



PART B:	RECOMMENDATIONS TO COUNCIL
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	25 SEPTEMBER 2014
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	BUDGET STRATEGY 2015/2016
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 This report forms the basis of preparation and planning for the 2015/2016 Council budget.

2.0 RECOMMENDATIONS

2.1 That Council is recommended to approve the following strategy for the preparation of the 2015/2016 budget:

- (i) Proposals to be brought forward for a 1.99% increase in Council tax;
- (ii) Increases in fees and charges to be 3.5% - 4.5% on a cost centre heading basis excluding VAT and only those charges officers recommend above or below this figure to be considered by the relevant policy committee;
- (iii) Efficiencies to be maximised; and
- (iv) The use of New Homes Bonus in line with the medium term financial plan.

3.0 REASON FOR RECOMMENDATIONS

3.1 The proposals will ensure the Council sets a balanced budget for the forthcoming year with minimal impact on Council services.

4.0 SIGNIFICANT RISKS

4.1 The significant risk is that efficiencies cannot meet the shortfall and cuts to front line services will be required. This is mitigated through a whole Council approach to savings identification and investment proposals leading to savings through budget review, shared services and service reviews. (see risk matrix).

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The budget strategy is a key process affecting all service delivery and linking to the Council Plan and all of the strategic plans as well as providing the means for attaining the Council's objectives and priorities.
- 5.2 Public consultation will take place to inform the budget process, however this will be limited to opinion on Council Tax increases and the use of NHB, as the Council is not looking for any new service cuts in order to balance the budget for 2015/16.

REPORT

6.0 REPORT DETAILS

- 6.1 The annual budget setting process for the Council will necessitate the identification of savings to deliver a balanced budget. The Medium Term Financial Plan (MTFP) as approved by members with the Council's Financial Strategy in February 2014 set out the projected financial position. At that time the Council set a 0% increase in its part of the Council Tax bill for 2014/2015. This was supported by additional Government grant equivalent to a 1.0% increase in Council tax.
- 6.2 Within the MTFP projection was the need to identify nearly £300k of efficiency and cuts for the 2015/2016 budget. This position was based on the following assumptions:
- Further Cuts to Government Revenue Support Grant (RSG) of 29.8% 2015/2016
 - No significant Changes to the Business Rate Retention base
 - Using £432k of New Homes Bonus to support revenue
 - A Council Tax increase of 1.99% in 2015/2016
 - Pay Inflation of 1%
 - Price inflation of 3%
- 6.3 There are a number of key influences on the finances of the Council for 2015/2016 which then impact on the budgetary position. These include:
- Government grant
 - The Business Rate Retention Scheme
 - Council Tax increase
 - Income from Fees and Charges
 - Issues arising from the current year
 - Pay and price inflation
 - Revenue effects of the Capital Programme
 - Efficiencies
 - Use of New Homes Bonus and Cuts to Services/Additional income
- Government Grant**
- 6.4 The Council has been provided with an indicative RSG for 2015/2016 but has not received any indication for 2016/17. More certain figures for 2015/2016 are unlikely to be available until December 2014.
- 6.5 The indicative RSG figure for 2015/16 represents a 29.8% reduction, the MTFP provides for a reduction of the same magnitude in 2016/17.

The Business Rate Retention Scheme

6.6 The basic operation of the Government Support for RDC in 2014/15 is as follows:

- The Council continues to collect Business Rates.
- 50% is paid over to the Government.
- Of the remaining 50%, 9% is paid to the County Council and 1% to the Fire and Rescue Service.
- The Council will be provided with a set amount of the remainder it must pay (the Tariff) over to the Government (whatever the business rate income is). RDC keeps the rest.
- Growth in business rates above the average could lead to an increase in RDC resources.
- There is a safety net of 7.5% below the target. In the event a Council is below the safety net additional government grant will be paid to keep the Authority at least at the safety net.
- In 2013/14 the Council incurred a deficit of £0.9m from the business Rates Retention Scheme. Under regulations this deficit impacts on the revenue account in 2014/15, however the council has made provision within reserves in 2013/14 to accommodate this shortfall.
- The Council joined the North Yorkshire Business Rates Pool in 2014/2015, which incorporates 5 Districts and the County Council. 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.

6.7 For the 2014/2015 budget the following table sets out the relevant figures.

	Government Target £m	2014/15 Budget £m
Business Rates Income Ryedale	16.223	17.650
RDC Share (40%)	6.489	7.060
Tariff payable to Government	5.035	5.035
Sub total	1.454	2.025
Funding Target	1.454	1.454
Levy payment (50%)		0.286
Business Rate Income retained by RDC	1.454	1.739

6.8 For the 2015/16 budget there are a number of factors which will change the income from the Business Rates Retention Scheme:

- Changes to the Business Rate base
- Collection Rates for Business Rates
- The inflation factors to be applied to the Business Rate Multiplier and tariff
- The final position of the Business Rates Pool in 2014/15 and it's continuation into 2015/16.

Council Tax Increases

6.9 The Council's MTFP is predicated on a 2% increase in Council Tax for 2015/2016. The 2014/2015 charge was £176.72 per band D property. The Council has had 5 years of no increase in Council Tax.

6.10 The Government confirmed the referendum limit for increases in Council Tax in 2014/15 at 2%. The referendum principles were published on 5 February 2014,

substantially later than in previous years, this gave rise to complaints from local authorities regarding the impact on their budgeting process. Rumours were reported that the Secretary of State was seeking agreement for reducing the 2% figure to 1.5%. Councils wanting to increase above this level must undertake a referendum of residents. As the cost of this would be c£70k, the Council would need to be considering a 4%+ increase in Council tax to make it worthwhile. Referendum principles for 2015/16 have yet to be confirmed.

- 6.11 A rise of 2% would equate to £3.53 per year (under 7p per week) or less for the majority of Ryedale residents. Members should note that the full Band D charge is currently £1,527.19 taking into the account the charges from the County Council, Fire and Police services. RDC therefore makes up less than 12% of the final bill. A 1% increase in the Council's charge raises approximately £34k.
- 6.12 The Council accepted the Government's Council Tax freeze offer in 2014/15, as a result the Council received a grant equivalent to 1% of Council Tax in 2014/15 and will receive the same in 2015/16. The Government has also announced that those Authorities freezing their Council Tax in 2015/16 will receive a grant equivalent to 1% of Council Tax in 2015/16 only.
- 6.13 Whilst Council has accepted the various Council tax freeze offers from the Government so far, with the overall financial projections for the Council over the next 5 years, accepting the grant is a short term benefit but not a long term benefit, which may lead to greater service cuts. The Council took the Freeze grant in 2014-15. The following table sets out the overall effect on Ryedale finances from accepting or rejecting the offer next year (assumes no Council Tax Base Growth and 1.99% increase in all years where freeze not accepted):

	Reject Offer (£000)	Accept 15/16 Offer (£000)
2015/16	3,620	3,549
2016/17	3,692	3,620
2017/18	3,765	3,692
2018/19	3,840	3,765
2019/20	3,916	3,840
Freeze Grant		34
Total RDC Income	18,833	18,500
Difference		333
Ongoing		76

- 6.14 Therefore to Summarise:
- Over the next five years if the Council accepts the 2015/16 Freeze grant offer only it will have £333k less Council Tax income. This money will need to come from existing service delivery in cuts/additional income. Plus every year thereafter the Council is £76k worse off than rejecting the offer.
- 6.15 Against this projection and the profile of the Council's finances up to 2020 (Annex A), which is prepared on the basis of a 2% increase in Council Tax, use of New Homes Bonus to support revenue and service cuts of £543k being required over the next two years. The officer recommendation is that the Council does not accept the Council Tax Freeze grant offer.

- 6.16 There are other issues which will impact on the Council Tax income next year:
- Growth in the Council Tax Base through new properties. An estimate for growth has been included in Annex A based on previous history
 - The Local Council Tax Support Scheme (LCST). The Council Tax base is suppressed by the cost of LCST. Further work is ongoing in this area, the cost of which is affected by the decision of the four precepting Authorities on next years council tax rises.

Income

- 6.17 It is important that the Policy and Resources Committee recommend to Council an outline target for increases in income. Clearly where officers believe that increases in line with the strategy will be counterproductive to overall income, or where there is potential scope for increasing above the target these would be considered by the Policy and Resources Committee. The recommended target increase is 3.5 - 4.5% on a cost centre heading basis excluding VAT.

Current Year issues (2014/15)

- 6.18 Benefit Administration grant reduced in 2014/15 and is likely to reduce again in 2015/16.
- 6.19 2014/15 is the final year for the receipt of Local Council Tax Support grant amounting to £59k.
- 6.20 A new provider has been selected to operate the Leisure Contract from October 2014. Although significant savings are anticipated over the 10 year term of the contract, the profile of these savings is an issue for the budget in the short term.
- 6.21 The council has lost 2 significant contracts for the provision of its Ryecare service, officers are working to mitigate the financial impact of this reduction.

Pay and Price inflation

- 6.22 The 2014/2015 budget included provision for a 1% pay rise for all employees, an increase has yet to be agreed.

Revenue effects of the Capital Programme

- 6.23 The MTFP incorporate predictions around the revenue impact of Capital Decisions, in particular the borrowing to finance the Brambling Fields junction upgrade.

Efficiencies

- 6.24 The Council has successfully reviewed all services in the preceding four years. This has seen many services reorganised and restructured as well as jobs and roles changing through investment in IT. This process over the 4 years highlighted £2.6m of savings, the majority being efficiency savings.
- 6.25 The scope for further significant efficiencies in services is limited. The forecast at Annex A assumes £100k of efficiencies in the current year and officers are working to achieve this through budget reviews and changes to services. Officers will seek to maximise efficiencies, however given the level of efficiencies identified over the past four years, significant savings will not be achieved without reducing services or the standard to which they are delivered.

New Homes Bonus and Cuts to Services/Additional Income

- 6.26 The issues highlighted in this report show that there will be a budget shortfall which cannot be met by efficiencies. This shortfall can be met by using one or a combination of the following:
- Using New Homes Bonus (NHB) to support revenue
 - Use of Reserves
 - Cuts to services/Additional Income
- 6.27 The Council has performed well in earning NHB to date. The projection is that the Council will receive around £1.4m in NHB in 2015/16, although it was announced in the autumn statement that NHB may be withheld where local authorities have objected to development and planning approvals are granted on appeal. Of the £2.525m earned in total in the previous 4 years, only £0.171m has been used to support the revenue budget, a position not shared by many Local Authorities, however drawdown of NHB in line with the Medium Term Financial Plan will be required in order to ensure no further cuts in 2015/16.
- 6.28 The Council's 2014/2015 budget did not plan to draw on the Council's General Reserve. The Council's reserves are adequate however the use of reserves to bridge revenue budgets only provides a short term solution to financing difficulties.
- 6.29 At the meeting of Full Council on 31st October 2013, Members agreed to halve Parish Grant in 2014/15 and to cease payment in 2015/2016 and beyond. At the same meeting Members also agreed to the introduction of charging for green waste and agreed to a fee of £36 for 2015/16. Forecast savings highlighted in the MTFP for 2015/16 of £193k from these incentives are likely to be achieved. The charge for garden waste was based on a participation level of 35%, current participation in 2014/15 is in excess of this forecast. Officers are currently assessing the operational and financial implications as a result of this increase in subscription. A separate report will be brought to the Resources Working Party on this matter. Members should note that further service cuts are likely to be required in future years.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
The financial impacts are detailed within the report.
 - b) Legal
There are no new legal issues around the budget strategy.
 - c) Other
All savings proposals will be evaluated to identify direct other implications where possible.

8.0 NEXT STEPS

- 8.1 The following table sets out the timetable for the budget process:

Resources Working Party unplanned or exceptional budget matters arising	20 th November
Member briefing on budget	14 January 2015
Policy and Resources Committee consider 2015/2016 Budget	5 February 2015
Full Council formally set budget and Council Tax	24 February 2015

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Background Papers:
None.

RISK MATRIX

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Efficiency savings unable to meet the shortfall therefore service cuts will be required.	Cuts to front line services, reputational damage to Council, possible poor external inspection.	5	D	Co-ordinated approach to savings identification, looking at budget as a whole. IT investment to change working patterns and make efficiencies. Ongoing service reviews and budget review of revenue budgets. Any cuts will be fully worked up and considered by members at an early stage	5	C

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster