



PART B:	RECOMMENDATIONS TO COUNCIL
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	4 FEBRUARY 2016
REPORT OF THE:	FINANCE MANAGER (s151) PETER JOHNSON
TITLE OF REPORT:	FINANCIAL STRATEGY 2016/2017
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report sets out the budget for 2016/17, 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 2016/2017.
- 1.2 Members should note that this report is prepared on the basis of the provisional Local Government Finance Settlement. 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 £584k (Financial Strategy Appendix A)
 - b. Growth Pressures totalling £410k (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 2016/2017 (Financial Strategy Appendix E)
 - (ii) a Revenue Budget for 2016/2017 of £6,308,083 which represents a nil increase in the Ryedale District Council Tax, retaining the total charge at £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 £35,100;
 - (iv) to note the financial projection for 2016/17 – 2020/21 (Annex B).

3.0 REASON FOR RECOMMENDATIONS

- 3.1 To agree a balanced revenue budget for submission to Council for the financial year 2016/2017 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. A questionnaire was made available for residents to complete online via the Council website, and was also sent out to the members of the Citizens Panel. A summary of the result of the consultation is available for Members.
- 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 2015/2016 budget has taken place through the Resources Working Party and this Committee who receive Revenue Budget Monitoring reports. There are currently no material issues arising from the current year's revenue budget.

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 final settlement will not vary significantly from the draft announcement including NHB.
 - The figures in this report are based on the draft NNDR1, the deadline for the NNDR1 is the 31 January.
 - Capital receipts assumed in the capital programme from the sale of property and land will be received.

Budget and Council Tax for 2016/2017

- 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 1.0%
 - Fees and Charges up to 4.5%, with exceptions considered by the Policy and Resources Committee (all Fees and Charges were set within the parameters).
- 6.5 Council resolved on the 8 October 2015 that the budget be prepared on the assumption of a nil increase in Council Tax.
- 6.6 The referenda limit for 2016/17 was proposed at 2% as part of the Local Government Finance Settlement announced on 17th December. 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 The Government also confirmed that Council Tax Freeze Grant would not be available for 2016/17. This news was accompanied by an assumption that Local Authorities would apply an inflationary increase to Council Tax throughout the life of the current Parliament.
- 6.8 The budget as presented with this report assumes no increase in the RDC part of the Council Tax. Should members wish to revert to an increase, the adjustment to the figures is relatively straightforward, with the increase being seen through a £74k decrease in the New Homes Bonus required to support the revenue budget.

Grant Settlement and specific grants

- 6.9 The Provisional Local Government Finance Settlement was announced on the 17 December 2015, at the time of writing this report the final announcement had not been received.
- 6.10 The Council has received figures for Revenue Support Grant (RSG) and Rural Service Delivery Grant for 2016/17 as part of the provisional settlement. The draft announcement on the 17 December was slightly better than expected in relation to these funding streams, mainly through an increase of £32k in rural service delivery grant. This brings the total rural service delivery funding to £141k. The new funding is welcomed, although is still far from compensating for lost grant for rural areas through the formula damping system.
- 6.11 There were a number of announcements and changes to business rates announced in the autumn statement. Councils will not lose financially from the announcements and section 31 grant will be available to compensate.
- 6.12 In addition to the above there are the following significant specific grant movements for RDC:

Grant	£k
Reduction in Benefits Administration Subsidy Grants (part estimate)	(48)
Loss of Individual Electoral Registration Grant	(11)
Loss of Council Tax Freeze Grant	(39)
Loss of New Burdens Funding LCTS (estimate)	(10)

Retained Business Rates

- 6.13 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 (£5.174m in 16/17). 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.

The Government has announced that Local Authorities will keep 100% of Business Rate Income before the end of the current Parliament, in return additional responsibilities are to be devolved to Local Government. Consultation on a new scheme will take place in the summer of 2016.

- 6.14 Members are also aware that the Council has formed a business rates pool with North Yorkshire County Council (NYCC), Richmondshire District Council, Scarborough Borough Council, Hambleton District Council and Craven District 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, the level of benefit is dependent on the performance of each member of the pool (excluding NYCC), having particular regard to the level of business rate appeals.

Council Tax Income

- 6.15 Council Tax income, including the projected surplus on the collection fund is estimated at £3.770m. A 1.99% increase in Council Tax equates to £74k in 2016/17 and is worth £380k to the Council over the next 5 years. The Council Tax Base has increased by 1.93% for 2016/17 and provides additional income to assist the Council's financial position.

Base Budget Adjustments

- 6.16 These are as follows:

Issue	£k
Pay and Price Inflation	126

Growth Items

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

Savings/Additional Income

- 6.18 At council in October 2013 members approved savings which helped to deliver a balanced budget in both 2014/15 and 2015/16. The Council has undertaken a Voluntary Redundancy process which, when combined with the removal of a number of vacant posts from the establishment, will deliver £435k of efficiency savings.

- 6.19 The annual root and branch review has delivered further efficiencies of £149k (the position is detailed in appendix A to the Financial Strategy at Annex A).

New Homes Bonus

- 6.20 Provisional figures for 2016/17 show an increase in New Homes Bonus (NHB) from £1.387m to £1.676m. To date the Council has used £559k to support the revenue budget and £288k to fund the shortfall on the capital programme, the plans approved last year identified the gradual increase in use of this revenue funding to protect services. The Provisional Finance Settlement provided Illustrative figures for NHB as part of the 4 year settlement, in addition the Government is currently consulting on proposed changes to the NHB scheme. It appears likely that, as a minimum, a new

scheme will reduce the period over which payment is made for additions to the Council Tax base from 6 to 4 years. Current indications are that this change will start to have a negative impact on the finances of the Council from 2018/19.

6.21 The budget as proposed includes an additional £289k in NHB receipts and uses an additional £325k of the 2016/17 NHB to support the revenue budget and £188k to fund the shortfall on the capital programme. There is therefore £604k of NHB unallocated in the budget and this will be transferred into reserves. **Officers recommend that this balance be ring fenced subject to a further report to this Committee focusing on transformational support.**

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

Summary Revenue Budget Position

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

Issue	£k
Base Budget Brought forward	6,823
Add:	
Base Budget Adjustments	126
Growth items	409
Total 'Cost'	7,358
Less:	
Retained Business Rates	1,775
Council Tax Income	3,770
Revenue Support Grant	763
Rural Service Delivery Grant	141
Efficiencies/Savings/Additional Income	584
Movement in New Homes Bonus	325
Balance	0

6.24 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 2016/17 budget. Therefore any Member proposals for ongoing additional expenditure will necessitate cuts to existing services.

Medium Term Revenue Forecast (MTRF) projections to 2020/21

6.25 Members will note the financial projections to 2020/21 (Annex B). As part of the 2016/17 provisional finance settlement the Government have provided 4 year indicative figures, these figures highlight a significant reduction in NHB from 2018-19. A key element of the previous MTRF was the drip feed of NHB into the budget to enable the Council to reduce the savings requirement in each year. This is no longer an option and the reduction in New Homes Bonus will need to be met from additional savings from the revenue and capital budgets through the life of this MTRF. The forecast identifies £1.4m of savings being required in the four year period 2017/18 to 2020/21.

6.26 Annually when updating the capital programme a further year is added, which equates to around £500k of additional expenditure. The current programme includes ongoing funding from NHB of £288k to bridge the shortfall in delivering a basic capital scheme. In light of the proposed reduction in NHB funding and in order to reduce, to some extent, the impact on the revenue account it is proposed that the

contribution from NHB is reduced by £100k from 2016/17 onwards to be matched by a like reduction in the cost of the capital programme. Because the current capital programme is fully funded up to 2018/19 this will only affect schemes from 2019/20 onwards. Without this action a further £100k in savings will be required from the revenue budget.

Capital Programme

- 6.27 The Financial Strategy provides a detailed breakdown of the Council's Capital Programme (appendix D) up to 2019/20 totalling £5.540m. External funding of £1.362m is included, leaving a balance of £4.178m to be financed by the Council's funds and reserves as follows:

Funding Source	£
Capital Fund	2,555k
Capital Receipts	563k
Borrowing	1,060k
	4,178k

- 6.28 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 the use of borrowing in 2015/16 and 2016/17.
- 6.29 Members should note that there are £238k unallocated capital resources available for investment in new schemes based on existing assumptions of capital receipts and investment interest receipts. 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.
- 6.30 The 4 year capital programme is based upon the full capital receipt from the sale of a number of pieces of land and property. This is assumed within the capital programme at a value of £413k.
- 6.31 The capital programme as proposed also includes the predicted final payment towards the Brambling Fields junction improvements, which takes into account additional costs relating to irrecoverable VAT from the Highways Agency and a final split of costs with NYCC. The final split of costs is still subject negotiation. The maximum final cost is now estimated to be slightly in excess of the maximum scheme contribution agreed by Council, if this situation remains then a further report will be brought before members to approve this increase before payment is made. 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 2016/17

- 6.32 The Pay Policy for RDC for 2016/17, as required under the Localism Act is attached at appendix E to the Financial Strategy (Annex A).

Special Expenses

- 6.33 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:-

<u>Town/Parish</u>	<u>£</u>
Malton	4,860
Norton	9,770
Pickering Rural	20,470
TOTAL SPECIAL EXPENSES	35,100

National Non-Domestic Rates (NNDR)

- 6.34 For 2015/16 the NNDR multipliers are: a small business non-domestic rate multiplier of 48.0 p and a non-domestic rate multiplier of 49.3p. For 2016/17 the draft multipliers are 48.4 and 49.7p respectively.

Prudential Code

- 6.35 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.

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

Funds & Reserves

- 6.37 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 2016/17 assumes no draw on the General Reserve to support the budget. With the outlook for 2016/17 and beyond being very tough, and the scale and risk of achieving cost reduction being high, the council's policy on surplus reserves is clear: to invest to save and, if required, to smooth the curve of cost reduction in the light of timescales needed to drive costs out.

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. 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 – Finance Manager (s151))

In setting the Revenue budget for 2016/2017 **I consider that the proposed budget is robust, and reflects a realistic and prudent view of all anticipated expenditure and income.**

The total saving proposals are £584k. 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 2016/17 budget that the 3 month moratorium £21k 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, Planning and Ryecare 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:

[Provisional local government finance settlement: England, 2016 to 2017 and future years - GOV.UK](#)

[New Homes Bonus: sharpening the incentive: technical consultation - Consultations - GOV.UK](#)

[Ryedale District Council - budget consultation](#)

Background Papers are available for inspection at:
N/A