned to operate up to 2020. The Council is therefore at risk for underachieving its business rates target, but can benefit to a limited extent if it overachieves its target (a 50% levy payment to Government of any overachievement applies).

6.9 The following table sets out the target and estimated actual position for Business

Rates Retention Scheme for 2013/2014 for RDC:

	Target £m	Est. £m
Business Rates Income Ryedale	15.925	16.278
RDC Share (40%)	6.370	6.511
Tariff payable to Government	4.938	4.938
Levy payment		0.071
Business Rate Income retained by RDC	1.432	1.502

- 6.10 In addition to the above there are the following additional specific grants which will be received by RDC:

Grant	£k
Council Tax Freeze Grant (re 2013/2014)	37
Localised Council Tax Support Transition Grant	11
New Burdens Funding – Localised Council Tax Support	33

- 6.11 Council Tax income, including the projected surplus on the collection fund is estimated at £3.520m. This is a reduced Council Tax figure compared to 2012/2013 due to the Localisation of Council Tax Support, which has the effect of reducing the tax base. RDC receives grant, which is included within the RSG figure to offset some of this reduction.

#### Base Budget Adjustments

- 6.12 These are as follows:

Issue	£k	Comments
Pay and Price Inflation	133	3% Price and 1% Pay
Cost of Borrowing	80	Brambling Fields Junction Improvements
12/13 Freeze Grant	94	One Off funding in 2012/2013
Total	307	

#### Growth Items

- 6.13 The position is detailed in appendix A to the Financial Strategy at Annex A.

#### Savings

- 6.14 The Council has shown over recent years the ability to deliver change, through investment in IT and through reshaping the services it provides to deliver a level of efficiencies which has minimised the cuts to services required. The following table outlines the significant savings achieved by the Council after the 'Austerity' financial settlements started.

Savings Programme	£k	Main themes
One-11 (2011/12 Budget)	1,127	Service reviews for Environmental Health, Housing, Planning, Tourism, voluntary redundancy window, budget review, CMT review
Going for Gold (2012/2013 Budget)	628	Streetscene review plus budget review
Round 3 (2013/2014 Budget)	721	Review of back office (Hub creation), CMT, budget review
Total	2,476	

- 6.15 Appendix A to the Financial Strategy highlights the savings/additional income identified for the 2013/14 budget, totalling £721k.

### Summary Position

- 6.16 Taking all of the above into account the summary position (excluding New Homes Bonus) is as follows:

Issue	£k
Base Budget Brought forward	6,972
Add:	
Base Budget Adjustments	307
Growth items	616
Total 'Cost'	7,895
Less:	
External Support	7,174
Efficiencies/Savings	721
Balance	0

- 6.17 Given the significant efficiencies already within the proposed budget and Financial Strategy it will be difficult to identify additional robust deliverable efficiency savings for the 2013/2014 budget. Therefore any Member proposals for additional expenditure will necessitate allocation of some of the 2013/2014 New Homes Bonus or cuts to existing services.

### New Homes Bonus

- 6.18 The provisional New Homes Bonus (NHB) allocations for 2013/2014 have been announced with RDC earning £707,942 in total, of which c£268k relates to development undertaken in 2012/2013.
- 6.19 The budget proposals as presented make no assumption on the use of NHB to support the revenue budget in 2013/2014. This position is not replicated in all Authorities, with many using NHB to support the 2012/2013 revenue budget and more likely to use NHB to support the 2013/2014 budget. NHB is top sliced from spending control totals. If it was not distributed in the form of NHB the amount RDC receives from RSG would be higher, although it is acknowledged that the current basis of NHB distribution is favourable to District Councils.
- 6.20 The 2013/2014 allocation may be considered by Members in setting the 2013/2014 Revenue Budget, or at a suitable time during the year.

### Capital Programme

- 6.21 The Financial Strategy provides a detailed breakdown of the Council's Capital Programme up to 2016/2017 totalling £9.252m. External funding of £3.109m is included, leaving a balance of £6.143m to be financed by the Council's funds and reserves as follows:

Funding Source	£
Capital Fund	2,666K
Capital Receipts	1,407K
Borrowing	2,070K
	6,143K

6.22 The principle of the capital plan is that only those schemes which are fully worked up, evaluated and approved by Members and as such would not require further Member approval to proceed (other than in meeting constitutional requirements) are within the Capital Programme. The Capital Programme, as profiled above, necessitates borrowing to be undertaken in 2013/2014.

6.23 Members should note that there are £549k unallocated capital resources available for investment in new schemes based on existing assumptions of capital receipts.

#### **Pay Policy 2013/2014**

6.24 The Pay Policy for RDC for 2013/2014, as required under the Localism Act is attached at appendix E to the Financial Strategy (Annex A). Members will note that there are few changes to the policy as presented to Council in March 2012.

#### **Special Expenses**

6.25 As in previous years, the Council undertakes the management of street lighting in the areas of the former Malton and Norton Urban District Councils and Pickering Rural District Council. The special expenses are a specific charge to the residents of the Parishes concerned and are estimated as follows:-

<b><u>Town/Parish</u></b>	<b>£</b>
Malton	4,850
Norton	12,400
Pickering Rural	25,750
<b>TOTAL SPECIAL EXPENSES</b>	<b><u>43,000</u></b>

#### **National Non-Domestic Rates (NNDR)**

6.26 For 2012/13 the NNDR multipliers are: a small business non-domestic rate multiplier of 45.0p and a non-domestic rate multiplier of 45.8p. For 2013/14 the draft multipliers are 46.2p and 47.1p respectively.

#### **Prudential Code**

6.27 Under the Local Government Act 2003 it is necessary for the Council to agree a series of prudential indicators mainly related to capital but taking account of affordability of the revenue consequences. Appendix B of the Financial Strategy lists the various indicators.

6.28 These indicators can be amended during the year if they are found to be inadequate.

#### **Funds & Reserves**

6.29 As part of the budget setting process, it is necessary to give Members an indication of the levels of reserves and balances and comment thereon. Appendix C in the Financial Strategy sets out the projected major Funds and Reserve balances.

6.30 The Council's revenue budget for 2013/2014 assumes a £100k draw on the General Reserve to support the budget. The Council's revenue budget has been approved with a planned draw down on reserves to balance the budget in every year since 2006/07.

6.31 Members are aware of the claim from the Fitzwilliam (Malton) Estates, following the award of partial costs in the Livestock Market Planning Application appeal. The exact value of the claim is likely to be agreed during 2013/2014. As previously stated at that time options will be brought before Members to decide how to finance the costs. It is

likely that reserves will be used to meet the cost with an officer recommendation likely to involve funding from the Operational Reserve and Improvement, Contingency and Emergency fund.

### **Special Expense for Closed Churchyards**

6.32 Members have considered this issue in recent years, most recently at Council on the 1 November 2012 where it was resolved:

That Council:

- 1) Support option 2 from paragraph 6.13 of the report to apply a Special Expense to those parishes in which the closed churchyard is located to cover in full the maintenance costs' in principle and to be considered further as part of the budget and Council Tax proposals presented to Council.
- 2) Calls upon HMG to repeal the relevant part of the LG Act (1972) 'maintenance of closed churchyards', the aim being to ensure that all religious bodies maintain their own buildings and land. Thus avoiding the council tax payers having to pay for the costs of other peoples' religion.
- 3) Writes to our MP, other local authorities and appropriate local and national government offices to request support.

6.33 If Members choose to implement a special expense for closed churchyards with the budget as proposed within the financial strategy, the Council would not be eligible to receive the Council Tax Freeze Grant for 2013/2014, as special expenses form part of the precept calculation.

6.34 Members will see revenue provision within the growth items of £30k for 2013/2014 to provide the necessary resources within the Council to manage its obligations. The issue of a special expense for closed churchyards can be considered in future budget rounds, which may then be able to generate a revenue saving.

### **Council Tax Exemptions**

6.35 The Government through the Finance Act has relaxed the granting of certain exemptions to Council Tax to a Billing Authority decision. The two material flexibilities relate to:

- Class A – Properties undergoing structural repairs, current exemption 12 months of 100% reduction.
- Class C – Empty and Unfurnished properties, current exemption 6 months of 100% reduction.

6.36 In approving the Local Council Tax Support Scheme for 2013/2014 at Council on the 10 January 2013 Members resolved to make changes to exemptions as part of the 2013/2014 budget strategy of £196k.

6.37 In order to achieve this, Members will need to decide the levels of exemption. Members should be aware that Authorities are approaching this issue very differently and taking a local decision with no pattern emerging. The following table provides some options:

<b>Exemption</b>	<b>Option A</b>	<b>Option B</b>	<b>Option C</b>
Class A	12 months 100%	12 months 50%	12 months 50%
Class C	2 months 100%	6 months 50%	1 month 100% then 5 months at 30%

6.38 In considering collection and operational customer issues, plus the benefit of incentivising returning properties back into use, option A is recommended.

### **The 2014/2015 – 2016/2017 Budgets**

- 6.39 The two year settlement announcement enables the Council to predict its likely position in 2014/2015. Whilst years beyond that will form part of the next spending review an estimate of support can be made based on existing Government announcements and commitments.
- 6.40 Annex C to this report provides the Medium Term Revenue Forecast. The stark picture is that in the three years 2014/2015 to 2016/17 the Council may need to consider cuts totalling c£1.4m. It is estimated that the Council will receive over £1m less in RSG in 2016/2017 compared to 2013/2014.
- 6.41 The forecast as presented makes the assumption that New Homes Bonus will be used to finance the cut in RSG. Even with this assumption cuts of £417k will be required. Officers believe this will be a significant challenge with the current scale of the Council's existing budget and services.
- 6.42 To carefully manage and implement any cuts required for 2014/2015 and beyond, the work required is planned to start at Resources Working Party on the 12 March 2013.

### **Local Government Act 2003 – Section 25 Report**

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) to report to the Authority when it is making the statutory calculations required to determine its Council tax or precept. The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

What is required is the professional advice of the Chief Finance Officer on these two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together. In particular, decisions on the appropriate level of reserves should be guided by advice based on an assessment of all the circumstances considered likely to affect the Authority.

In each Local Authority the Chief Finance Officer alone must prepare the Section 25 report.

Section 25 requires the report to be made to the Authority when the decisions on the calculations are formally being made (i.e. Council). However, those decisions are the conclusion of a process involving consideration of the draft budget by various parts of the organisation, including the member committees and officers. During this process appropriate information and advice has been given at the earlier stages on what would be required to enable a positive opinion to be given in the formal report.

DCLG guidance states that *“it should be possible to identify the sections of a composite report that are made under section 25, so that the Authority is able to discharge its duty to take account of the statutory report under section 25 (2).”*



## **Section 25 Report (Report of the Chief Finance Officer – Corporate Director (s151))**

In setting the Revenue budget for 2013/14 I consider that the proposed budget is robust, and reflects a realistic and prudent view of all anticipated expenditure and income.

The total savings and additional income proposals are £721k. This level is significant in relation to the Authority's overall budget and therefore inherently carries a risk. The achievement of these savings will be crucial in managing within the budget. The risk of this has been mitigated in part by thoroughly reviewing all savings proposals for their robustness, and effective budget monitoring procedures are in place. Most savings have been identified through the Round 3 programme. As a result many are considered low risk in that several months planning and lead in to the 2013/2014 budget has been possible to embed procedures to secure the savings. However, there inevitably remains a risk in delivering on this level of efficiency savings and there is always potential for delay in achieving savings or failure to achieve income targets. Where this occurs, compensating savings will need to be identified. Assumptions are within the 2013/2014 budget that the 3 month moratorium £58k will be delivered. The Car Parking and Development Management budgets have both been problematic in 2012/2013 and the adjustments made in the proposed budget should reduce the risks from these major income budget services.

The overall level of reserves is considered in detail within the Financial Strategy. Notwithstanding the award of partial costs against the Council arising from the Fitzwilliam (Malton) Estates Planning application appeal, which are likely to be payable in 2013/2014, I consider that the overall level of reserves is adequate.

The Capital Plan and Capital Programme have been regularly reviewed during the year. The unapplied capital resources will need to be considered in knowledge of the ongoing expectations of low interest rates and limited capital receipts generated by the Authority. It is important that proper project management disciplines are followed for schemes within the programme together with regular monitoring to minimise the potential for unexpected overspends. It is expected that the account for the Brambling Fields junction improvements will be finalised in 2013/2014. It is likely that this will be in excess of the existing budgetary position. The inclusion of the scheme in the capital programme initially with very conservative estimates of developer contributions will enable the Council to review that assumption in managing the overspend primarily caused by the exceptional weather.

Within the current economic climate it will be important that close budget monitoring of services which generate income and partnerships takes place. In particular Land Charges, Building Control, Recycling, Trade Waste, Car Parking and Planning to enable action to be taken in year where necessary.

### **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

- a) Financial  
Significant financial implications on the Council are detailed in the report and the Financial Strategy.
- b) Legal  
There are no additional legal issues on the Council from the recommendations.

c) Other

The proposals within the Financial Strategy do impact on the staffing resources of the Authority. Appropriate procedures and plans are in place to manage these issues.

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**Background Papers:**

None

**Background Papers are available for inspection at:**

N/a