



PART B:	RECOMMENDATIONS TO COUNCIL
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	2 FEBRUARY 2017
REPORT OF THE:	RESOURCES AND ENABLING SERVICES LEAD (s151) PETER JOHNSON
TITLE OF REPORT:	FINANCIAL STRATEGY 2017/18
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report sets out the budget for 2017/18, 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 2017/2018.
- 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 £1.081m (Financial Strategy Appendix A)
 - b. Growth Pressures totalling £328k (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 2017/2018 (Financial Strategy Appendix E)
 - (ii) a Revenue Budget for 2017/18 of £6,156,794 which represents a £4.34 increase in the Ryedale District Council Tax, increasing the total charge to £186.05 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 £49,620, equivalent to £0.66 increase at band D;
 - (iv) to note the financial projection for 2017/18 – 2021/22 (Annex B);

- (v) to approve reserve movements as highlighted in paragraphs 6.38 to 6.40 of this report.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 To agree a balanced revenue budget for submission to Council for the financial year 2017/18 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. There is currently a significant outstanding issue around the location of the new waste transfer station which could have an adverse impact on the savings requirement identified within the MTFS (Annex B). It is estimated that the North Yorkshire County Council preferred option would add c£300k to this Council's current savings requirement as early as 2018/19.

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. 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 2016/17 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 2017/2018.

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 up to 3%
- Pay award as agreed through national negotiations. Comprising a headline of one per cent for staff at spinal column 18 and above and higher percentages for staff on lower bands
- 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 7 July 2016 that the budget be prepared on the assumption of a £5 increase in Council Tax.

6.6 The referenda limit for 2017/18 has been proposed at £5 for Shire Districts as part of the Provisional Local Government Finance Settlement. With a referenda costing c£70k to undertake and with £5 on Council Tax equating to c£100k it is clear that the Council should not approve a position which requires a referenda.

6.7 Once again there will be no Council Tax Freeze Grant in 2017/18. The Governments Core Spending assessment assumes that Local Authorities will apply an inflationary increase to Council Tax throughout the life of the current Parliament.

Grant Settlement and specific grants

6.8 The Provisional Local Government Finance Settlement was announced on the 15 December 2016, at the time of writing this report the final announcement had not been received.

6.9 During the course of the current year the Council accepted the offer of a 4 year funding settlement which included Revenue Support Grant (RSG) and Rural Service Delivery Grant (RSDG). The figures announced for 2017/18 as part of the provisional settlement are in line with our expectations from the 4 year settlement.

6.10 There were a number of announcements and changes to business rates announced in the autumn statement. Councils should not lose financially from the announcements and section 31 grant will be available to compensate.

6.11 In addition to the above there are the following significant specific grant movements for RDC:

Grant	£k
Reduction in Housing Benefits Administration Subsidy Grant	(26)
Loss of New Burdens Funding LCTS	(3)

Retained Business Rates

- 6.12 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. If it then has income above a pre determined target the Council keeps 50% of this sum with the remainder paid as a levy to the Government.
- 6.13 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. The Council responded to the Governments consultation during the year and a further technical consultation is expected shortly.
- 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 £3.959m. Based on Council Tax referendum principles, a £5 increase in the Band D council Tax will deliver A £5 increase in Council Tax equates to additional funding towards the councils net revenue budget of £90k in 2017/18 and is worth £470k to the Council over the next 5 years. The Council Tax Base has increased by 1.59% for 2017/18 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	93

Growth Items

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

Savings/Additional Income

- 6.18 The council has undertaken an organisational review to deliver the first tranche of savings through its towards 2020 efficiency programme. The restructure will deliver £894k of efficiency savings in 2017/18, rising to £994k by 2019/20.
- 6.19 The Leisure contract has delivered further efficiencies of £90k (the position is detailed in appendix A to the Financial Strategy at Annex A).

New Homes Bonus

- 6.20 Provisional figures for 2017/18 show a decrease in New Homes Bonus (NHB) from £1.676m to £1.420m. In 2016/17 the Council used £327k to support the revenue budget and £188k 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 although. Following Government consultation, the MTFS was amended to reflect a 4 year rather than 6 year scheme, which was the Governments preferred option through the consultation. The outcome of the Governments consultation

formed part of the Provisional Finance Settlement announced in December 2016. The settlement reflected an interim 5 year scheme for 2017/18 followed by a 4 year scheme from 2018/19 onwards. The scheme also included a 'deadweight' of 0.4% below which NHB will not be payable. The reduced scheme also started a year earlier than anticipated within the consultation.

- 6.21 The budget as proposed includes a reduction of £256k in NHB receipts and uses only £32k (£294k less than last year) of the 2017/18 NHB to support the revenue budget and £188k to fund the shortfall on the capital programme. There is therefore £1.2m of NHB unallocated in the budget and this will be transferred into reserves.

- 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	6,413
Add:	
Base Budget Adjustments	93
Growth items	328
Total 'Cost'	6,834
Less:	
Retained Business Rates	(1,775)
Council Tax Income	(4,004)
Revenue Support Grant	(378)
Movement in Rural Service Delivery Grant	110
Movement in New Homes Bonus	294
Efficiencies/Savings/Additional Income	(1,081)
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 2017/18 budget. Therefore any Member proposals for ongoing additional expenditure will necessitate cuts to existing services.

Medium Term Revenue Forecast (MTRF) projections to 2021/22

- 6.25 Members will note the financial projections to 2021/22 (Annex B). Although the Council has delivered a further £1.081m in savings within the 2017/18 budget, there is still a further forecast savings requirement through to 2021/22 of c£680k

- 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 £188k to bridge the shortfall in delivering a basic capital scheme.

Capital Programme

- 6.27 The Financial Strategy provides a detailed breakdown of the Council's Capital Programme (appendix D) up to 2020/21 totalling £5.949m. External funding of £2.105m is included, leaving a balance of £3.844m to be financed by the Council's funds and reserves as follows:

Funding Source	£
Capital Fund	3,048k
Capital Receipts	476k
Borrowing	320k
	3,844k

- 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 2017/18.
- 6.29 Members should note that there are £249k unallocated capital resources available for investment in new schemes based on existing assumptions of capital receipts and investment interest receipts. The inclusion of any new 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 £326k.
- 6.31 The capital programme as proposed also includes the predicted final payment towards the Brambling Fields junction improvements, which takes into account a final split of costs with NYCC. The final split of costs is still subject to 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 2017/18

- 6.32 The Pay Policy for RDC for 2017/18, 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>	£
Malton	8,690
Norton	14,920
Pickering Rural	26,010
TOTAL SPECIAL EXPENSES	<u>49,620</u>

National Non-Domestic Rates (NNDR)

- 6.34 For 2016/17 the NNDR multipliers are: a small business non-domestic rate multiplier of 48.4 p and a non-domestic rate multiplier of 49.7p. For 2017/18 the draft multipliers are 46.6 and 47.9p 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.
- 6.38 During the current financial year Council agreed to transfer £958k from the NHB reserve and £150k from the General Fund to support the cost of transformation. The Restructure Reserve received £778k of this sum to fund the cost of voluntary redundancies. The current round of voluntary redundancies has cost £555k and therefore it is proposed that the balance of £223k is transferred back into the NHB reserve in line with the decision of Council. The Improvement, Contingency and Emergency (ICE) Fund received the remaining £330k towards other organisational costs of change, this work is ongoing.
- 6.39 Currently the Council's budget includes a transfer of £50k from the General Fund to the Restructure Reserve to ensure an adequate balance is maintained to fund the cost of any future redundancy. Following the latest round of redundancies and having regard to the future likely pressure on the reserve it is considered that, in the medium term, this transfer is no longer required.
- 6.40 The Government has announced that by the end of the current Parliament, the Local Government Sector will receive 100% of Business Rates Income. Based on the current 50% scheme, the Council has sufficient balances within the ICE Fund to mitigate the effect of a significant reduction in business rates income to cover the shortfall between its budgeted figure and the Governments safety net level. Although the details of a 100% scheme have yet to be published it would be prudent for the Council to start to increase the level of this balance in anticipation of a 100% scheme which may increase the councils financial liability. It is therefore proposed that the £50k General Fund transfer previously earmarked to the Restructure Reserve be allocated to the ICE Fund in 2017/18, to be reviewed when further information on the new scheme becomes available.
- 6.41 The Council's revenue budget for 2017/18 assumes no draw on the General Reserve to support the budget. With the outlook for 2017/18 and beyond being very tough, and the scale and risk of achieving cost reduction being high, the council's policy on surplus reserves is remains the same: 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 – Resources & Enabling services Lead (s151))

In setting the Revenue budget for 2017/2018 **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 £1.081m. 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.

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:
[Local Government Finance Settlement 2017 to 2018 - Search - GOV.UK](#)
[Ryedale District Council Budget consultation - 2017-18 results](#)

Background Papers are available for inspection at:
N/A