Agenda Item: ….

Ryedale District Council

REPORT TO:	**Policy & Resources Committee**
DATE:	**3 January 2008**
REPORTING OFFICER:	**John Patten, Interim Chief Financial Officer**
SUBJECT:	**Budget Strategy**
WARDS AFFECTED:	**All**

1.0 PURPOSE OF REPORT

To agree strategic financial planning, service and project issues.

2.0 RECOMMENDATIONS

(a) To approve the financial strategy detailed in this report
(b) To agree the recommendations shown in the capital strategy Annex A
(c) To approve the draft savings and efficiency plans Annex B
(d) To recommend to Council option 1, 1a or 2 and other recommendations in the report on the Dry Sports Facility Annex C
(e) To reconfirm commitment to the Enterprise Centre detailed in the report Annex D

3.0 REASONS SUPPORTING DECISION

Strategic policies and plans of the Council and sound financial planning.

4.0 BACKGROUND

This report brings together the major financial, service and project issues that have been debated by Members over recent months and delivers the major political aspirations of the Council.

5.0 INTRODUCTION

The main report and detailed Annexes cover all key service, legal and financial requirements so that an overall view can be taken by Members to plan on the use of the Council's resources.

6.0 REPORT

The report in October 2007 set out the broad financial strategy for the Council. This section details additional information on costs of schemes, government support and work on identifying reductions in revenue costs.

Capital Programme

The anticipated borrowing requirement has changed now and is now less than £2m and is estimated at £1.5m at the end of the four year programme. This is a result of tight financial control, additional interest earnings on balances and delayed starts to major projects effecting cash flow. The remaining reserves are planned to be sufficient to earn interest to fund revenue by £134k per annum and for essential housing capital expenditure.

The revenue effect of the capital programme is included in this report. The loss of interest earned on capital receipts is not shown since this has been use to fund capital projects not revenue account. Loss of interest means the Council will not be able to fund a material capital programme in future years without extra borrowing.

Malton Dry Sports Facility

The report submitted to Resources WP has been updated to include the additional 'competition' height as option 1a. The recommendations are set out in the report.

Malton Enterprise Centre

The evaluation by Yorkshire Forward and a more detailed cost evaluation has resulted in a cost increase and changes to funding as detailed in the report. The additional Council capital funding has been included in the capital programme report and requires confirmation by Members. The revenue effect is included in this report.

Comprehensive Spending Review 2007 (CSR 07)

This has a major impact on the Council's financial resources. The annual Planning Delivery Grant (PDG) and Local Authority Business Growth Incentive Scheme (LABGI) grants of about £500k per annum have been changed and resources significantly reduced. The amounts cannot be determined but are likely to be modest and focussed on delivering affordable housing allocations and identified land supply over 5 years. The £150k LABGI grant that has been included in revenue account will not be available after 2008/9 (this grant is paid in February each year and has been accounted for "in arrears").
The Government has determined that cashable efficiency savings of 3% per annum be delivered and this performance will be audited. The detail has not yet been provided or consulted upon. The efficiency savings will be difficult to deliver on top of three years finding 7.5% but it is hoped that savings in expenditure or additional income may be able to be included in the VFM appraisal by auditors

The RSG settlement has been announced for the next three years and represents a 3% increase each year for three years based on £4.1m this year. This is a good local settlement for the Council but when taken into consideration with loss of LABGI and PDG actually represents a decrease in grant from the government. Finally Government expect Council Tax rises to be significantly below 5%.

Service Changes and Budget efficiency savings

Managers have been working on reductions in revenue costs over the last few months based on the criteria set in October i.e. raising extra income, good housekeeping and as a last resort service reductions. The initial results of this work is detailed in Annex B. This provides Members with a broad view of the risks involved and the extent of changes to services which currently approach £700k.

It is interesting to note that respondents to the SIMALTO exercise predominantly favoured a rise in Council Tax above inflation **only** if it was accompanied with clear service improvements e.g. recycling facilities

7.0 OPTIONS

Original (worst) Scenario in October 2007 with capital programme fully spent

Detail	2008/9 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'0000
3% Gershon type Savings	227	452	679	679
Dry Sports Centre operational costs	0	60	60	60
Enterprise Centre operational costs	0	70	150	150
Borrowing Costs	0	45	180	180
Growth	75	150	225	300
Council Tax Increase offset	-65	-130	-195	-195
Total reduction needed	**237**	647	1099	1174
Incremental Increase Year on Year		**410**	**452**	**75**

Revised Scenario in January 2008

Detail	2008/9 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000
Loss of LABGI	0	150	150	150
Loss of PDG	0	230	230	230
Dry Sports Centre operational costs	0	60	60	60
Enterprise Centre operational costs	0	0	130	105
Borrowing Costs	0	0	90	135
Growth	100	200	300	300
Council Tax Increase offset	-50	-100	-150	-150
Total reduction needed	**50**	540	810	830
Incremental Increase Year on Year		**490**	**270**	**20**

The above table assumes:

- Capital programme per annex A and £1.5m borrowing
- Dry Sports and Enterprise Centres capital and revenue costs

- Increase of 4.5% in Council Tax for 3 years
- Planning PDG costs to be funded from council tax
- Prudent growth of £100k pa

8.0 FINANCIAL IMPLICATIONS

The revised table above requires savings of £830k to be found over the next four years and takes into account the cost of the projects in the capital programme.

It is assumed that Council Tax is increased by a maximum of 4.5% for the next three years and that £1.5m will be borrowed externally. Potential savings of £760k have already been identified to meet the £830k target.

CSR07 requires local authorities to make 3% cashable efficiency gains each year for three years. This is provisionally calculated as £250k per annum. The rules on how this is to work have yet to be determined and it will be necessary to ensure that service changes can meet the audited criteria.

I would restate my original comments to Members that there is a certain degree of risk letting two contracts of over £8m in value at the same time. Obvious risks include construction price increases and contract management. The plans in this report aim to mitigate some of the effect of this risk.

Finally it must be remembered that these are ***broad financial projections*** which concentrate on the key policy and planning options for the Council. There are numerous detailed variations on revenue account, but these are not detailed here. Changes in grants, capital expenditure, extra growth or diversion of resources (such as local planning issues) will all have an effect. However the thrust has been to ensure that:

- The council actively demonstrates and implements sound financial planning
- Financial risks are minimised
- Provision is made for known commitments
- Headroom is created to deliver political aspirations
- Key services are maintained, improved and made more efficient

9.0 LEGAL IMPLICATIONS

The Prudential Code, treasury management strategy, capital strategy statement and medium term financial plan will all need to be revised for February 2008 to meet statutory and regulatory requirements. This report also forms the basis of preparing a balanced budget for 2008/9 and establishing clear financial planning criteria.

10.0 CONCLUSION

- The Budget Strategy established in October and amended in this report establishes a sound basis for financial planning over the next few years

- Although more detailed work is required, the proposed efficiency and service savings will provide additional resources to the Council to pay for running costs of capital expenditure and anticipated Government targets.
- The finances of the authority will require regular review to ensure that schemes, projects and savings come within the general parameters in this strategy.
- Regular monitoring of Revenue and Capital Expenditure should be undertaken by the Resources Working Party.

Background Papers:

OFFICER CONTACT: Please contact John Patten, Interim Chief Financial Officer if you require any further information on the contents of this report. The Officer can be contacted at Ryedale House, Tel. 01653 600666 ext 214 or e-mail; john.patten@ryedale.gov.uk.