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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>26 SEPTEMBER 2019</b>
<b>REPORT OF THE:</b>	<b>CHIEF FINANCE OFFICER (s151) ANTON HODGE</b>
<b>TITLE OF REPORT:</b>	<b>RYEDALE'S FINANCIAL STRATEGY 2020-24</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 This report sets out the basis of the Financial Strategy to be approved by the Council and notes the work that is being and will be undertaken to ensure the Council sets a balanced budget for 2020-21 and allows more time for a more fundamental budget review for 2021-22 and thereafter. It also highlights a new commercial approach to be taken by the Council in ensuring financial sustainability.

### **2.0 RECOMMENDATIONS**

- 2.1 The Council is asked to note and approve the content of sections 6, 7, 8, 9 and 10 of this report which will form the basis of the Council's Financial Strategy. The contents are also summarised in Appendix 1
- 2.2 Members are also asked to note the proposed timetable for engagement and consultation as set out in section 10.

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 To ensure proper process is in place to develop the Financial Strategy for the period 2020-24

### **4.0 SIGNIFICANT RISKS**

- 4.1 Section 10 of the Financial Strategy highlights that it will contain a full risk and impact assessment highlighting all relevant mitigating controls.

## **5.0 POLICY CONTEXT AND 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.

## **6.0 REPORT DETAILS**

### **Introduction**

- 6.1 The Council's Financial Strategy provides the financial framework to deliver the Council Plan.
- 6.2 It aims to provide financial sustainability, resilience and capacity for the Council in pursuing its objectives and secure the resources necessary to deliver the Corporate Plan, whilst managing the funding cuts we are facing.
- 6.3 This paper seeks to set out the financial background and assumptions (as currently known) which will impact on the Council's budget and seeks approval for a strategic framework to inform draft budget proposals as these are formulated through the Autumn.
- 6.4 This report proposes that the Council adopts a Financial Strategy which will set out the overall approach in which detailed proposals and actions will be developed and considered when agreeing the annual budgets over a four-year period. The strategy notes that work will be undertaken in time for 2020-21 to ensure the Council can set a balanced budget which reflects its priorities, but that a more detailed and fundamental review will take place in time for 2021-22.
- 6.6 This also reflects the one-year funding settlement from central government – and announced on 4 September 2019 – in place of the originally-expected Local Government Spending Review.
- 6.7 The Strategy covers four years, from 2020 to 2024.
- 6.8 Members will be kept informed of work undertaken, including a detailed briefing in September on how the Council spends its money. This will assist both the development of a budget for 2020-21 and especially the work required for the more fundamental review.
- 6.9 As this strategy is being written, the impacts on public sector finances of the UK's exit from the European Union are still not clear.
- 6.10 Against this backdrop of uncertainty the key drivers for the financial strategy remain unchanged as the pressure on Local Government finance continues.

## Objectives

- 6.11 With this refresh comes the emphasis on financial self-sufficiency - aiming to secure the resources necessary to deliver the Corporate Plan, whilst managing the funding cuts we are facing – ultimately over the long term achieving a self-sustaining financial model which sees the Council free from reliance on central government funding by raising income locally through Council Tax and Business Rates as well as through charging appropriately for services, maximising investments and commercial activity.
- 6.12 The current Financial Strategy contains 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 with no further borrowing planned beyond the £1.75m already undertaken for the Brambling Fields project;
  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 within 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.
- 6.13 In agreeing a revised Financial Strategy, members are asked to consider whether these are still appropriate or whether they should be revised to provide more detail. For example to state explicitly:
- a) To maintain a balanced budget by ensuring that in-year expenditure is matched by income from Council Tax, Business Rates, fees and charges and grants from government and other bodies. Funding from reserves will be used to cover one-off investments or temporary initiatives subject to a detailed business case being approved by Members.
  - b) To maximise the Council's income through a Commercial Strategy

## 7.0 FINANCIAL ASSUMPTIONS

### Economic Assumptions

#### Interest Rates

- 7.1 The bank base rate was increased by 0.25% to 0.5% in November 2017 and then raised again to 0.75% in August 2018. In the latest forecasts received from Link (the Council's treasury management advisors) rates are expected to remain at 0.75% through to September 2020 when a rise to 1.00% is predicted. However these assumptions are based upon a reasonable Brexit outcome, but should this not materialise by 31 October then a cut in Bank Rate could swiftly follow.
- 7.2 Given the on-going economic uncertainty as a result of Brexit, there is a risk that interest rates could reduce and it is therefore important that the general fund is not over reliant on Treasury returns. Until there is more certainty it is proposed that a cap of £200k be placed on budgeted income.

<b>Investment Income</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>
Average rate %	1.1%	1.25%	1.5%	1.75%
Interest £000's	200	200	200	200

- 7.3 Rates will be kept under review and forecasts updated as necessary.

#### Pay and Price Inflation

- 7.4 Provision for the public sector pay award and changes to the NJC pay scale has been included within the MTFS based on the 2 year offer agreed in 2018. For 2020-21 onwards 2% is assumed.
- 7.5 As at June 2019 CPI inflation was running at 2%. However, it remains to be seen how the UK's exit from the European Union will impact on the outlook for the economy and inflation. Current forecasts suggest CPI to remain at around 2% for the next two years, although a no deal Brexit could prompt a rise to around 4%, primarily as a result of import inflation due to a weakening pound. MTFS assumptions therefore range from 2% to 4%, although a provision for inflation will only be included on contractual budgets, income and staff pay.
- 7.6 For pay, an average of 2% has been assumed and an additional contingency of £100k was factored in to cover of the cost of the new national pay award from April 2019, although the outcome of this exercise is still to be finalised.

#### Settlement Funding

- 7.7 This element of funding has seen the most significant changes in recent years following the localisation of Business Rates and Council Tax Support.
- 7.8 The 2017/18 Local Government Finance Settlement provided figures for Settlement funding through to 2019-20. Settlement Funding includes Revenue Support Grant (RSG), Business Rates Baseline Funding (BRBF) and in addition Rural Services Delivery Grant (RSDG) and Transitional Grant (TG) were included in the settlement.

- 7.9 The government confirmed the 19/20 settlement on 29<sup>th</sup> January 2019, the final year of the multi-year settlement.
- 7.10 It was assumed that funding after 2019-20 would be subject to the Spending Review which was due to take place sometime after April 2019. However, delays to the Fair Funding Review and review of the Business Rates retention system means that this will be rolled on a further year and details will be updated when we have further information.
- 7.11 On 4 September, the Chancellor's Statement outlined that funding levels in 2020-21 would largely be as per the current year. Although the provisional settlement is not expected until early December, we will be able to work on the figures over the next few weeks and these will feed into the budget process as outlined below.

#### Business Rates Retention

- 7.12 The Council is now part of a successful bid for 2019-20 in what may be the final year of pilots for Business Rates Retention (75% rather than 100%) prior to the anticipated system reset due from 2020-21. This pilot includes councils in West Yorkshire as well as our colleagues in the North Yorkshire pool and the City of York.
- 7.13 The 4 September statement appears to confirm that Business Rates will continue next year as per 2019-20 levels, with inflation. However our assumption is that the Pilot will not automatically continue.
- 7.14 This would (if it comes to pass) provide funds additional to those noted in the February budget. With these and with the overall Business Rate funding, the Council seeks to see more a link with investment in the economy and local businesses through economic development.

#### New Homes Bonus

- 7.15 New Homes Bonus (NHB) is an incentive scheme which rewards housing growth. It provides 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%. The scheme is funded partly by the Government and also by top-slicing the Local Government funding settlement. Ryedale achieved £1.676m p.a. when the scheme reached maturity for 2016/17 (year 6 of the scheme).
- 7.16 However, the Government's evaluation of NHB and consultation early in 2016 resulted in it being scaled back to a 4 year scheme with a 0.4% growth threshold – for 2019-20 £861k is expected.
- 7.17 New Homes Bonus funding is only secured to 2019-20 and it was anticipated that this scheme would be replaced in its entirety from 2020-21 with the Government considering alternative ways to incentivise housing growth. However, it is likely that NHB will continue at least in 2020-21 and a prudent level of growth is currently included in mid-case estimates, giving a forecast income next year of £675k. This is lower than the £861k received in 2019-20 but will be a welcome addition to our medium term forecast which anticipated that the funding would end this year.

- 7.18 In recent years, £188k has been allocated for capital support. A continuation of this would produce the figures shown below.

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 (received)	1,676	327	188	604
2017/18 (received)	1,420	32	188	1,200
2018/19 (received)	964	0	188	776
2019-20 (due)	861	0	188	673
2020-21 (estimate)	675	0	188	487

#### Special and Specific Grants

- 7.19 These will be confirmed in due course.

#### Council Tax

- 7.20 The Council Tax Base in 2019-20 is 21,812 and we have currently estimated a 1% rise forecast thereafter. Every 0.5% increase above this level would add approximately 108 Band D equivalents to our Tax Base which equates to around £21k p.a. at the current Band D charge.
- 7.21 In 2019-20 central Government allowed district councils to increase their Band D charge by 3% or £5 whichever is the highest, without triggering a referendum. Our assumptions are that this will be 2% or £5 per annum in future years.
- 7.22 A £5 increase would equate to an increase of approx. £110k additional income for the Council in 2020-21. The Strategy will therefore note that any Council Tax increase will be between £0 and £5.

#### Pensions

- 7.23 The Council's employers' contribution rate for the North Yorkshire Pension Fund is set every 3 years based upon actuarial assumptions and investment expectations. Like many other Councils Ryedale's pension fund has a historic deficit - £6.472m at 31 March 2016 when the last valuation was undertaken. The employers' rate is designed to cover future service costs and a contribution towards the historic deficit, which aims to balance the fund over the long term. Changes to the scheme benefits have also been introduced in order to reduce the costs of future pension payments.

#### Debt Charges

- 7.24 Management of the Council's debt is governed by the Treasury Management Strategy and Prudential Indicators which aim to ensure the Council's capital expenditure plans

are prudent, affordable and sustainable, with decisions on borrowing taken in light of spending plans and available funding, cash flow needs and interest rates (current and future forecasts).

- 7.25 Borrowing enables the Council to spread the cost of capital expenditure over time. Generally speaking it gives rise to 2 charges against the revenue budget: Minimum Revenue Provision (MRP) and interest payable on debt.
- 7.26 MRP is an amount set aside to repay debt in accordance with the approved policy within the Treasury Management Strategy. The current policy is to charge MRP for assets included within the debt liability over the useful life of the asset or finance lease term. The current annual charge to General Fund balances is £35k. Given the high level of reserves held by the Council, one option might be to use these and therefore reduce the charge to the revenue budget. It is suggested that this is explored before finalising the 2020-21 budget.
- 7.27 The Council has resolved to fund the current capital programme through the use of grant funding and reserve balances, thus removing the need to borrow. However, should this position change, the current environment of low returns on cash investments means that it is more favourable to borrow internally (i.e. use available cash earmarked for future spend) than take out new external borrowing. This will be kept under review as part of monitoring the Council's Treasury activities.

## **8.0 A COMMERCIAL STRATEGY**

- 8.1 The Council agreed a Commercialisation and Income Generation Policy in 2017. Although this contains some key actions, these need to be reconsidered and detailed work agreed to achieve these if they are still relevant.
- 8.2 A key driver for such a Strategy is future financial pressures and a need to plug a likely funding gap in future years or to fund investment in services, and to look at how the Council can become self-sufficient other than where specific grants are allocated by central government
- 8.3 The Strategy might also set out that the Council is also keen to ensure that certain discretionary services are funded by those who use them rather than the general taxpayer.
- 8.4 Alongside this is a requirement to ensure that the Council provides the best value for money to the people of Ryedale.
- 8.5 Finally, there is merit in looking at how commercial opportunities can have a positive impact on the Council and the area by:
- Developing the portfolio of services provided by the Council and making it a more attractive place to work
  - Generating additional income which, in addition to plugging any financial gap, can be used to invest in services
  - Working more closely with business and ensuring the Council is a key player in ensuring that we maximise the economic potential of our area and achieve our strategic outcomes across our communities

- 8.6 In recent years, many councils in the country have recognised the need to become more commercial. However what this means in practice can have a variety of meanings. In some definitions this has been taken to mean simply generating additional income – whether through charging for some discretionary services – or by developing traded activities, which can sometimes lead to the setting up of different governance arrangements (such as Council-owned companies).
- 8.7 Although income generation is very important, our Commercial Strategy will also look at how we can ensure that every spending decision is taken with a view to ensuring the best value for money for taxpayers. We will also ensure that we become infuse our procurement and commissioning decisions with an “intelligent client” ethos.
- 8.8 All of these require us to look at culture across the Council and ensure that staff and members feel confident and knowledgeable enough to deliver the strategy.
- 8.9 In summary therefore we will include the following objectives
- Look at all non-statutory services and investigate potential for full cost recovery or increasing user contribution to their cost
  - Shape potential markets for delivering traded services and look at how generated surplus can be used
  - Review our procurement strategy to ensure that a commercial approach is taken
  - Ensure that all purchasing decisions are guided by a value for money approach
- 8.10 Areas of work required to achieve a meaningful Commercial Strategy are set out in Appendix 2.
- 8.11 To do this successfully we will need to ensure that we have the proper support functions in place in designing and delivering the services (e.g. financial and legal advice and marketing support) and that any costs of this are fully recovered in what we charge for the services.
- 8.12 Ensuring we have the right culture across the organisation is also important. We will takes steps to provide staff and members with the relevant skills and expertise in this regard to embed a more commercial mindset across the Council.
- 8.13 An important part of becoming more commercial will involve managing risk and attitudes towards this from officers and members. Our approach will encourage an appetite for calculated risk-taking and being willing to learn lessons from approaches which do not always lead to the success hoped for. This will of course be balanced by a risk management process which ensures we safeguard the council at all times.

## **9.0 RESERVES AND BALANCES**

### General Balances

- 9.1 In accordance with the current strategy it is assumed that General Balances are **not** used to support the revenue budget.



9.2 General Balances are funding of last resort. Taking account of the size of the Council's revenue budget and risks being managed, a minimum working balance of £1m would seem appropriate.

9.3 At 1 April 2019 reserve balances were £14.9m revenue and £453k capital receipts. Members are asked to note that a further detailed review will be undertaken as part of the budget process before final decisions are taken. A summary of the current position is shown below:

	<b>Balance at 1 April '18</b>	<b>Transfers Out</b>	<b>Transfers In</b>	<b>Approved Realignment</b>	<b>Balance at 31 March '19</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>General Reserve</b>	<b>3,331</b>		650		<b>3,981</b>
<b>Capital Fund</b>	<b>2,929</b>	-169	2,763		<b>5,523</b>
<b>Strategic Reserve</b>	<b>0</b>			2,325	<b>2,325</b>
<b>Earmarked Reserves:</b>					
Collection Fund	<b>506</b>	-303	760		<b>963</b>
Equalisation Reserve					
Election Reserve	<b>61</b>	-26	20		<b>55</b>
New Homes Bonus Reserve	<b>3,698</b>	-2,500	889		<b>2,087</b>
<b>Total Earmarked Reserves</b>	<b>4,265</b>	<b>-2,829</b>	<b>1,669</b>	<b>0</b>	<b>3,105</b>
<b>Consolidated Reserve:</b>					
Council Tax Hardship Fund	<b>24</b>		6	-30	<b>0</b>
Ryedale Developm't Fund	<b>94</b>	-47	13	-60	<b>0</b>
Grants Reserve	<b>163</b>		11	-174	<b>0</b>
IT Fund	<b>95</b>	-40	2	-57	<b>0</b>
ICE Fund	<b>807</b>		50	-857	<b>0</b>
Local Developm't Framework Reserve	<b>50</b>			-50	<b>0</b>
Operational Reserve	<b>648</b>	-4	51	-695	<b>0</b>
Restructure Reserve	<b>402</b>			-402	<b>0</b>
<b>Total Consolidated Reserve</b>	<b>2,283</b>	<b>-91</b>	<b>133</b>	<b>-2,325</b>	<b>0</b>
<b>Total Revenue Reserves</b>	<b>12,808</b>	<b>-3,089</b>	<b>5,215</b>	<b>0</b>	<b>14,934</b>
<b>Capital Reserves:</b>					
Capital Receipts	<b>408</b>	-18	63		<b>453</b>
<b>Total Capital Reserves</b>	<b>408</b>	<b>-18</b>	<b>63</b>	<b>0</b>	<b>453</b>
<b>Total Reserves</b>	<b>13,216</b>	<b>-3,107</b>	<b>5,278</b>	<b>0</b>	<b>15,387</b>

## 10.0 MEDIUM TERM FINANCIAL STRATEGY AND ANNUAL BUDGET PROCESS

- 10.1 The budget process begins in earnest in August although preparatory work within the Finance Team began in July. The need for public consultation (consultation with ratepayers is a statutory requirement) and the lead in time for Policy & Resources mean that to enable full engagement with Policy & Resources members, Senior Management Board, Service and Budget Managers, the process needs to begin as soon as final accounts work is complete. That said, budget managers should consider their future budget requirements as part of service planning and in reality budgeting should be an ongoing process informed by in-year budget management and horizon scanning.
- 10.2 The annual process is the opportunity for Budget Managers to refine and collate detailed proposals for consideration by senior management and members and ultimately for inclusion in the Council's budget for the coming year.

### Annual Budget proposed timetable

Who?	When?	What?
Finance	By end of July	Preparatory work – key messages re approach and process ; pay budgets rolled forward based on approved establishment and budgets updated for inflation where appropriate (pay/contracts/utilities) Communications plan agreed with SMB and key messages/timetable circulated to budget managers
Management Teams/Budget Managers (with support from Finance in high risk areas)	July - September	Detailed budget requirements including savings, commitments, growth, strategic programmes (Corporate Plan/AMS/ICT). Aim for service proposals to be collated and signed off by Service Leads by the middle of September
Members	TBC	Members Briefing
P&R	26 September	Formal sign-off for submission to Council in October
O&S	3 October	Consideration of proposals from P&R
Council	10 October	Formal consideration and approval of the Strategy
P&R/SMB 'Away Day/Half Day'??	Late October (t.b.c.)	Present key issues to P&R and seek steer on proposals which are supported, those which require more detail and those which are rejected.
P&R	14 November	Consider draft budget proposals and follow up of issues from first away day.
Public Consultation including Policy Review/member and staff briefings	December - January	P&R draft budget proposals open to public consultation
Policy & Resources	6 February	Budget and Council Tax proposals agreed for submission to Council
Council	20 February	Formal budget and council tax setting

- 10.3 The Strategy will also include an assessment of risk and impact.
- 10.4 As set out in the report to P&R Committee on 25 July 2019, a number of appointments have been made to increase capacity in areas of pressure. Building this capacity will be essential for the transformation of the council and achieving the objectives of the financial strategy. Although some of these appointments have been made within existing budgets, further costs will be proposed as part of the 202-21 and beyond budget process. These will be fully costed before being finalised.

## **11.0 CAPITAL PROGRAMMES**

- 11.1 There will be a new capital programme which will take account of the Council's priorities and objectives.
- 11.2 In putting this together, new schemes will be 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 accept external capital support such as grant funding, so that the Council can ensure that they form part of an overall capital investment strategy.
- 11.3 The Council is committed to seeking out innovative partnership and funding opportunities in order to deliver the capital strategy and achieve best value.
- 11.4 The Council will continue to work closely with funding partners. 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.
- 11.5 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.
- 11.6 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.
- 11.7 The revenue implications of funding the capital programme will be built into the medium term financial forecasts.

## **12.0 IMPLICATIONS**

12.1 The following implications have been identified:

- a) Financial  
Financial implications are explained throughout this report
- b) Legal  
There are no legal implications regarding this report.
- c) Other  
None to report, although in any report to Committee and Council, it will be noted that any proposals which may impact on Equalities, Staffing, Planning, Health & Safety, Climate Change, Environmental, Crime & Disorder will be assessed as part of the budget process.

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**Background Papers:**

## **APPENDIX 1**

### Contents of Financial Strategy

1. Introduction (sections 6.1 – 6.10 above)
2. Objectives (6.11 – 6.13)
3. Financial Assumptions (section 7)
4. A Commercial Strategy (section 8)
5. Reserves and Balances (section 9)
6. Medium Term Financial Strategy and Annual Budget Strategy Process (section 10)
7. Capital Programmes (section 11)

## APPENDIX 2

### Commercial Strategy – Areas of Proposed Work

Examples of areas where further work is required are set out below

Income Generation	Fees and Charges – cost recovery and update the policy Traded Services – including defining ambition Customer Approach Overheads and impact on full cost recovery Demand Management Looking at new services that we could provide and options for different delivery vehicles
Procurement and Contract Management	Intelligent Client function – how can we ensure that we are confident in dealing with suppliers
Value for Money	Unit Costs Benchmarking Service Plans Business Cases “Understanding the full cost of decisions”
Culture	Technical and Professional Skills Training Confidence to propose new services without fear of failure