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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>16 JUNE 2016</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>BUDGET STRATEGY 2017/18 AND EFFICIENCY PLAN</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report forms the basis of preparation and planning for the 2017/18 Council budget and provides information on the Towards 2020 efficiency programme designed to deliver the Council's savings requirement over the next 3 years.

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended to approve the following strategy for the preparation of the 2017/18 budget:
- (i) Proposals to be brought forward for a £5 increase in Council tax;
  - (ii) Increases in fees and charges to be to a maximum of 4.5% on a cost centre heading basis excluding VAT and only those charges officers recommend above 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.
  - (v) Options for service cuts to be provided if necessary. These proposals to be considered by the Resources Working Party and brought to the Policy and Resources Committee and Council.
- 2.2 That Council is recommended to approve the Annual Efficiency Plan and that delegated authority be given to the Finance Manager in conjunction with the Chairman of Policy and Resources Committee to accept the 4 year funding offer should they deem that it is in the best interests of the council to accept the offer.

### **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, highlighted through the Towards 2020 Transformation Programme and Efficiency Plan. (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.

## **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) approved by members along with the Council's Financial Strategy in February 2016 set out the projected financial position (Appendix A). At that time the Council set a £5 increase in its part of the Council Tax bill for 2016/17.
- 6.2 Within the MTFP projection was the need to identify nearly £600k of savings for the 2017/18 budget and £1.1m through to 2019/20. This position was based on the following assumptions:
- The figures included in the Governments 4 year funding settlement remain unchanged.
  - No significant Changes to the Business Rate Retention income
  - Using a further £265k of New Homes Bonus to support revenue
  - A Council Tax increase of 1.99% in 2017/18
  - Pay Inflation of 1%
  - Price inflation of 3%
- 6.3 There are a number of key influences on the finances of the Council for 2017/18 which then impact on the budgetary position. These include:
- Acceptance of the 4 year funding settlement linked to an Annual Efficiency Plan
  - Business Rate Retention and changes to the valuation list on 1st April 2017
  - Council Tax increase
  - Income from Fees and Charges
  - Issues arising from the current year
  - Pay and price inflation
  - Revenue effects of the Capital Programme

- Use of New Homes Bonus and Cuts to Services/Additional income

#### Four Year Funding Offer, Annual Efficiency Plan & the Towards 2020 Programme.

- 6.4 Members will recall that the Government has offered Local Authorities a 4 year funding package as part of the final settlement for 2016/17. The table below highlights the Governments Core Spending Assessment for Ryedale. The offer is intended to give Local Authorities certainty going forward in order to be able to deliver the required level of efficiencies through to the end of the current Parliament.
- 6.5 The four year funding settlement offer to Councils only guarantees the funding sources highlighted in grey below, namely Revenue Support Grant, Transitional Relief and Rural Services Delivery Grant. By the end of the current Parliament the offer accounts for only 6% of this Councils core spending power calculation.

	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m
Revenue Support Grant	0.763	0.379	0.143	0
Business Rates - Baseline Funding Level	1.500	1.529	1.574	1.625
Tariff Adjustment				-0.120
Settlement Funding Assessment	2.263	1.908	1.717	1.505
Council Tax of which;	3.886	4.118	4.361	4.615
<i>Council Tax Requirement excluding parish precepts (including base growth and levels increasing by CPI)</i>	3.829	4.021	4.227	4.448
<i>additional revenue from £5 referendum principle for all Districts' Band D Council Tax level</i>	0.057	0.097	0.134	0.167
New Homes Bonus	1.676	1.685	1.059	1.016
Rural Services Delivery Grant	0.569	0.459	0.353	0.459
Transition Grant	0.025	0.025	0	0
<b>Core Spending Power</b>	<b>8.419</b>	<b>8.195</b>	<b>7.490</b>	<b>7.594</b>
Memo:				
Business Rates Tariff	-5.174	-5.276	-5.431	-5.605

- 6.6 DCLG is in the process of launching a review of needs and resources and completing the review of New Homes Bonus. In normal times, both these reviews would impact (directly or indirectly) on authorities' RSG allocations, it's unclear at the moment whether the guarantee applies immediately or only applies after the reviews have been completed. Though it should be noted that the deal is for minimum allocations not fixed allocations, implying that there may be some scope for those councils who accept the offer to gain.
- 6.7 The only condition attached to the four-year offer is to publish an efficiency plan, which can be combined with other documents such as this budget strategy. There is a general lack of guidance available concerning the production of an efficiency plan

particularly in relation to the mechanism to accept or reject the plans, but the department says:

- the plans show how the greater certainty can drive savings
- councils should consult locally on their proposals

- 6.8 There may be fundamental changes to the underlying needs formulae or further cuts in the total funding that result in non-participants receiving noticeably less funding through changes to top-ups and tariffs so there is a clear incentive to sign-up, not least because the only cost or risk to authorities arises from the need to consult widely and to produce an efficiency plan. Councils have until the 14th October 2016 to accept the Governments offer.
- 6.9 Taking into account the savings delivered through the previous programmes and through delivering a balanced budget in 2014/15, 2015/16 and 2016/17 officers are clear that finding a further £1.1m of savings is a significant challenge given the reduced base position.
- 6.10 Officers are now working with iESE, a social enterprise company operating in the Public Sector under Teckal arrangements, to deliver further savings through the Towards 2020 programme, which is the Councils efficiency programme. The Council is facing savings of such a magnitude that a whole organisation review is currently underway, further information is included within a separate report on this agenda which, in turn, is closely linked to the Efficiency Plan at Appendix B of this report.
- 6.11 A series of ongoing staff briefings have taken place to ensure that employees are aware of the financial projections.
- 6.12 The deadline for acceptance of the 4 year funding offer is 14th October 2016, it's not clear at this point whether any changes will be made to the current offer and therefore members are requested to approve the Efficiency Plan (Appendix B) and delegate authority to accept the 4 year funding offer to the Finance Manager in conjunction with the Chairman of Policy and Resources Committee if they deem that it is in the best interests of the council to accept the offer.

#### **The Business Rate Retention Scheme**

- 6.13 The basic operation of the Government Support for RDC in 2016/2017 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 a baseline target could lead to an increase in RDC resources.
  - In 2015/16 the Council incurred a small surplus from the business Rates Retention Scheme. Under regulations this surplus impacts on the revenue account in 2016/17, surpluses and deficits will be managed through reserves.
  - The Council continued as a member of the North Yorkshire Business Rates Pool in 2015/2016, 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. In 2015/16 the council saved £120k as a result of being in the Business Rates Pool.

6.14 For the 2016/17 budget the following table sets out the relevant figures.

	<b>Government Target £m</b>	<b>2016/17 Budget £m</b>
Business Rates Income Ryedale	16.685	18.095
RDC Share (40%)	6.674	7.238
Tariff payable to Government	5.174	5.174
Sub total	1.500	2.064
Funding Target	1.500	1.500
Levy payment (50%)		0.289
Budgeted Retained Business Rate Income		1.775

6.15 For the 2017/2018 budget there are a number of factors which will change the income from the Business Rates Retention Scheme:

- Changes to the Business Rate valuation list from 1st April 2017
- 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 2016/17 and it's continuation into 2017/18.

### **Council Tax Increases**

6.16 The Council's MTFP is predicated on a 1.99% increase in Council Tax for 2017/18. The 2016/17 charge was £181.71 per band D property, which represented a £5 increase on the previous year.

6.17 The Government confirmed the referendum limit for increases in Council Tax in 2016/17 at 2% or £5 (whichever is higher) for Shire District Councils. The referendum principles were published on 8 February 2016. 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 2017/18 have yet to be confirmed, however the Government has committed to a 2% or £5 threshold in each year of the 4 year funding settlement period.

6.18 A rise of £5 (2.7% at band D) is the equivalent of under 10p per week or less for the majority of Ryedale residents. Members should note that the full Band D charge is currently £1,608.45 taking into the account the charges from the County Council, Fire and Police services. RDC therefore makes up just over 11% of the final bill. A £5 increase in the Council's charge would raise approximately £104k when applied to the current council tax base.

6.19 Council Tax Freeze Grant was not available in 2016/17 and does not feature in the 4 year funding settlement.

6.20 The current approved MTFP is based on 1.99% increase in Council Tax through to 2020/21. The final settlement gave Shire Districts greater flexibility to increase

Council Tax by £5 each year. The difference would generate an additional £330k over the next 4 years and the level of savings required over the next 4 years would be reduced by £130k.

- 6.21 Against this projection and the profile of the Council's finances up to 2021 (Annex A), lack of clarity around the amount of available New Homes Bonus to support revenue and service cuts of £1.1m over the next three years. The officer recommendation is that the Council increase Council Tax by £5 in 2017/18.
- 6.22 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 major precepting Authorities on next years council tax rises.

### **Income**

- 6.23 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 up to 4.5% on a cost centre heading basis excluding VAT.

### **Current Year issues (2016/17)**

- 6.24 Benefit Administration grant reduced in 2016/17 and will reduce again in 2017/18 as Universal Credit is rolled out.
- 6.25 Maintenance responsibility for an additional closed churchyard, The Parish Church of St Peter and St Paul in Pickering, has been passed to the council. There is also the potential for maintenance responsibility for at least one other Churchyard in the current financial year.
- 6.26 Proposed changes to the delivery of the Land Charges Service, the timescale for change and the financial impact on Ryedale are still uncertain.

### **Pay and Price inflation**

- 6.27 The 2016/17 budget included provision for a 1% pay rise for all employees, with a further provision being made to take account of the employers offer for those employees on lower bands. A two year (April 16 to March 18) pay award has now been agreed through national negotiations. It comprises a headline of one per cent in each of 2016/17 and 2017/18 for staff at spinal column 18 and above and higher percentages for staff on lower bands.

### **Revenue effects of the Capital Programme**

- 6.28 The MTFP incorporates predictions around the revenue impact of Capital Decisions, in particular the borrowing to finance the Brambling Fields junction upgrade.
- 6.29 The Government has introduced greater flexibility around the use of capital receipts. Receipts can be used to fund the revenue cost of transformation projects which generate ongoing revenue efficiency savings. The use of this flexibility is linked to the approval of an Annual Efficiency Plan. The Council is currently reviewing it's asset strategy as part of the Towards 2020 programme. Given the timescale required to gain approval for a revised strategy, market any identified surplus underutilised

assets and dispose of said assets, it's unlikely that the Council will be in a position to use the flexibility in the current financial year.

### **2017/18 Budget Efficiencies, Cuts and New Homes Bonus**

- 6.30 Over the last 6 years the council has generated £3.8m of savings, the majority being efficiency savings.
- 6.31 The forecast at Annex A assumes c£600k of savings in 2017/18 and £1.1m through to 2019/20, officers are working to achieve this level of savings. Individual work plans within the Towards 2020 programme have been scheduled to initially deliver efficiencies before looking at service cuts.
- 6.32 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
- 6.33 The Council has performed well in earning NHB to date. Based on the Governments illustrative figures the Council will receive around £1.69m in NHB in 2017/18 before this funding stream begins to reduce as proposed changes to the scheme take effect. Of the £5.553m earned in total in the previous 6 years, £0.886m has been used to support the revenue budget and £0.476m to support the capital programme, drawdown of NHB in line with the Medium Term Financial Plan will be required in order to ensure no further cuts in 2017/18, however this will be subject to the timing of and final changes to the revised NHB scheme, a Government announcement is expected shortly.
- 6.34 The Council's 2016/17 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. 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.
- 6.35 Only unavoidable growth can be accommodated at this time. Within the MTFP £340,000 is included for growth items which includes a provision for the replacement of 3 refuse vehicles previously purchased through capital and provision for an increase in pension contributions following the triennial valuation of the pension fund.

## **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	10 November 2016
Member briefing on budget	11 January 2017
Policy and Resources Committee consider 2017/18 Budget	2 February 2017
Full Council formally set budget and Council Tax	21 February 2017

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### **Background Papers:**

None.



## RISK MATRIX

Issue/Risk	Consequences	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
<p>Efficiency savings unable to meet the shortfall therefore service cuts will be required.</p> <p>Further reduction in NHB Income</p> <p>Business rates revaluation on 1st April 2017</p>	<p>Cuts to front line services, reputational damage to Council, possible poor external inspection.</p>	<b>5</b>	<b>D</b>	<p>Co-ordinated approach to savings identification, new operating model for the council to be delivered through the T2020 programme.</p> <p>IT investment to change working patterns and make efficiencies.</p> <p>Funding streams to be monitored closely and changes to be reported to members at an early stage.</p> <p>Any cuts will be fully worked up and considered by members at an early stage.</p>	<b>5</b>	<b>C</b>

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