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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>6 FEBRUARY 2014</b>
<b>REPORT OF THE:</b>	<b>CORPORATE DIRECTOR (s151) PAUL CRESSWELL</b>
<b>TITLE OF REPORT:</b>	<b>FINANCIAL STRATEGY 2014/2015</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 2014/15, 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 2014/2015.
- 1.2 Members should note that this report is prepared on the basis of the provisional Local Government Finance Settlement with incomplete information and a number of announcements outstanding. 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 £401k (Financial Strategy Appendix A)
    - b. Growth Pressures totalling £417k (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 2014/2015 (Financial Strategy Appendix E)
  - (ii) a Revenue Budget for 2014/2015 of £7,175,230 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) to approve the special expenses amounting to £35,180;
  - (iv) to note the financial projection for 2015/16 – 2019/20 (Annex B).

### **3.0 REASON FOR RECOMMENDATIONS**

3.1 To agree a balanced revenue budget for submission to Council for the financial year 2014/2015 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 was to inform the 2013/14 and 2014/15 budgets.

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 2013/2014 budget has taken place through the Group Leaders, Resources Working Party and this Committee who receive Revenue Budget Monitoring reports. There are no material issues arising from the current year's revenue budget other than a potential deficit on business rates arising mainly from the significant successful appeal by RAF Fylingdales which was backdated to 2005.

#### **KEY ASSUMPTIONS**

6.3 In preparing the draft budget for consideration a number of pieces of key information are not yet known and government announcements are awaited. Key assumptions therefore are:

- The Council will be receiving grant to reflect the extension of small business rate relief (SBRR) in 2014/15 and that this grant will form part of the rate retention scheme and part of the business rates pool.
- The announcement on referenda limits for Council tax will not be made before the budget is set by Council on the 25 February and even if an announcement is made the limit will be 1.5% or less for District Councils.
- The final settlement will not vary significantly from the draft announcement.

- The Council will choose to provide for outstanding appeals on an accruals basis in 2013/14 and not spread payments over 5 years.
- The figures in this report are based on the draft NNDR1 plus pooling agreement, the deadline for the NNDR1 is the 31 January and further guidance around the form is expected.
- Capital receipts assumed in the capital programme for the sale of properties in Kirkbymoorside and Norton will be received.

### **Budget and Council Tax for 2014/15**

6.4 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 their recommendations are incorporated in to the budget as presented)

6.5 Council resolved on the 31 October 2013 that the budget be prepared on the assumption of a 1.99% rise in Council Tax. Part of this decision was consideration of the referenda limit for Council tax for 2013/14 which was 2%.

6.6 Unexpectedly the referenda limit for 2014/15 has not yet been announced and it may not be announced prior to the budget setting process. With a referenda costing c£70k to undertake and with 2% on Council Tax equating to c£70k it is clear that the Council should not approve a position which requires a referenda.

6.7 Leaked documents show that there is debate within Government about the limit with many senior politicians, including the Secretary of State for Communities and Local Government Eric Pickles, pushing for a limit of 1.5%.

6.8 If a Council chooses to freeze Council Tax it receives a grant equivalent to just over 1% of Council Tax, in RDC's case £38k. It is slightly over 1% as it is based on the Council Tax Base excluding the impact of Localised Council Tax Support.

6.9 Should the Council set Council Tax at 1.49% against a referenda limit of 1.5% the financial benefit, after taking into account the reduction in LCTS payments as Council Tax would be lower, would be c£10k to Ryedale in 2014/15 and each year thereafter.

6.10 Eric Pickles has also stated that Authorities 'dodging democracy' would be penalised in future years, and this has been seen with retrospective changes to previous years Council Tax freeze grants affecting those that did not accept the grants offered.

6.11 The budget as presented with this report therefore assumes no increase in the RDC part of the Council Tax (for the 5<sup>th</sup> consecutive year). Should members wish to revert to an increase, the adjustment to the figures is relatively straightforward, with the benefit being seen through a £32k reduction in the New Homes Bonus required to support the revenue budget.

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

6.12 The Draft Local Government Finance Settlement was announced on the 18 December 2013, with the information arriving sporadically over the subsequent days.

As already stated at the time of writing this report some information and the final announcement had not been received.

- 6.13 The Council already had an indicative announcement of Revenue Support Grant (RSG) for 2014/15 provided last year. The draft announcement on the 18 December was better than expected mainly through the inclusion of a grant for rural and sparse authorities of £67k. In 2013/14 the Council received a similar grant of £62k but were told at the time that it would be a one off grant. The new grant is welcomed and included in the baseline funding, although is still far from compensating for lost grant for rural areas through the formula damping system.
- 6.14 There were a number of announcements and changes to business rates announced in the autumn statement. Councils have been assured that they will not lose financially from the announcements, but the details of the s31 grant to compensate have not yet been received.
- 6.15 In addition to the above there are the following specific grant movements for RDC:

<b>Grant</b>	<b>£k</b>
Loss of one-off 2013/14 efficiency grant	(62)
Loss of Localised Council Tax Support Transition Grant	(11)
Loss of Benefits Administration Subsidy	(34)
Loss of NHB Surplus Grant	(11)
Add New Burdens Funding LCTS	26

#### **Retained Business Rates**

- 6.16 Members will be aware that from 2013/14 the Council retains a percentage of business rates. The Council retains 40% of the rate income it collects; it then pays a fixed tariff to the Government (£5.035m in 14/15). If it then has income above a pre determined target the Council keeps 50% of this sum with the remainder paid as a levy to the Government.
- 6.17 Members are also aware that the Council applied to form a business rates pool with North Yorkshire County Council (NYCC), Richmondshire District Council, Scarborough Borough Council, Hambleton District Council and Craven District Council. The application was approved and the pool will commence on the 1 April 2014. The benefit of forming the pool is that the levy rate on growth above target is reduced to zero. This benefit is shared between the pool members in accordance with the agreement.
- 6.18 The total estimated business rate income for the pool is included in the budget with the benefit of being in a pool enhanced by the assumed inclusion of SBRR within the calculations. Clearly though the receipt of this income is dependent not only Ryedale's business rate income but that of the other pool members (excluding NYCC).

#### **Council Tax Income**

- 6.19 Council Tax income, including the projected surplus on the collection fund is estimated at £3.691m. Due to a lower than expected cost of the Localised Council Tax Support Scheme, improved collection rates, further reductions in discounts approved by Council and new property development, the Council Tax Base has increased by 4% for 2014/15. This is significantly above trend and provides additional income to assist the Council's financial position.

### **Base Budget Adjustments**

6.20 These are as follows:

<b>Issue</b>	<b>£k</b>	<b>Comments</b>
Pay and Price Inflation	141	3% Price and 1% Pay
Cost of Borrowing	20	Brambling Fields Junction Improvements
Total	161	

### **Growth Items**

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

### **Savings/Cuts/Additional Income**

6.22 Over the three budget years 2011/12, 2012/13 and 2013/14 the Council undertook a fundamental review of all services resulting in significant efficiency savings. Whilst the scope for large efficiencies is limited through budget review efficiencies of £170k have been identified, as well as offsetting small growth items with savings elsewhere.

6.23 At Council in October members approved the following cuts/additional income. Work is underway and costs being incurred in implementing these proposals:

- Charging for Garden Waste Collection. Estimated savings of £119k in 2014/15 and a further £160k in 2015/16.
- Rationalisation of the TIC service. This saves £54k in 2014/15.
- Reduction in the parish grant (relating to the implementation of LCTS), saving £32k in 2014/15 and a further £32k in 2015/16.

### **New Homes Bonus**

6.24 As reported to members the Council has earned £1.127m New Homes Bonus for 2014/15. To date the Council has not used this to support the revenue budget but the plans approved last year identified the gradual use of this revenue funding to protect services. The autumn statement confirmed that there would be no top slicing of NHB to finance LEP activities from 15/16 as proposed in the consultation. It is therefore predicted that NHB will rise to a total of around £1.7m by 2016/17 before it plateaus (this being the maximum six years on which the payments are based).

6.25 The budget as proposed uses £175k of the 2014/15 NHB and there is therefore £952k NHB unallocated in the budget and this will be put into reserves. Members can allocate this funding as they see fit at any time in the future. In producing the MTFS last year it was estimated that £495k of New Homes Bonus would required this year.

6.26 Members need to be aware of risks around the capital programme later in this report which may need to be financed from this remaining sum.

### **Summary Revenue Budget Position**

6.27 Taking all of the above into account the summary position is as follows:

<b>Issue</b>	<b>£k</b>
Base Budget Brought forward	7,173
Add:	
Base Budget Adjustments	161
Growth items	417
Total 'Cost'	7,751
Less:	
Retained Business Rates	1,739
Council Tax Income	3,691
Revenue Support Grant	1,745
Efficiencies/Savings/Additional Income	401
Use of New Homes Bonus	175
Balance	0

- 6.28 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 2014/2015 budget. Therefore any Member proposals for additional expenditure will necessitate allocation of more of the 2014/2015 New Homes Bonus or cuts to existing services.

#### **MTFS projections to 2019/20**

- 6.29 Members will note the financial projections to 2019/20 (Annex B). This shows the NHB being drip fed into the budget to enable the Council to survive the austerity years with the vast majority of its services maintained. Notwithstanding the decisions already taken and being implemented the forecasts show the continued choice between use of NHB to support revenue and service cuts being required. The forecast identifies £500k of cuts being required in the four year period 2016/17 to 2019/2020. This would provide an estimated cumulative £2.8m of New Homes Bonus available over the 6 years for members to consider.

- 6.30 Annually when updating the capital programme a further year is added which equates to around £500k. At present there is around £300k shortfall in funding this and the MTFS therefore taken an allocation from 2015/16 New Homes Bonus to meet this shortfall. Without this action and in the absence of significant capital receipts Members would either have to remove existing schemes from the programme or considering borrowing with the associate revenue cost and affordability test under the prudential code.

#### **Capital Programme**

- 6.31 The Financial Strategy provides a detailed breakdown of the Council's Capital Programme (appendix D) up to 2017/2018 totalling £8.958m. External funding of £3.405m is included, leaving a balance of £5.553m to be financed by the Council's funds and reserves as follows:

Funding Source	£
Capital Fund	2,363K
Capital Receipts	1,120K
Borrowing	2,070K
	5,553K

- 6.32 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 2014/2015.

- 6.33 Members should note that there are £58k unallocated capital resources available for investment in new schemes based on existing assumptions of capital receipts. The capital programme reserve list has also been updated to reflect expectations over future years. Schemes on the reserve list are for information and the inclusion of any of the schemes will be a Council decision based on evaluation of the detailed proposals.
- 6.34 There are two areas of concern in the capital programme which may necessitate additional funding being identified:
- Sale of Property at Dove Way at Kirkbymoorside. Members approved this sale and the capital programme currently assumes a capital receipt of £320k. There are ongoing discussions around the treatment of VAT on this sale and external advice is being sought. The outcome of these discussions may result in the purchaser not proceeding.
  - Sale of Norton Bowls Club. This is assumed within the capital programme with a value of £400k.
- 6.35 The capital programme as proposed also includes the predicted final cost of the Brambling Fields junction improvements. The final cost is estimated to be £350k over the budget provided and the unprecedented weather was the major factor in creating this cost. Assumptions about developer contributions have been increased to cover this cost. The position on the receipt of these will need consideration over time and may necessitate other funding to be identified if they are not received.

#### **Pay Policy 2014/2015**

- 6.36 The Pay Policy for RDC for 2014/2015, 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 February 2013.

#### **Special Expenses**

- 6.37 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	4,880
Norton	9,800
Pickering Rural	20,500
<b>TOTAL SPECIAL EXPENSES</b>	<b>35,180</b>

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

- 6.38 For 2013/14 the NNDR multipliers are: a small business non-domestic rate multiplier of 46.2p and a non-domestic rate multiplier of 47.1p. For 2014/15 the draft multipliers are 47.1p and 48.2p respectively.

#### **Prudential Code**

- 6.39 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.

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

### **Funds & Reserves**

- 6.41 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. The Council's revenue budget for 2014/2015 assumes no draw on the General Reserve to support the budget.

### **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 2014/15 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 £401k. 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. There inevitably remains a risk in delivering on this level of 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 2014/2015 budget that the 3 month moratorium £51k will be delivered.

The overall level of reserves is considered in detail within the Financial Strategy. 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.

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, Green 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