



PART B:	RECOMMENDATIONS TO COUNCIL
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	30 SEPTEMBER 2010
REPORT OF THE:	CORPORATE DIRECTOR (s151) PAUL CRESSWELL
TITLE OF REPORT:	BUDGET STRATEGY 2011/2012
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 This report forms the basis of preparation and planning for the 2011/2012 Council budget.

2.0 RECOMMENDATIONS

- 2.1 That Council is recommended to approve the following parameters for the preparation of the 2011/2012 budget:
- (i) Proposals be brought forward for a 2.5% increase in Council tax;
 - (ii) Increases in fees and charges to be 3.5% - 4.5% on a cost centre heading basis excluding VAT and only those charges officers recommend above or below this figure to be considered by the relevant policy committee; and
 - (iii) Efficiencies to be maximised and identified together with any potential cuts required to services once the draft grant settlement is announced in November/December. These proposals will be considered by the Resources Working Party.

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 and investment proposals leading to savings through the

investment in IT, service reviews and Root and Branch Revenue budget review.

- 4.2 The other identified significant risk is that the Government does not include baseline ongoing funding for any Council Tax freeze incentive. These proposals once known will be reported to members.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 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) as approved by members with the Council's Financial Strategy in February 2010 set out the projected financial position. At that time the Council set a 0% increase in its part of the Council Tax bill for 2010/2011.
- 5.2 Within that projection was the need to identify approximately £1m efficiency and other savings. This position was based on the following assumptions:
- Government grants to decrease by 10% in 2011/2012
 - Additional cost pressures from borrowing to finance the capital programme, the transfer of concessionary fares responsibility and the pension fund triennial revaluation
 - A Council Tax increase of 2.5%
 - Pay Inflation of 1%
 - Price inflation of 3%

6.0 POLICY CONTEXT

- 6.1 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.

7.0 CONSULTATION

- 7.1 Public consultation on the 2011/2012 budget has started through the residents' panel, and on line through a procured software tool. Further public consultation will be considered as further details on the formula grant settlement are announced.

8.0 REPORT DETAILS

- 8.1 There are a number of key influences on the finances of the Council for 2011/2012 which then impact on the budgetary position. These include:
- Government grant
 - Concessionary Fares Transfer
 - Council Tax increases
 - Pension Fund Revaluation
 - Income
 - Issues arising from the current year
 - Pay and price inflation
 - Revenue effects of the Capital Programme

Government Grant

- 8.2 Members will be aware of the state of the public finances nationally. The government

departmental expenditure limits will be announced on the 20 October. This sets out the budget allocations for the various government Departments for the forthcoming years. The allocation of these budgets derives the Council's grant to Local Authorities. This is done through a complicated system of formulas, weightings with floors and ceilings to grant gains or losses also applied. The Council currently receives £4.52m in formula grant support.

- 8.3 Traditionally Authorities have received three year settlements in line with the comprehensive Spending Reviews to allow forward budget planning. CSR12 (the comprehensive spending review for the years 2011/12 to 2013/2014 did not take place in the usual time frame and was delayed by the previous government. The new coalition government has undertaken this review in a much shortened timescale in 2012. Announcements from Government Ministers indicated that a two year settlement would be provided covering 2011/2012 and 2012/2013. There is also a further planned review of the Local Government finance system over the next two years.
- 8.4 The government Departments have been asked to prepare budgets based on a real terms cut in funding of 25% over the next four years. They have also been requested to model savings of up to 40%. The Health and Foreign Aid budgets have been protected in real terms against cuts and savings in Education and Defence were stated to be lower than other services. With the District Councils not providing any protected services, it is expected that the cuts to funding will be significantly above the 25% average.
- 8.5 The draft grant settlement announcement is expected in late November/early December 2010.

Concessionary Fares Transfer

- 8.6 Responsibility for the administration in two tier areas passes from District Councils to County Councils with effect from the 1 April 2011. Negotiations have been ongoing with the County Council to ensure a smooth transition with minimal impact to the pass holders. It is likely that RDC will continue to issue passes on behalf of the County Council for a period of time, probably a year, for which a contribution to administration costs will be received.
- 8.7 The transfer of the grant associated with the service is a more complex affair and dealt with through the formula grant system. A series of formula and assumptions are made on previous allocations in grant which, prior to 2006, were not separately identified in the grant settlement. The Council currently receives funding through the formula grant plus a special grant
- 8.8 The Department for Communities and Local Government (DCLG), who set the basis and system for grant distribution, have released a 414 page consultation document which includes, amongst other things, 4 alternatives for removing funding from Districts and then a further 6 options for redistribution for each of these four options.
- 8.9 The four block model used to calculate formula grant is very complex. CIPFA have analysed in detail the proposals and include the following comments in their analysis

'the four-block model is not designed to show changes in individual aspects of the system in this way and Ministers will simply set the overall assumed councils taxes near the end of the process on whatever basis they choose. The

exemplifications are therefore a poor indicator of what will actually happen in the settlement.’

- 8.10 The exemplifications on paper are not good for District Councils. The main problem in arguing the case is that nobody knows how much funding was implicitly in the formula before the extra funding in 2006, so nobody can say whether the options for removing the funding now are too severe. All of the exemplifications are further complicated by the ‘floors and ceilings’ which are applied to grant changes.
- 8.11 Even with the exemplifications above it is not guaranteed that the DCLG will choose any of the options or the quantum used in the exemplifications is correct, as this will be established in the spending review. A response to the consultation will be made.
- 8.12 Clearly the final decision on which formula to use has the potential to significantly adversely affect the Council’s position in balancing the 2011/2012 budget.

Council Tax Increases

- 8.11 The Council’s MTFP is predicated on a 2.5% increase in Council Tax for 2011/2012. The 2010/2011 charge was £176.72 per band D property. This rise would therefore equate to £4.42 per year (8.5p per week). Members should note that the full Band D charge is £1,500.85 taking into the account the charges from the County Council, Fire and Police services. RDC therefore makes up less than 12% of the final bill. A 1% increase in the Council’s charge raises approximately £38k.
- 8.12 The Coalition Government have stated their intention to freeze Council Tax for 2011/2012. Details of this proposal are not yet finalised and it is unclear whether one off or ongoing funding would be provided and to what level to enable Authorities to freeze Council Tax.

Pension Fund Revaluation

- 8.13 2010/2011 sees the triennial revaluation of the North Yorkshire Pension Fund. It is expected that without changes to the scheme employer contributions will need to increase in light of reduced investment returns and increased longevity etc.
- 8.14 Full details of the Actuarial outcomes will be presented to officers in November with details of the expected increase in employer contribution rates.
- 8.15 Lord Hutton is chairing a Commission to review the 16 different public sector pension schemes. An interim report is expected in two months and a final report seven months later. This could include significant changes to the scheme benefits and funding which could reduce the Council’s contribution rate. Clearly any such changes would not be in place for 2011/2012 and therefore within the MTFs estimated increasing costs of £50k in 2011/2012 are included.

Income

- 8.16 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 relevant policy committee. The recommended target increase is 3.5–4.5% on a cost centre heading basis excluding VAT. Current inflation rates range from 3-5% depending on the index chosen.

Current Year issues

- 8.17 Detailed monitoring of in year spend and income is undertaken and reported to the Resources Working Party and this Committee. The significant financial pressure on the Council in 2010/2011 relates to the Trade Waste service. Income in the current year is down and predictions are that this will continue to fall in future years with little scope to reduce costs and improve profitability. A report on the options for future service delivery was presented to the Commissioning Board on the 23 September 2010 recommending sale of the service. Subject to approval of the recommendations, this will be considered by Full Council. There will be a significant revenue shortfall whichever option is chosen, that is outsourcing the service or continuing to directly provide it.

Pay and Price inflation

- 8.18 The 2010/2011 budget included provision for a 1% pay rise. No increase has been offered by the employers' side and it is likely that a saving of approximately £70k can be taken towards the 2011/2012 budget if no pay rise is made.
- 8.19 The 2011/2012 MTFP included a 1% provision for the pay award. Whilst the government have announced a pay freeze, except those on less than £21k receiving a flat £250 increase. The application of this announcement has not yet been confirmed through the existing pay bargaining system. Should this be implemented it is likely that a further £35k saving can be taken against the projected shortfall in 2011/2012.

8.20 Revenue effects of the Capital Programme

- 8.21 The MTFP incorporate predictions around revenue impact of Capital Decisions. £50k Revenue support for the dual use agreement at the Malton School Sports Centre is provided for. Council decided that the costs of the Brambling fields Junction upgrade and Vivis Lane realignment, in total £2.45m, are to be financed by external borrowing. The repayment of debt and interest carries an annual revenue cost of £163k, which is also built into the MTFP. In the event that either or both schemes do not progress a saving against projections would be made.

Progress to Date

- 8.22 Clearly with the scale of savings likely to be required to balance the budget in 2011/2012 early progress had to be made. The Council typically finds efficiencies and savings of between £300k - £400k in balancing the budget. Therefore the potential £1m saving represents a significant challenge.
- 8.23 A series of ongoing staff briefings have taken place together with a member briefing in October 2009 to set the scene. The key issue for delivering such savings is to minimise/avoid cuts to services, thereby delivering efficiency savings; that is at least the same standard of service at a lower cost.
- 8.24 In order to facilitate such savings the Council asked for expressions of interest in voluntary redundancy in line with its Redundancy Policy. A number of applications were received and each of these evaluated in terms of the impact on the service and cost. Where proposals were received that delivered savings in staff costs could be achieved through reorganisation, service redesign and investment in IT which would not impact on service levels and deliver a financial saving in the 2011/2012 base budget these were taken forward. The costs of redundancy and any associated pension costs were met in part from an existing budgetary provision. In total 18

people will leave the Council in 2010/2011 delivering approximately £400k of savings in the 2011/2012 base budget. These will be efficiencies as service levels will not be affected.

- 8.25 There are a series of ongoing service reviews across all Council services, front and back office. It is expected that savings can be achieved through this process. Some other savings such as printing within the Authority have also been considered by this Committee.
- 8.26 In addition to the above a detailed Root and Branch Review of the Revenue budget has taken place, led by the Directors. This has involved 'line by line' analysis of spend with Heads of Service and Service Unit Managers. This will produce further savings. Some Revenue contingency funding will be created, to enable service budgets which deal with irregular payment to be financed, and the revenue budget reduction can then be taken in full. If these savings are taken, it is increasingly likely that the £100,000 general reserves presently used to support the budget will increasingly be needed.
- 8.27 Taking into account all of the above there still be further savings required to balance the budget should the Council need to reduce its base budget by the predicted £1m. Work is ongoing with reviews and consideration of potential saving from IT capital investment. The need to make service cuts cannot be ruled out at this stage, key to the requirement to make cuts will be the Grant settlement announcement in November/December, when the Council's financial position for 2011/2012 will be clearer.
- 8.28 Only unavoidable growth can be accommodated at this time. Within the MTFP £100,000 is included for growth items. Further details on any unavoidable growth will be presented to the Resources working Party.

9.0 IMPLICATIONS

- 9.1 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.

10.0 NEXT STEPS

- 10.1 The following timetable sets out the timetable for the budget process:

Officers prepare proposal for discussion at Resources Working Party	23 November 2009 11 January 2009
Member briefing on budget	19 January 2010
Policy and Resources Committee consider 2010/2011 Budget	3 February 2010
Full Council formally set budget	21 February 2010

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Background Papers:

None.

Background Papers are available for inspection at:

N/A.

RISK MATRIX

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Efficiency savings unable to meet the shortfall therefore cuts required.	Cuts to front line services, reputational damage to Council, possible poor external inspection.	4	D	Co-ordinated approach to savings identification, looking at budget as a whole. IT investment to change working patterns and make efficiencies. Ongoing service reviews and Root and Branch review of revenue budgets.	2	B
Council Tax freeze not financed by ongoing revenue support	Such a situation would simply defer a financial pressure on the Council to a 2012/2013	4	D	Council continues to lobby for ongoing revenue support through Society of District Council Treasurers.	3	C

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