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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>15 JUNE 2017</b>
<b>REPORT OF THE:</b>	<b>RESOURCES &amp; ENABLING SERVICES LEAD (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>BUDGET STRATEGY 2018/19</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 2018/19 Council budget and provides information on the Towards 2020 efficiency programme designed to deliver the Council's savings requirement.

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended to approve the following strategy for the preparation of the 2018/19 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 revised 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.
  - (vi) That the Council ceases the special levy arrangement for street lighting in Malton, Norton and Pickering Rural with effect from 1st April 2018.

### **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. (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 2017 set out the projected financial position, this document has subsequently been revised to reflect further forecast changes in funding and to accommodate additional growth (Appendix A). At that time the Council set a £5 increase in its part of the Council Tax bill for 2017/18.
- 6.2 Within the revised MTFP projection is the need to identify nearly £600k of savings for the financial year 2018/19 and £1m through to 2021/22. This position is based on the following assumptions:
- The figures included in the Governments 4 year funding settlement remain unchanged.
  - A full Business Rates Base reset in 2019/20
  - Not increasing the level of New Homes Bonus to support revenue in 2018/19 (currently £32k only)
  - A Council Tax increase of £5 in 2018/19
  - Pay Inflation of 1%
  - Price inflation of 3%
- 6.3 There are a number of key influences on the finances of the Council for 2018/19 which then impact on the budgetary position. These include:
- Business Rate Retention
  - 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

6.4 Members will recall that the Government offered Local Authorities a 4 year funding package as part of the final settlement for 2016/17, the Council accepted the offer and received formal confirmation that it is on the four year settlement on 16th November 2016 (Appendix B). The settlement runs to financial year 2019/20, so at this point in time the Council effectively only knows it's funding figures for the next 2 financial years. The table below highlights the Governments latest core spending assessment for Ryedale against the Councils forecast financial position.

<b><u>DCLG - Core Spending Power</u></b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Council Tax	4,054	4,277	4,509
SFA:			
Revenue Support Grant	378	143	-120
Retained Business Rates	1,531	1,580	1,636
New Homes Bonus	1,420	1,083	1,039
Rural Services Delivery Grant	459	353	459
Transition Grant	25	0	0
<b>Core Spending Power</b>	<b>7,868</b>	<b>7,436</b>	<b>7,523</b>

<b><u>Local Position - Current</u></b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
Council Tax	3,959	4,113	4,269
SFA:			
Revenue Support Grant	378	143	-120
Retained Business Rates	1,775	1,811	1,847
New Homes Bonus	32	32	146
Rural Services Delivery Grant	459	353	459
Transition Grant	25		
Collection Fund CT surplus	45	25	25
<b>Core Spending Power</b>	<b>6,673</b>	<b>6,477</b>	<b>6,626</b>

6.9 Taking into account the savings delivered through the previous programmes and through delivering a balanced budget in 2014/15, 2015/16, 2016/17 and 2017/18 officers are clear that finding a up to a further £1m of savings is a significant challenge given the reduced base position.

6.10 Officers continue to work with iESE and their associates, iESE is 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 achieved savings of over £1m to deliver a balanced budget for 2017/18 through phase 1 of the T2020 programme. In line with the Council's agreed efficiency plan and Medium Term Revenue Forecast, officers are now working to deliver further significant savings through Phase 2 of the T2020 programme which is focusing on Streetscene services and through the assets review.

6.11 Staff briefings will continue to take place to ensure that employees are aware of the financial projections.

### The Business Rate Retention Scheme

- 6.13 The basic operation of the Government Support for RDC in 2017/18 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 2016/17 the Council incurred a deficit from the business Rates Retention Scheme. Under regulations this deficit impacts on the revenue account in 2017/18 and 2018/19, surpluses and deficits will be managed through reserves.
  - The Council continued as a member of the North Yorkshire Business Rates Pool in 2016/17, 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 2016/17 the council saved £136k as a result of being in the Business Rates Pool.

6.14 For the 2017/18 budget the following table sets out the relevant figures.

	<b>Government Target £m</b>	<b>2017/18 Budget £m</b>
Business Rates Income Ryedale	17.265	18.642
RDC Share (40%)	6.906	7.457
Tariff payable to Government	(5.376)	(5.376)
<b>Sub total (a)</b>	<b>1.530</b>	<b>2.081</b>
Funding Target	1.530	1.530
Levy payment (50%) (b)		(0.275)
<b>Sub Total (a-b)</b>		<b>1.806</b>
Renewables		0.049
Provision for downward reduction in BR Base		(0.080)
<b>Budgeted Retained Business Rate Income</b>		<b>1.775</b>

6.15 For the 2018/19 budget there are a number of factors which will change the income from the Business Rates Retention Scheme:

- 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 2017/18 and it's continuation into 2018/19.

6.16 Longer term, the Government is proposing a 100% Business Rates Retention

Scheme, although the detail is unavailable it is becoming apparent that a likely 100% baseline reset and the outcome of the Governments fair funding review will be the most important facets of the new scheme from a Local Authority perspective. The MTRF has been updated to reflect a 100% baseline reset in 2019/20, which will reduce the councils business rates income by c£200k. Although not formally announced, a 100% reset appears to be the likely option at this stage. The outcome of the fair funding review is not known.

### **Council Tax Increases**

- 6.16 The Council's MTRF is predicated on a £5 increase in Council Tax for 2018/19. The 2017/18 charge was £186.05 per band D property, which represented a £4.34 increase on the previous year.
- 6.17 The Government confirmed the referendum limit for increases in Council Tax in 2017/18 at 2% or £5 (whichever is higher) for Shire District Councils. The referendum principles were published on 20 February 2017. 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 2018/19 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 £1,664.06 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 £106k when applied to the current council tax base.
- 6.19 Council Tax Freeze Grant does not feature in the 4 year funding settlement. The current approved MTRF is based on a £5 increase in Council Tax through to 2021/22.
- 6.21 Against this projection and the profile of the Council's finances up to 2022 (Appendix A), lack of clarity around the future of Business Rates Income and savings of up to £1m over the next three years. The officer recommendation is that the Council increase Council Tax by £5 in 2018/19.
- 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 Appendix 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. Officers are also preparing an Income/Commercialism Strategy which will be presented to Members in due course. The recommended target increase is up to 4.5% on a cost centre heading basis

excluding VAT.

### **Current Year issues (2017/18)**

- 6.24 Benefit Administration Grant is likely to reduce further as universal credit is rolled out.
- 6.25 It's likely that the Council will face a significant increase in insurance premium costs on renewal in October, largely as a result of a change in legislation which will increase the amounts paid out on successful liability claims .
- 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.
- 6.27 Relocation of the waste transfer station will add an estimated £152k to the councils savings requirement. The station is due to be completed by December 2018.
- 6.28 The council has incurred significant costs following 2 separate thefts from the travellers site, these costs include increasing security measures to mitigate the risk of further thefts. Any costs not covered by insurance will be met through the use of housing s106 monies.

### **Pay and Price inflation**

- 6.27 The MTRF includes provision for a 1% increase in pay for 2018/19 and 2019/20 and a 2% increase for 2020/21 and 2021/22. Work is being undertaken at a national level to assimilate a new pay structure taking into account proposed increases to the living wage. We expect further information to be available on this piece of work within the next 2 months, at which point the council will need to consider it's options. Any one off increases as a result will need to be managed through unavoidable growth.
- 6.28 Price inflation has been included within the MTRF at 3%, however, when preparing the detailed budget, officers will aim to minimise the effect of inflation on a heading by heading basis taking account of contractual obligations.

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

- 6.28 The MTRF incorporates predictions around the revenue impact of capital decisions, in particular the borrowing to finance the Brambling Fields junction upgrade. No further borrowing is planned at this stage.

### **2018/19 Budget Efficiencies, Cuts and New Homes Bonus**

- 6.30 Over the last 7 years the council has generated £4.9m of savings, the majority being efficiency savings.
- 6.31 The forecast at Annex A assumes c£600k of savings in 2018/19 and £1m through to 2021/22, officers are working to achieve this level of savings. Individual work plans within the transformation 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 councils own

projections we will receive around £900k in NHB in 2018/19 which represents a forecast reduction of c£500k on the previous year. The reason for the reduction is a result of the new NHB scheme which will see the number of retained years cut from 6 to 4 and the application of a de-minimus threshold on new builds of 0.4%, NHB will only be earned above this threshold. Of the £6.973m earned in total in the previous 7 years, £0.919m has been used to support the revenue budget and £0.664m to support the capital programme through the annual budget process. The Medium Term Revenue Forecast does not anticipate any further drawdown of NHB to support the revenue budget in 2018/19, however this will be dependent on the councils ability to deliver the forecast level of savings.

- 6.34 The Council's 2017/18 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 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 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 revised MTRF £150,000 is included as a general provision for growth along with £152k specifically earmarked for the Waste Transfer Station following Full Council approval..

#### **Street Lighting Special Levy**

- 6.36 The Council currently precepts a special levy on all properties in Malton, Norton and Pickering Rural, which is used to finance the cost of street lighting maintenance and utility charges in these areas.
- 6.37 Pickering Rural encompasses the parishes listed below:

Aislaby Middleton & Wrelton	Lockton
Allerston & Wilton	Marton
Barughs Ambo	Newton-on-Rawcliffe & Stape
Cropton	Normanby
Ebberston & Yedingham	Rosedale East & West
Kirby Misperton	Sinnington
Levisham	Thornton-le-Dale

- 6.38 With the exception of 2 Parishes, all of the councils listed above currently levy a precept in their own right.
- 6.39 All other Parish and Town Councils within Ryedale manage their own street lights. The District Council does not have direct maintenance responsibility for any street lights other than those located in its car parks.
- 6.40 The cost of the street lighting special levy forms part of the council tax referendum principle calculation. As a result the District Council has struggled to manage this budget and had maintained the overall levy figure at the same level since the introduction of the referendum regulations. In 2017/18 the council had no other option but to increase the special levy. The referendum principles for 2017/18 set a maximum increase for Shire Districts of £5 at band D. Councillors approved the maximum increase, however only £4.34 of this sum was allocated to Ryedale District

Council services with the balance allocated to the levy increase.

6.40 The maintenance work is carried out by North Yorkshire County Council. Currently Ryedale carries out the following functions:

- Independently calculates the street lighting budget for the town and parish councils, which is made up of an estimate of the maintenance costs and an estimate of the utility costs and includes a small administration charge.
- Deals with lighting fault issues by taking phone calls and passing the information on to NYCC to action.
- Receives and pays bills for the cost of maintenance works undertaken by the County Council
- Receives and pays bills in respect of the unmetered electricity supply to the lighting units (via NYCC electricity contract)
- The council then calculates an account balance for each of the 3 areas which reflects the cumulative difference between the levy raised and the actual costs incurred.

6.41 Given the inefficiencies and duplication in the current system, the reduction in staffing resources at the council and the adverse impact of the levy on the Councils budget setting process, officers recommend that the street lighting special levy facility be withdrawn with effect from 1st April 2018 and that any surplus balances be transferred to the town and parish councils at that time. The town and parish councils will be free to contract with any supplier for street light maintenance or electricity (or both), although NYCC have expressed a desire to continue to provide a service directly to the parishes as they currently do for a number of other parishes in the area.

6.42 Ryedale increased the street lighting special levy budget in 2017/18, in recognition of the fact that the majority of the lights needs to be brought up to current standards. This work can be phased over a number of years and the County Council are happy to work with the parishes to their timescales and budget.

6.43 The cost of maintaining the lights would switch from the current special levy to a parish precept.

## **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	9 November 2017
Member Briefing on budget	10 January 2018
Policy and Resources Committee consider 2018/19 Budget	8 February 2018
Full Council formally set budget and Council Tax	22 February 2018

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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>Business rates baseline reset</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, including a review of streetscene services and a review of assets</p> <p>Continued 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