**ANNEX A**

RYEDALE DISTRICT COUNCIL

# FINANCIAL STRATEGY

## 2016-2020

# FINANCIAL STRATEGY

## CONTENTS

**Main Report**

# 1. INTRODUCTION – THE PURPOSE AND SCOPE OF THE FINANCIAL STRATEGY

The Financial Strategy sets out the overall shape of the Council's budget by establishing how available resources will be allocated between services, reflecting Council and community priorities, and therefore providing a framework for the preparation of annual budgets.

The Strategy is linked with and supports service priorities and the Council's other strategies and plans, including but not limited to:

- The Community Plan – Imagine Ryedale
- The Council's Corporate Plan
- The Asset Management Plan
- The IT Strategy
- The Procurement Strategy
- The Treasury Management Strategy
- The Risk Management Strategy
- The HR Strategy

The focus of the Financial Strategy is on medium and long term planning, and decision making for the future. Whilst the Strategy includes specific proposals for a particular financial year, there should not be an over concentration on just one years budget. This Strategy seeks to avoid year on year budget setting, and use of short term/one off measures to balance the budget. It is a Strategy for the future, to ensure effective resource planning and the delivery of Corporate Objectives.

In particular it:

- sets out the Council's medium term financial aims and the measures to be taken to ensure they will be achieved;
- sets out the Council's approach to delivering improved services and value for money over the next few years;
- describes the Council's arrangements for developing the financial strategy, including:
  - The identification and prioritisation of spending needs;
  - The key financial influences on the medium term financial planning and the assumptions made in developing the plan;
  - The challenges and risks associated with the plan and how the Council will deal with them.
- sets out the Council's policy on reserves and balances.
- identifies the resource issues and principles, which will shape the Council's Financial Strategy and annual budgets.

The Financial Strategy covers all revenue and capital spending plans of the Authority.

## 2. OBJECTIVES OF THE FINANCIAL STRATEGY

The Financial Strategy seeks to achieve the following **Objectives**: -

1. Budgets are Prudent and Sustainable in the Long Term,

2. Financial plans recognise corporate Priorities and Objectives,

3. Significant risks are identified, and mitigation factors identified,

4. The Capital Programme is planned over a 4 year period. Borrowing will only take place where there is a clear financial business case to borrow and it meets the requirements of the Prudential Code,

5. Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account,

6. Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the Financial Plans, recognising that these increases may be subject to change,

7. Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council,

8. Value for Money and achievement of improved efficiency and service delivery underpin the Financial Strategy,

9. The Financial Strategy supports the achievement of Excellence in Financial Management and use of resources.

## 3. THE CURRENT FINANCIAL POSITION

The Council's net budget for 2015/16 totals £6.823m and is allocated to services as shown:

| Service | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 |
|---|---|---|---|
| Central Services | 4,660 | 3,932 | 728 |
| Cultural & Related Services | 1,345 | 47 | 1,298 |
| Environmental & Regulatory Services | 4,492 | 2,134 | 2,358 |
| Highways & Transport Services | 357 | 860 | (503) |
| Housing Services | 13,814 | 12,659 | 1,155 |
| Planning Services | 1,952 | 728 | 1,224 |
| | 26,620 | 20,360 | 6,260 |
| | | | |
| Other Financial Adjustments | | | 563 |
| **Net Revenue Budget** | | | **6,823** |
| Financed By: | | | |
| Government Grant and Retained Business Rates | | | 3,090 |
| Collection Fund Surplus – Council Tax | | | 104 |
| Ryedale District Council Precept | | | 3,629 |
| **Total** | | | **6,823** |

Overall Ryedale continues to have a strong financial discipline, which is exemplified by the size and diversity of its balances and its year-on-year budgetary performance. However, revenue spending demands are increasing in several areas.

These spending demands have a fundamental impact on the way in which the Council operates. It has to continually deliver real efficiencies to balance year-on-year financial resources with the high quality services which residents and visitors expect.

Appendix A details the budget pressures and savings/additional income proposals for the 2016/2017 budget.

The financial strategy is to some extent shaped by factors outside the Council's immediate control. However, there are many facets to an effective financial strategy, and the Council must ensure it proactively manages its resources with a view to ensuring robust financial planning that delivers Council priorities.

**External Factors:**

***Revenue Support Grant and Retained Business Rates*** – In December 2015 the council received the provisional finance settlement for 2016/17, as well as indicative figures for a further 3 years through to the end of the current Parliament. There still remains significant uncertainty particularly around New

Homes Bonus, where future years figures are classed as illustrative and are subject to consultation.
The Revenue Support Grant will see substantial reductions in future years reducing to zero followed by ongoing reductions to the Business Rates Tariff. Under the Business Rate Retention Scheme RDC keeps a proportion of business rates collected, but must pay a fixed tariff from its share. The retained share is 40% and any income above target performance will increase the retained share for Ryedale (after paying a levy of 50% of any growth). The down side risk is that any reductions in collected business rates lead to a 40% reduction in RDC income. Careful monitoring of business rates collection and appeals will be required. The financial impact of any significant appeal costs will need to be managed through reserves.
In order to reduce levies payable the Council has formed a business rates pool with North Yorkshire County Council (NYCC), Hambleton District Council, Craven District Council, Richmondshire District Council and Scarborough Borough Council. This should generate additional retained business rates, however this will dependent not only on Ryedale's business rate income but that of the other partners (excluding NYCC).

***Public Spending Plans and National Priorities -*** It is clear from the Spending Review and the subsequent Provisional Local Government finance settlement that the Authority will see several years of reducing Government financial support. Public services are however under increased pressure from their customers for improved service provision. In addition new legislation proposals may create burdens as well as opportunities for the Council. This financial strategy seeks to ensure national priorities are considered alongside local priorities.

***Efficiencies***
The requirement to formally record and report efficiencies has now been removed however the achievement of efficiencies will be essential to balancing the Council's budget with minimal impact to front line services with the likely levels of government Grant support.

These efficiencies have to be achieved through a greater focus on Value for Money (VFM) and through a culture of innovation. Responsibility for identifying opportunities for efficiency gains are left to individual Councils and it will be up to them to put in place the processes that they need to plan VFM projects, track delivery, measure achievement, and assure service quality. The Council's Corporate Efficiency Programme, which started with the One-11 programme for 2011/2012, Going for Gold for 2012/2013 and Round 3 for 2013/2014, has been an essential tool in delivering savings to meet the target and to finance other services within the Authority. Having completed the review of the whole organisation, the scope for significant savings without more radical approaches to service delivery are not there. Careful evaluation of more radical approaches and proper consideration of risk will be vital to deliver sustainable savings. Following the announcement of the 4 year provisional finance settlement and the consequential savings requirement that this places on the councils budget, the council is now implementing a more radical approach to transformation through the Towards 2020 programme.

Following the previous efficiency programmes which involved a review of services, the level of savings required necessitates the council to invest resources in achieving the transformation.

***Additional Cost Pressures***
There has been a trend in local government in recent years for additional cost pressures (for example pay increases, impact of meeting national targets, new duties/legislation) to significantly outweigh increases in Government funding. In addition to this some of the pressures carry significant growth year on year, which is not reflected in Revenue Grant Settlements.

Looking ahead, it is likely that further pressures will be placed upon local authorities resulting in the requirement for authorities to achieve efficiencies/savings. These anticipated pressures are reflected within this financial strategy.

***New Homes Bonus***
This funding started in 2011/2012 and provided Authorities funding based on the number of new properties brought into use with an added element for affordable housing. The calculation provides that 80% of the funding is paid direct to District Councils with the County Council receiving the remaining 20%. This funding under the local government finance scheme is now provided through a top slice of aggregate external funding.
The Government is consulting on changes to the current NHB scheme, the outcome is likely to result in a reduction in the amount of NHB, the final result of the consultation will dictate the level of reduction. 2014/15 was the first year that NHB funding was used to support the revenue budget with the proposal to drip feed the money into the budget over a number of years to protect existing services. The following table sets out the received and predicted income from New Homes Bonus, the budgeted/ forecast allocation of NHB and the remaining balance available for RDC:

| Year | NHB £000 | Revenue Support £000 | Capital Support £000 | Balance £000 |
|---|---|---|---|---|
| 2014/2015 (received) | 1,127 | 175 | 0 | 952 |
| 2015/2016 (received) | 1,387 | 559 | 288 | 540 |
| 2016/2017 (due) | 1,676 | 884 | 188 | 604 |
| 2017/18 (illustrative) | 1,685 | 871 | 188 | 626 |
| 2018/19 (illustrative) | 1,059 | 871 | 188 | 0 |
| 2019/20 (illustrative) | 1,016 | 828 | 188 | 0 |

The table highlights the indicative reduction in NHB over the life of the current Parliament. It's forecast that by 2018/19 the whole of NHB will be required to support revenue and capital. There is a risk that the illustrative figures for 2017/18 onwards could reduce further following the outcome of the Governments consultation.

***External Funding***
The Audit Commission sees the achievement of external funding as a key part in the demonstration of Value for Money. It is likely that the Local Economic

Partnerships (LEP) has a role in the distribution of external funding and RDC will need to ensure that it continues to have a voice and link to the LEPs.

The Council must carefully appraise the role that external grant resources can play in meeting its objectives. Decisions about bidding for external grants must be taken in the context of the priorities in the Corporate Plan.

***Pensions***
The Council's contribution rate for the North Yorkshire Pension Fund (NYPF) is set based upon the returns to the fund and the recovery period for the fund. These are affected by economic fluctuations and with the current economic turbulence increases in contribution rates may ensue. The contribution rates are established in consultation with the Council based on a triennial review by the actuary. Changes to the scheme benefits have been made which should reduce overall costs. A review took place in 2013/14 and reflecting good performance of the fund particularly in 2013/14 the contribution rates have increased, however by less than expected and based on the interim valuations. The next review will be in 2016/2017 and some estimation of the impact is included in the Financial Strategy.

***Significant Partnerships***
The following have been identified as the Council's significant partnerships:

- The Local Enterprise Partnership
- North Yorkshire Building Control Partnership
- White Rose Home Improvement Agency

Further partnerships and shared service may be sought to secure efficiency savings and/or service resilience in future years. Proper governance and security of Council finances will be an important consideration of any such proposals.

The above is meant to be indicative only as there are many other areas of increased customer expectation, Government priorities or Members' wishes for improved services. As stated these future revenue pressures are increasing amidst a heightened need for moderate Council Tax increases. In these circumstances the Council will have to consider further pro-active approaches to reallocation of resources with the attendant consequences for some existing local services as funding is switched to meeting new initiatives.

## 4. THE FINANCIAL STRATEGY OBJECTIVES

The following are the objectives of the Council's financial strategy:

**Objective 1 - Budgets are Prudent and Sustainable in the Long Term**

This seeks to ensure that budgets recognise real cost pressures.

This will be achieved by ensuring:-

- Adequate provision is made for inflation pressures, pay awards, and new legislation
- The revenue budget is not supported by significant one off savings, or any significant use of reserves
- Effective budget monitoring to ensure early identification of issues and action planning

**Objective 2 – Financial Plans Recognise Corporate Priorities and Objectives**

This seeks to ensure that financial plans link in with corporate planning and priorities, and that there is provision within the Financial Strategy for growth/development funding on an ongoing basis.

This will be achieved by ensuring:-
- additional investment, and savings proposals make explicit reference to corporate priorities
- Local and national targets are considered
- Long term vision and objectives are considered within the report
- Provision within financial planning figures for growth and contingency amounts based upon perceived risk

**Objective 3 - Significant risks are identified, and mitigation factors identified**

Risk Management is crucial in long term planning, and it is essential that the Financial Strategy clearly identifies the associated risks, and that this is supported by an embedded risk management culture within the organisation.

This will be achieved by:-
- Risk Management being embedded in corporate and service planning
- Financial risks being specifically considered on an ongoing basis, and specifically reflected within the Financial Strategy

**Objective 4 - The Capital Programme is planned over a 4 year period, with no further borrowing planned.**

This seeks to ensure that the capital programme is prudent and sustainable, and does not lead to unaffordable revenue implications.

This will be achieved by ensuring: -
- the development of a 4 Year capital programme
- regular review of reserves and balances
- a Corporate approach to external funding opportunities
- that only includes fully evaluated schemes within the programme

**Objective 5 - Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account;**

It is important that the Financial Strategy is realistic and that there is a corporate awareness of the constraints on Council funding.

This will be achieved by ensuring:-
- specific reference within each financial strategy of constraints, and current issues
- regular reporting to members on local government finance issues
- awareness of the financial position within the organisation through effective communication

**Objective 6 - Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the Financial Plans, recognising that these increases may be subject to change.**

It is important in developing the financial plan that an assumed Council Tax increase is included, ensuring that financial plans do not place over-reliance upon excessive Council Tax increases.

This will be achieved by ensuring that financial plans take account of this level of Council Tax increase, Government expectations on Council Tax increases, and in particular that target efficiency gains reflect the likely levels of Council Tax. However, it has to be recognised that additional burdens and demands can be placed upon local authorities, and that it may not always be feasible to achieve an increase in Council Tax in line with the inflation rate.

**Objective 7 - Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council.**

It is important to strike a balance between maintaining adequate reserves and contingencies and delivering priorities and achievement of Value For Money.

This will be achieved by ensuring:-
- an annual review of reserves, linked to corporate priorities and treasury management implications
- that capital reserves are maintained at a level to fund the planned capital programme

**Objective 8 - Value for Money and achievement of improved efficiency and service delivery underpin the Financial Strategy**

Value For Money should be at the heart of everything the Council does, and the pursuit of improved efficiency and performance needs to be established as an ongoing underlying principle

This is being achieved through an ongoing review of costs and service standards, challenge, and benchmarking with others.

**Objective 9 - The Financial Strategy supports the achievement of Excellence in Financial Management and Use of Resources**

A Financial Plan in isolation will achieve little. It needs to be supported by:-
- Effective financial governance arrangements
- Financial Management that supports performance
- Effective Monitoring arrangements
- Effective Financial Reporting

This will be achieved by
- Implementation of the action plans following external inspection
- Developing the financial culture within the Council
- Financial reporting and documentation based upon stakeholder needs
- Maintaining the quality and performance of the Financial Systems
- Training and Development – finance/non finance
- Integration of financial and non financial performance measures

## 5. THE REVENUE PLAN 2016-2020

The medium term revenue plan is based on an analysis of the key influences on the Council's financial position and an assessment of the main financial risks facing the Council. The financial forecast is based on the following factors and assumptions:

***Local Government Finance Settlement***

The Council receives external support from Central Government through the distribution of resources within the Local Government Finance Settlement. The distribution is made in accordance to authorities' relative needs with a mechanism for protection against detrimental changes in grant allocations.

External funding has been announced for 2016/17 and the following three financial years, however the figures are subject to a number of uncertainties. Announcements indicate that further cuts to funding should be expected in the next parliament. The provisional settlement highlights that funding support will continue to be cut and the medium term predictions incorporate the estimates based on these details.

***Localised Business Rates***

As previously stated the Council retains a proportion of business rates out of which it must pay a fixed tariff (subject to RPI uplift). The revenue plan takes the estimated business rates income for 2016/17 based on the NNDR1 information and assumes no growth in business rates base over the plan period.

***Council Tax***

In accordance with Objective 6 of this Financial Strategy, the plan makes a clear assumption that future Council Tax increases will be restricted to below

Government upper limits. The Government has announced that the limit above which increases in Council Tax must be subject to referendum for 2016/17 is 2%. With a District wide referendum likely to cost in excess of £70k, the authority must look to manage increases below the threshold and future forecasts assume the referendum limit will be 2%.

A nil increase in Council Tax has been included within this strategy for 2016/17 in line with the decision of Council. Future years Council Tax rises are provisionally predicted at 1.99%.

***Inflation rates and pay increases***

The medium term plan makes provision for inflation and pay awards as follows:
*Inflation:* a composite rate of approximately 3% has been used for non-salary expenditure budgets
*Pay awards:* in line with the budget strategy an increase of 1.0% has been included for 2016/17, in addition a small further provision has been made in line with the current Employers offer to the Unions. Future years are based on a 1% increase.

***The ongoing effect of existing policies and priorities***

The ongoing effect of current policies is included in the plan. These additional costs include planned changes in the contribution rate to the Pension Fund, salary increments and revenue implications of capital projects.

***Spending Pressures Contingency***

The plan assumes provision to meet spending pressures as follows:-
2017/18 - £340,000
2018/19 - £150,000
2019/20 - £150,000

Provision is included for years 2017 onwards to recognise the likelihood of additional burdens/pressures upon the Council. 2017/18 includes provision for the next pension fund revaluation as well as additional replacement vehicles previously funded via grant.

***Efficiency savings***

The Council no longer has efficiency targets set by Government. Following review of all services over the years 2011/12, 2012/13 and 2013/14, further efficiencies will be sought, however significant sums are not expected without a radical change in the way services are delivered.

The Budget for 2016/17 includes estimated efficiency savings of £584k. These have been delivered through the Voluntary Redundancy and Budget Review Processes.

***Risks, contingencies and balances***

There are significant risks inherent in the Medium Term Plan for the reasons summarised above and exemplified in the section below. A number of key items in the plan cannot be estimated with accuracy and the figures in the plan assume that significant savings will be made. In this situation it is essential to maintain sufficient balances, not only to deal with unforeseen events but also to cover the potential risk of not achieving the savings required.

## 6. DEVELOPMENT OF THE FINANCIAL STRATEGY

As noted above, the development of the budget and medium term financial plan is driven by the Council's priorities.

The Council already has in place a comprehensive Financial Strategy, and this document represents an update to the existing Strategy. The objectives are to:

- help Members to determine priorities;
- forecast the changes in demand for services;
- identify the likely financial implications of changes in legislation;
- demonstrate the future cost of policies or proposals;
- match the demand for spending with the resources likely to be available; and
- provide a financial framework within which services and individual managers can plan their services.

**The budget process**

The Financial Strategy comprises a 5-year revenue plan and a 4-year capital plan.

The plans will be reviewed annually and rolled forward by a year. The process, from the start of the review of the financial plans through to the approval and allocation of budgets, spans the whole year.

One of the key features of the budget processes is the linkage between the corporate financial requirements and the operational needs and demands of the Council. This will be done through the Service Delivery Plans that identify funding requirements for the revenue and capital budget, performance outcome expectations and risk assessments.

**Consultation and Communication**

There is a need for this Strategy to be effectively communicated to staff and key stakeholders. In addition, it is important that in the development of the Strategy, allocations of resources, and the setting of Council Tax that there are effective consultation mechanisms in place.

Looking ahead the following broad actions are planned to ensure effective communication and consultation:-

- Budget Consultation.
- Regular communication with staff at all levels and with Unions

**Budget Monitoring arrangements**

It is essential that the financial plan is regularly monitored, with the progress being reported to Members. This will be done through the issuing of monthly revenue and capital monitoring reports to Corporate Management Team, and financial and performance monitoring reports to the Resources Working Party and the Policy and Resources Committee.

The monitoring process focuses on high risk budgets and involves:

- Regular dialogue between finance staff and service managers with timely and accurate budget monitoring information
- Quarterly service level performance review boards incorporating budgets and financial performance.

The process requires budget holders to explain the reasons for any significant variances and Heads of Service to identify ways in which such variances can be managed within their total resources available. This is one of the key principles underlying this strategy – that growth items are wherever possible accommodated from existing resources. To achieve this requires a culture of financial awareness within the authority and this is seen as a key priority.

## 7. THE CAPITAL PLANS 2016 - 2020

The capital strategy is the key vehicle for developing long term change to deliver the key priorities and corporate objectives.

### *a) Prioritisation methodology*

New schemes are reviewed against the Council priorities plus a detailed assessment of deliverability prior to consideration by Council. This methodology will be applied to all proposals, regardless of the source of funding, prior to any decision being made to apply for external capital support such as grant funding, so that the Council can ensure that they form part of an overall capital investment strategy.

### *b) Engagement with partners of the community*

The Council is committed to seeking out innovative partnership and funding opportunities in order to deliver the capital strategy and achieve best value.

The Council has worked closely with funding partners (recently with the HCA). Future projects will continue to be developed through partnership working more likely with the Local Enterprise Partnership (LEP). The Council also recognises the importance of increased community engagement and participation as fundamental to the quality of public services and the health of community life. The Council will therefore seek to develop major projects with the full involvement of local communities and ensure appropriate consultation prior to scheme approval.

### *c) Affordability of funding*

**Financing the Capital Programme for the Future**

Resources to fund capital spending are provided from central government grants, with other external grants and contributions sought. Council funding in the form of capital receipts, use of reserves, borrowing and from revenue sources make up the balance of resources. However, grants provided by central government and resources from other external agencies are often specific to an individual scheme and cannot be used for any other purpose by the Council. The Council has limited scope to generate significant capital receipts other than through the sale of major underutilised assets.

### *(d) Integration of Capital and Revenue Decision-Making*

***The Prudential Code***

Under the Prudential Regime, which has operated since April 2004, the Council has the responsibility to demonstrate that its capital investment programme is affordable, prudent and sustainable. The Prudential Code requires that this is done by calculating specific indicators for capital expenditure and financing and by setting borrowing limits. The indicators and borrowing limits for the current and next two years are set out at Appendix B.

***Revenue Implications***

The revenue implications of funding the capital programme are built into the medium term financial forecasts.

### *(e) Framework for Managing and Monitoring the Capital Programme*

The Finance Manager (s151) has overall responsibility for the preparation and monitoring of the Council's capital programme and for reporting the outcome to Members. The process involves:

- Reviewing the capital programme annually.
- Reviewing the current and estimated future availability of external earmarked funding and other opportunities for obtaining or bidding for additional capital resources.
- Prioritising and appraising any new proposals against agreed corporate criteria.
- Preparing the Council's capital programme and strategy.

- Monitoring progress in achieving the capital programme objectives.
- Ensuring that the outcomes of investment are reported to members.
- Ensuring there are effective arrangements for project planning and project evaluation.
- Issuing corporate guidance to ensure that there is a consistent approach across all service areas.
- Reviewing and monitoring the Council's capital resources and asset disposal programme.

Full details of the programme together with funding streams are attached at Appendix D. The programme is split into five sections:

- Asset Management
- Priority Aims
- Major Schemes
- Externally Funded Schemes
- Other

Schemes relating to Asset Management comprise all those that will result in the Council's assets being improved. These can include works to land and buildings or IT upgrades of either hardware or software.

Schemes under Priority Aims are those where the Council has taken a deliberate decision that these will help satisfy its corporate objectives/key priorities.

## 8. BALANCES AND RESERVES

The Local Government Act 2003 places a specific duty on the Chief Finance Officer, i.e. the Finance Manager (s151), to make a report to the authority when it is considering its budget and the level of the Council Tax. This report must deal with the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. The Council must have regard to this report in making their decisions.

The Council also has a fiduciary duty to local taxpayers and the Finance Manager (s151) must be satisfied that the decisions taken on the level of balances and reserves represent the proper stewardship of funds.

In assessing the adequacy of the contingencies, balances and reserves, the Finance Manager (s151) takes account of the key financial assumptions underpinning the budget, together with an assessment of the Council's financial management arrangements. This assessment will include a review of past performance and external influences on the financial plan, and full consideration of the risks and uncertainties associated with the plan, their likelihood and potential impact.

The Council's policy is to maintain its contingencies, balances and reserves at levels that are prudent but not excessive. With the outlook for 2016/17 and beyond being very tough, and the scale and risk of achieving cost reduction being high, any reserves identified as being surplus should be prioritised to invest to save schemes and, if required, to smooth the curve of cost reduction in the light of timescales needed to drive costs out.

Appendix C details the position on the Councils Reserves.

## 9. IMPACT/RISK ASSESSMENT

This section recognises the challenges and risks that have implications for the Council's financial position in the medium term. This assessment of risk is an essential element of the budget process; it is used to inform decisions about the appropriate levels of contingencies and reserves that may be required and to indicate priorities for financial monitoring.

Managing Risk is an important part of the Financial Strategy. In addition to the Corporate Risk Register each service maintains its own risk register. The Corporate Risk Register will be reported to the Overview and Scrutiny Committee during the forthcoming year.

The key risks identified for 2016/17 and in the medium term are listed below, together with comments on how they will be managed:

| Issue/Risk | Consequences if allowed to happen | Likelihood | Impact | Mitigation | Mitigated Likelihood | Mitigated Impact |
|---|---|---|---|---|---|---|
| Fluctuations in inflation, Government grants, business rate receipts and changes in Government legislation | Council unable to set a balanced budget without significant cuts to services and service quality, adverse external inspection, excessive call on Council reserves | Very Likely | Major | Keep under review through the financial strategy. Consider fully any changes in legislation.<br>Ensure adequate reserves are maintained to mitigate the risk.<br>Ensure authorities interests are represented through the LGA/other groups.<br>Memberships of business rate pool to retain increased business rates.<br>Prioritise work on receipt of NHB.<br>Ensure Longer Term plans for significant variations are in place. | Likely | Medium |
| Budgets are overspent | Unplanned use of reserves which may impact on future year Council Tax, adverse external inspection | Not Likely | Major | Robust budget setting, challenging budget provision. Regular monitoring with corrective actions. Develop a culture of financial awareness. Effective project planning and management. Ensure sufficient contingency sums. Review of any material overspends. | Not Likely | Minor |
| Savings are not achieved | If compensating savings not identified unplanned use of reserves, potential for cuts to services or service levels | Likely | Major | Regular budget monitoring to identify issues at an early stage. Detailed scrutiny and review of all savings proposals prior to approval. | Not Likely | Minor |

| | | | | | | |
|---|---|---|---|---|---|---|
| Changes in demand/usage levels affecting income from fees and charges | Unplanned use of reserves with potential to impact on future Council Tax levels or requiring cuts to services or service levels | Very Likely | Major | Ensure regular monitoring<br>Review trends<br>Take appropriate action<br>Ensure base income budgets are realistic. | Likely | Medium |
| Business Rate Pool does not generate savings through significant appeals success across the pool area. | NNDR deficit to be carried forward to future years, possibly leading to service reductions elsewhere being required/use of NHB. | Likely | Medium | Significant risk management work undertaken before pool formed reviewing pool membership and rates risk.<br>Prudent assumptions on business rates income taken into revenue forecasts. | Not Likely | Medium |
| Budget does not reflect corporate priorities | Council fails to achieve Corporate plan with consequent impact on Community Plan. Adverse external inspection. | Not Likely | Major | Ensure corporate involvement in the process. Early consideration of budget pressures and legislation changes. Regular reporting to members.<br>Up to date Service Delivery plans in place linked to corporate plan. | Not Likely | Minor |
| The capital programme is not affordable | Council may need to remove existing planned schemes from the programme or use reserves earmarked for other purposes.<br>Adverse external inspection. | Likely | Major | Schemes are monitored and reported on a regular basis. Financing profile based on realistic assumptions. Ensure only fully evaluated schemes are included within the programme with sufficient contingency sums. | Not Likely | Medium |
| Poor budget planning with decisions being made without proper | Council fails to meet community needs, adverse impact on Corporate and | Likely | Major | Develop a long-term financial strategy. Set out a clear budget timetable. Regular updates to | Not Likely | Minor |

| | | | | | | |
|---|---|---|---|---|---|---|
| consideration/consultation | Community Plan. Adverse external inspection | | | Members. Effective ongoing consultation processes. | | |
| Council Tax Support scheme –above expected demand or collection rates not achieved | Collection fund into deficit which may require savings/cuts in future years. Impact on other major preceptors | Likely | Major | Proper assessment of likely take up based on historic trends, comparison with other authorities, in year monitoring of spend and collection. Regular reporting to members and s(151). Annual approval of the scheme. | Not Likely | Major |
| Decision on Pension fund contribution rates create future significant cost pressure | Additional savings/cuts to services required in future years | Likely | Major | Market interest rates and investment returns are expected to improve.<br>Monitor interim valuations and make provision in financial forecasts. | Likely | Medium |

## 10. PAY POLICY 2016/17

The Localism Act 2011 requires that the authority produce a policy statement that covers a number of matters concerning the pay of the authority's staff, principally Chief Officers. The Pay Policy for 2016/17 is incorporated within this Financial Strategy at Appendix E.

## 11. CONCLUSION

This Financial Strategy sets out a range of proposals regarding the future management of resources and delivery of priorities.

The Strategy is underpinned by nine key Objectives, which are set out within section 2.

The process of developing the Financial Strategy is ongoing. Although there is a considerable amount of work to be done, and further improvements to be made, the Council has put in place the framework for ensuring a strong financial base that delivers priorities. This strong financial base has been previously commented upon within External Audit reports, with the Council receiving high scores for its financial management and reporting.

As far as possible, the plan anticipates future needs and recognises the financial uncertainties, risks and challenges faced by the Council. The Council has in place rigorous financial monitoring and aims to ensure it holds balances and reserves that are considered adequate without being excessive.

Consequently, Ryedale now has in place a sound Financial Strategy and a robust financial plan that is designed to support the delivery of the targets in the Corporate Plan and meet the Council's Objectives.

**APPENDIX A**

## 2016/17 Budget Pressures

| | | £'000 |
|---|---|---|
| **Additional Costs** | | |
| - Insurance Premiums | Increased costs | 17 |
| - Dry Recycling | Reduced Income from Dry Recycling contract | 65 |
| - Pension Contributions | Annual increase | 11 |
| - Contributions to outside organisations | LEP and Ecological data centre | 26 |
| - Court costs | Reduction in income | 21 |
| - Increase in Employers NI Contributions | Statutory increase | 109 |
| - Other Growth items | | 48 |
| **Specific Grants** | | |
| - 15/16 CT Freeze Grant | Base lined into 2016/17 Revenue Support Grant | 39 |
| - IER Grant | Fall out of grant | 11 |
| - LCTS New Burden Grant | Cut to grant | 10 |
| - 15/16 NHB adjustment grant | Fall out of grant in 2015/16 | 5 |
| - Benefits Admin Subsidy | Cut to grant | 48 |
| **Total** | | **410** |

## 2016/17 Efficiencies/Savings/Additional Income Proposals

| **Proposal** | **Savings £'000** | **Risk L/M/H** |
|---|---|---|
| - Budget Review Efficiencies | 67 | L |
| - Additional Income | 20 | L |
| - Reduction in Grant Expenditure | 22 | L |
| - District Election | 40 | L |
| - Net Salary Savings | 435 | L |
| **Total of Savings** | **584** | |

**APPENDIX B**

## Prudential Indicators

### Capital Expenditure

The actual capital expenditure that was incurred in 2014/15 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

| | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| Capital Programme | 1.331 | 2.206 | 1.295 | 0.749 | 0.695 |

### Ratio of Financing Costs to Net Revenue Stream

Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2014/15 are:

| | 2014/15 Actual | 2015/16 Estimate | 2016/17 Estimate | 2017/18 Estimate | 2018/19 Estimate |
|---|---|---|---|---|---|
| Non HRA | 1.47% | 3.05% | 3.85% | 3.04% | 2.51% |

### Capital Financing Requirement

Estimates of the Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2015 are:

| | 2014/15 Actual £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m |
|---|---|---|---|---|---|
| Total CFR | 1.526 | 2.336 | 2.747 | 2.523 | 2.292 |

The Capital Financing Requirement (CFR) measures the authority's underlying need to borrow for a capital purpose.

CIPFA's' Prudential Code for Capital Finance in Local Authorities' includes the following as a key indicator of prudence:

*“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.”*

The Finance Manager (s151) reports that the authority had no difficulty meeting this requirement in 2014/15, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

**Authorised Limit for External Debt**

In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long-term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Finance Manager (s151), within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its next meeting following the change.

| | 2015-16 £’000 | 2016-17 £’000 | 2017-18 £’000 | 2018-19 £’000 |
|---|---|---|---|---|
| Borrowing | 10,000 | 10,000 | 10,000 | 10,000 |
| Other Long Term Liabilities | 1,000 | 1,000 | 1,000 | 1,000 |
| Authorised Limit | 11,000 | 11,000 | 11,000 | 11,000 |

The Finance Manager (s151) reports that these authorised limits are consistent with the Authority’s current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Finance Manager (s151) confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

**Operational Boundary for external debt**

The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Finance Manager’s (s151) estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Finance Manager (s151). Within the operational boundary, figures for borrowing and other long-term liabilities are separately identified. The Council is also asked to delegate authority to the Finance Manager (s151); within the total operational boundary for any individual year; to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

| | 2015-16 £'000 | 2016-17 £'000 | 2017-18 £'000 | 2018-19 £'000 |
|---|---|---|---|---|
| Borrowing | 5,000 | 5,000 | 5,000 | 5,000 |
| Other Long Term Liabilities | 700 | 800 | 600 | 400 |
| Operational Boundary | 5,700 | 5,800 | 5,600 | 5,400 |

The Council's actual external debt at 31 March 2015 was £1.75m. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

In taking its decisions on this budget report, the Council is asked to note that the Authorised Limit determined for 2016/17 (see above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

**Estimate of Incremental Impact of Capital Investment**

The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

| | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|
| For the Band D Council Tax | £0.59 | £0.94 | £1.35 |

These forward estimates are not fixed and do not commit the Council.

Consideration of options for the capital programme

In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the forward plan.

A key measure of affordability is the incremental impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

**APPENDIX C**

## Key Reserves and Balances

| | General Reserve £'000 | Capital Fund £'000 | Capital Receipts £'000 | Capital Grants & Conts £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Balance as at 1 April 2015** | **547** | **1,413** | **187** | 0 | **2,147** |
| **Add** | | | | | |
| Estimated Income During Year: | | | | | |
| Contribution from General Fund | - | 680 | - | - | 680 |
| Interest on Investment of Balances | - | 65 | - | - | 65 |
| Capital Receipts | - | - | 443 | - | 443 |
| Capital Grants & Contributions | - | - | - | 245 | 245 |
| | 547 | 2,158 | 630 | 245 | 3,580 |
| **Deduct** | | | | | |
| Estimated Expenditure During Year: | | | | | |
| Transfer to General Fund | - | - | - | - | - |
| Capital Expenditure | - | -823 | -443 | -245 | -1511 |
| **Estimated Balance 31 March 2016** | **547** | **1,335** | **187** | **-** | **2,069** |
| **Add** | | | | | |
| Estimated Income During Year: | | | | | |
| Contribution from General Fund | - | 263 | - | - | 263 |
| Interest on Investment of Balances | - | 60 | - | - | 60 |
| Capital Receipts | - | - | 30 | - | 30 |
| Capital Grants & Contributions | - | - | - | 200 | 200 |
| | 547 | 1,658 | 217 | 200 | 2,622 |
| **Deduct** | | | | | |
| Estimated Expenditure During Year: | | | | | |
| Transfer to General Fund | - | - | - | - | - |
| Capital Expenditure | - | -745 | -30 | -200 | -975 |
| **Estimated Balance 31 March 2017** | **547** | **913** | **187** | **-** | **1,647** |
| **Add** | | | | | |
| Estimated Income During Year: | | | | | |
| Contribution from General Fund | - | 75 | - | - | 75 |
| Interest on Investment of Balances | - | 126 | - | - | 126 |
| Capital Receipts | - | - | 30 | - | 30 |
| Capital Grants & Contributions | - | - | - | 200 | 200 |
| | 547 | 1,114 | 217 | 200 | 2,078 |
| **Deduct** | | | | | |
| Estimated Expenditure During Year: | | | | | |
| Transfer to General Fund | - | - | - | - | - |
| Capital Expenditure | - | -519 | -30 | -200 | -749 |
| **Estimated Balance 31 March 2018** | **547** | **595** | **187** | **-** | **1,329** |
| **Add** | | | | | |
| Estimated Income During Year: | | | | | |
| Contribution from General Fund | - | 75 | - | - | 75 |
| Interest on Investment of Balances | - | 164 | - | - | 164 |
| Capital Receipts | - | - | 30 | - | 30 |
| Capital Grants & Contributions | - | - | - | 200 | 200 |
| | 547 | 834 | 217 | 200 | 1,798 |
| **Deduct** | | | | | |
| Estimated Expenditure During Year: | | | | | |
| Transfer to General Fund | - | - | - | - | - |
| Capital Expenditure | - | -465 | -30 | -200 | -695 |
| **Estimated Balance 31 March 2019** | **547** | **369** | **187** | **-** | **1,103** |