RYEDALE DISTRICT COUNCIL

REPORT TO: POLICY & RESOURCES

DATE: 7 FEBRUARY 2008

REPORTING OFFICER: INTERIM CHIEF FINANCIAL OFFICER

SUBJECT: **BUDGET STRATEGY 2008/09**

1. PURPOSE OF REPORT

1.1 The report sets out a revised budgetary position for 2007/08, the budget for 2008/09, a proposed Council Tax level, details of balances and reserves and the indicators under the Prudential Code for capital finance as required by the Local Government Act 2003.

2. RECOMMENDATIONS

2.1 Members are asked to:

(a) agree the revised budgetary position relating to 2007/08.

(b) approve the Revenue Budget 2008/09 to be submitted to the Council in the sum of £7,912,420.

(c) agree the prudential indicators for recommendation to the Council.

(d) agree the budgetary risks.

(e) approve the special expenses amounting to £40,630.

(f) agree to receive a detailed report on proposals to achieve the 3% efficiency saving for three years (£750k) during the next cycle of meetings.

(g) Approve the position relating to the Council's reserves and balances.

3. REASONS SUPPORTING DECISION

To agree a revenue budget for submission to Council for the financial year 2008/09.

4. BACKGROUND

4.1 The Revenue Budget has been prepared in accordance with the revised Budget Strategy agreed by Council on 17 January 2008 and previously agreed in October last year. It incorporates the effect of the Governments three year Revenue Support Grant settlement and the Comprehensive Spending Review. In particular it provides;

- Commitment to efficiency savings
- Up to 4.5% Council Tax increase
- Authority to borrow up to £1.5m

- Loss of Planning and LAGBI grants being made good
- Provision for funding the capital programme

4.2 The effect of CSR07 means that although direct RSG will increase by 3% for the next three years, specific grants amounting to £400k per annum will be withdrawn. There is therefore a net loss in grant of £250k, which has to be made good through budget reductions or efficiencies, in particular for year 2009/10. It is not yet clear how replacement grants on Housing and Planning will be distributed but the amounts could be significantly smaller.

4.3 CSR07 also requires local authorities to realise cashable efficiencies of 9.3% over a three year period. By implication this is to fund the loss of grant in para 4.2 and any additional burdens imposed on district services.

4.4 In addition the Council has a programme of capital expenditure which places additional revenue costs on the authority and reduces capital balances. These costs have to be provided for in future years.

5. POLICY CONTEXT

5.1 The Budget Strategy and Medium Term Financial Plan (MTFP) are key strategy documents that affect all service delivery. They link 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 & 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. REPORT

6.1 Local Government Finance Settlement

6.1.1 For the first time ever the Government announced a three year Revenue Support Grant settlement in November 2007 as part of the Comprehensive Spending Review 07. This is a 3% increase in grant for the forthcoming financial year. The total increase is £150k and includes a formula grant adjustment making a like for like increase of £122k. Similar increases are announced for the the following two financial years.

6.2 Revised Budget 2007/08

6.2.1 A number of changes to the 2007/08 budget have been identified and these are summarised in Annex B. The Council set a net budget of £7,567,360 for 2007/08, and the Council Tax levied for this amount is fixed.

6.2.2 The analysis shows an estimated net increase in the costs of services of £35k. However, additional investment income of £200k, extra grant from the Local Authority Business Growth Incentive scheme (LABGI) of £280k and other adjustments on balances, leave an estimated surplus balance of £445k for

2007/08. It should be noted that the redistribution of LAGBI is now being legally challenged.

6.2.3 The Resources Working Party has received regular budgetary reports that have previously highlighted the main areas of overspending and savings. It is proposed that the extra investment income be transferred to the Investment Income Reserve and used for the purpose of capital investment. This was provided for in the report on the capital programme submitted to this Committee in January 2008.

6.2.4 To help fund the current year's programme a £100,000 contribution from the General Fund Reserve was included. This contribution will not be required. It is proposed that the balance of £145k be split £50k to the Service Investment Fund (to assist in the finance of a shorter delivery timetable for the LDF) and £95k to the ICE Fund to pay for the anticipated cost of management change.

6.3 Budget for 2008/09

6.3.1 Service Unit Managers have drafted their budgets in line with Service Delivery Plans and the Budget Strategy i.e. inflationary increases of 3% for pay and 2% for general expenditure to be covered by savings wherever possible. Annex A shows that a significant amount of unavoidable cost increases have been identified which have had to be included in the budget.

6.3.2 In accordance with the Budget Strategy, no additional items of growth have been included except for the cost of waste collection vehicles and wherever possible income has been maximised (the increase in fees and charges already agreed by Members has been included in the budget figures).

6.3.3 The start of a three year programme to find efficiency and other savings is being planned; a net figure of £37k has been shown for next year. These efficiencies need to achieve a 3% saving on net revenue expenditure. Changes to service levels will have to be agreed by Members and therefore initial budget reductions, increased income and staff savings have only been included where already accepted. Further work has to be undertaken during the year to ensure that the savings of £750k over three years will be achieved.

6.3.4 The strategy includes a contribution from the General Fund Reserve of £100,000 and also £150,000 from LABGI. The CSR07 announced that the LABGI scheme has been substantially diminished and the Council is not anticipating receiving further funds from this stream to fund future budgets after 2008/09. The level of interest receipts used to support the General Fund has been left at the current level of £134,000, all other interest earnings have been earmarked for the capital programme.

6.3.5 The financial strategy detailed to Members over the last two cycle of meetings and the recent Member's briefing have clearly demonstrated that substantial efficiency savings are necessary to sustain essential Council services and enable a balanced budget for the following two years. It is proposed to submit a detailed report to Members of the Policy and Resources Committee showing the effect of re-aligned services, management changes and the investment needed to improve the efficiency of the Authority.

6.3.6 Overall, with minimal growth only and £148k efficiency and income savings a Council Tax increase of 4% is required.

6.4 Capital Programme

6.4.1 Members have approved the Capital Strategy and a Capital Programme for the next four years totalling £11.027m. External funding of £4.707m is included, leaving a balance of £6.320m to be financed by the Council's funds and reserves as follows:

Funding Source	£'000s
Repairs and Renewals Reserve	979
DSO Reserve	45
Investment Income Reserve	4,298
Capital Receipts	998
	6,320

6.4.2 The effects of the capital investment on the balances of the Council's key reserves for the current and the next financial year are shown in Annex D.

6.4.3 No borrowing will be required to finance the capital programme and it is not expected that the capital schemes will have any revenue implications for the next financial year. Members have been informed of the additional revenue costs expected in 2010/11 onwards for the Business Enterprise Centre and these factors have been taken into consideration when calculating the prudential code indicators referred to in this report and elsewhere on this agenda.

6.5 Council Tax

6.5.1 North Yorkshire County Council, the North Yorkshire Police Authority and the North Yorkshire Fire Authority have not yet finalised their precepts. These figures will be reported verbally at the meeting if they have been announced.

6.5.2 The current Ryedale District Council Tax for a Band D property is £3.19 per week and a 4% increase equates to an additional 13p per week.

6.5.3 It is possible to vary the increase in Council Tax from the recommended 4%. By way of example 1% variation is £34,000 on revenue. The Government has stated that they expect increases to be substantially below 5%.

6.5.4 It is imperative to meet the Government target of 9.3% efficiency savings over three years, and the 2009/10 year will show the fallout of specific grants. Members may wish to have more efficiencies achieved in next year.

6.5.5 It would also be possible to improve services during 2008/09 if a provision of £34,000 was included as growth.

6.6 Public Consultation

6.6.1 The Council conducted public consultation using the Simalto model over the autumn, about 180 persons visited the site and 111 completed the interview. This sample was lower than the required 300 responses for strong statistical significance however, it is likely to be a good guide to the relative priorities between the options researched.

6.6.2 The research suggests that on balance the preference was for an above inflation Council Tax increase delivering some re-prioritisation of services.

6.6.3 The survey tested a range of services and service levels. To achieve a budget that would maximise satisfaction the following reprioritisation was desirable:

6.6.4 **Enhancements Causing Increased Satisfaction**

- Waste recycling – Plus plastics and cardboard
- Job creation – Plus 25 jobs
- Homelessness
- Tourism promotion
- Voluntary grants
- Community safety

Reductions Causing Least Displeasure:

- Car parking permits – Increase cost
- Housing grants – Alternative delivery to reduce costs
- Arts, museums
- CCTV
- Increased car parking charges
- Opening hours
- Payments – No counter service

6.7 Special Expenses

6.7.1 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 Parishes concerned and are estimated as follows:-

Town/Parish	**£**
Malton	4,320
Norton	13,620
Pickering Rural	22,690
TOTAL SPECIAL EXPENSES	**40,630**

6.8 National Non-Domestic Rates (NNDR)

6.8.1 For 2007/08 the NNDR multipliers are: a small business non domestic rate multiplier of 44.1p and a non domestic rate multiplier of 44.4p. For 2008/09 the multipliers are 45.8p and 46.2p respectively.

6.8.2 It is proposed to consult business ratepayers on the budget by letter only unless individual ratepayers wish to discuss specific issues.

6.9 Medium Term Financial Plan (MTFP)

6.9.1 An MTFP has been developed to project future commitments and produce a robust forward financial plan. The capital programme is incorporated and a three year summary of projected revenue expenditure is also provided. A final version incorporating new budgets will be provided at the Council meeting on 25 February 2008.

6.10 Prudential Code

6.10.1 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. Annex C lists the various indicators.

6.10.2 These indicators can be amended during the year, by the Council, if they are found to be inadequate.

6.11 Funds & Reserves

6.11.1 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. Annex D sets out the projected major Funds and Reserve balances as at 31 March 2008 and 31 March 2009. These will be rolled forward a further two years in the MTFP.

6.11.2 Taking account of the level of activity at Ryedale District Council it is felt that funds and reserves are adequate to cover unforeseen liabilities and other contingencies.

6.11.3 The General Fund Balance is estimated to be £897,000 at 31 March 2009 and equivalent to about 11% of net expenditure. A provision has been made in the budget for 2008/09 to transfer £250,000 to fund revenue expenditure if required. This includes £150k LABGI grant used in arrears.

7.0 LEGAL IMPLICATIONS

7.1 Issues relating to budget production are embedded in legislation.

8.0 ENVIRONMENTAL IMPACT

8.1 There is an Environmental Impact on the delivery of Council services.

9.0 RISK ASSESSMENT

9.1 The 2008/09 budget contains various risks.

- Much of the Council's income is dependent upon factors such as usage, demand and the weather. However, performance monitoring is carried out on a monthly basis, to give early warning of any significant variations. Also it is felt that there are sufficient balances to equalise any unforeseen dip in income providing levels were not permanently affected.

- Efficiency savings of 3% for three years is a tough target and commitment is needed to service changes to ensure compliance with the financial strategy.

- Failure to deliver efficiency savings will place the Council at risk for an adverse audit report and also not enable financing and delivery of the capital programme.

9.2 A full risk assessment will be undertaken when the budget is set. The MTFP includes a detailed risk assessment which will also be updated.

10.0 CONCLUSION

10.1 The Council meeting on 25 February 2008 needs to set a total Council Tax level, taking account of precepting authorities and also set a balanced budget.

10.2 The Council's financial position is strong but reserves are planned to reduce over the next few years to finance capital expenditure.

10.3 It is of fundamental importance that the Council meets the 3% efficiency target for the next three years i.e. 9.3% cumulative.

10.4 Any reduction in Council Tax increase from 4.0% could have a detrimental effect on future budgets and service delivery.

BACKGROUND PAPERS:

None

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 and e-mail john.patten@ryedale.gov.uk.

Annex A

REVENUE BUDGET 2008/09 - VARIANCE STATEMENT

	£'000	£'000	£'000
Original Estimate 2007/08 Net Expenditure			**7,567**
Cost Increases			
Inflation:			
Inflation (net)	53		
Pay Award Provision (3%)	153		
		206	
Growth			
Waste Collection Vehicles		57	
Other Cost Increases:			
Salary Increments	78		
Reduction in Grant Income:			
Waste Efficiency Grant	45		
LPSA Reward Grant	42		
Other Grant Income	17		
Access to Services - Staffing and Website	31		
		213	
Total Cost Increases		**476**	
Savings:			
Fallout of Former Employee Pension Contributions	-24		
Additional Income	-111		
Efficiency Gains and Other Savings (net)	-37		
Total Savings		**-172**	
Other Movements in Costs and Savings (net)		**41**	
Net Increase in Costs			**345**
Original Estimate 2008/09 Net Expenditure			**7,912**

Financed By:	**£'000**
External Government Support	4,252
Council Tax (4.0% increase)	3,588
Collection Fund Surplus	72
	7,912

It should be noted that the budget assumes the drawing of £100k from the General Fund to keep Council Tax levels down.

Annex B

REVENUE BUDGET 2007/08 - VARIANCE STATEMENT

	£'000	£'000
Original Budget 2007/08 Net Expenditure		**7,567**
Additional Costs:		
LPSA Reward Grant	42	
Flooding Relief	31	
Sport and Recreation	31	
Trade Waste	30	
Car Parks Income	20	
Economic Development Support	20	
Tourist Information Centre Malton	14	
Parks and Open Spaces Play Equipment	10	
Local Government Review	10	
		208
Savings:		
Development Control Fee Income	-86	
Recycling	-28	
Property Rents	-25	
Net Effect of Salary Savings	-15	
Building Control	-10	
		-164
Other Movements in Costs and Savings (net)		**-9**
Net Increase in Cost of Services		**35**
Investment Income		-200
Government Grant – extra LABGI Grant		-280
Net Increase in Savings		**-445**
Movement on Use of Balances:		
Increase Contribution to Capital Investment		200
Reduce Contribution from General Reserve		100
Estimated Surplus Balance for Appropriation		**-145**
Proposed Appropriation		
Contribution to ICE Fund		95
Contribution to Service Investment Fund		50
		145

Annex C

PRUDENTIAL INDICATORS

1 The actual capital expenditure that was incurred in 2006/07 and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:

Capital Expenditure

	2006-07 Actual £'000	2007-08 Forecast £'000	2008-09 Estimate £'000	2009-10 Estimate £'000	2010-11 Estimate £'000
Total Capital Programme	1820	2097	2970	5872	1315

2 Estimates of the ratio of financing costs to net revenue stream for the current and future years, and the actual figures for 2006/07 are:

Ratio of Financing Costs to Net Revenue Stream

	2006-07 Actual	2007-08 Forecast	2008-09 Estimate	2009-10 Estimate	2010-11 Estimate
Estimate of ratio of financing costs to net revenue stream	-9.72%	-11.12%	-9.19%	-8.07%	-6.62%

The ratio of financing costs to net revenue stream is negative, reflecting the fact that interest on investments is making a contribution to the income & expenditure account.

3 Estimates of the Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2007 are:

Capital Financing Requirement

2006-07 Actual £'000	2007-08 Forecast £'000	2008-09 Estimate £'000	2009-10 Estimate £'000	2010-11 Estimate £'000
0	0	0	0	0

4 The Capital Financing Requirement (CFR) measures the authority's underlying need to borrow for a capital purpose.

5 CIPFA's' Prudential Code for Capital Finance in Local Authorities' includes the following as a key indicator of prudence:

"In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years."

The Chief Financial Officer reports that the authority had no difficulty meeting this requirement in 2006/07, nor are any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in this budget report.

6 In respect of its external debt, it is recommended that the Council approves the following authorised limits for its total external debt gross of investments for the next three financial years, and agrees the continuation of the previously agreed limit for the current year since no change to this is necessary. These limits separately identify borrowing from other long term liabilities such as finance leases. The Council is asked to approve these limits and to delegate authority to the Chief Financial Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities, in accordance with option appraisal and best value for money for the authority. Any such changes made will be reported to the Council at its next meeting following the change.

Authorised Limit for External Debt

	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000
Borrowing	20,000	20,000	20,000	20,000
Other Long Term Liabilities	0	0	0	0
Authorised Limit	20,000	20,000	20,000	20,000

7 The Chief Financial Officer reports that these authorised limits are consistent with the Authority's current commitments, existing plans and the proposals in this budget report for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Chief Financial Officer confirms that they are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.

8 The Council is also asked to approve the following operational boundary for external debt for the same time period. The proposed operational boundary for external debt is based on the same estimates as the authorised limit but reflects directly the Chief Financial Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate. The operational boundary represents a key management tool for in year monitoring by the Chief Financial Officer. Within the operational boundary, figures for borrowing and other long term liabilities are separately identified. The Council is also asked to delegate authority to the Chief Financial Officer; within the total operational boundary for any individual year; to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

<u>Operational Boundary for external debt</u>

	2007-08 £'000	2008-09 £'000	2009-10 £'000	2010-11 £'000
Borrowing	5,000	5,000	5,000	5,000
Other Long Term Liabilities	0	0	0	0
Operational Boundary	5,000	5,000	5,000	5,000

9 The Council's actual external debt at 31 March 2007 was nil. It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

10 In taking its decisions on this budget report, the Council is asked to note that the authorised limit determined for 2008/09 (see paragraph 6 above) will be the statutory limit determined under section 3(1) of the Local Government Act 2003.

11 The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have previously been taken by the Council are:

For the Band D Council Tax 2008/09 2009/10 2010/11
- £3.84 - £0.72 £10.62

These forward estimates are not fixed and do not commit the council.

Consideration of options for the capital programme

12 In considering its programme for capital investment, the Council is required within the Prudential Code to have regard to:

- affordability, e.g. implications for Council Tax
- prudence and sustainability, e.g. implications for external borrowing
- value for money, e.g. option appraisal
- stewardship of assets, e.g. asset management planning
- service objectives, e.g. strategic planning for the authority
- practicality, e.g. achievability of the forward plan.

13 A key measure of affordability is the incremental impact on the Council Tax, and the Council could consider different options for its capital investment programme in relation to their differential impact on the Council Tax.

Annex D

SUMMARY OF KEY FUNDS AND RESERVES

	General Reserve	Repairs & Renewals Reserve	Investment Income Reserve	Capital Receipts and Grants	Total
	£	£	£	£	£
Balance as at 1 April 2007	1,147,740	1,040,950	2,338,696	4,674,879	9,202,265
Add					
Estimated Income During Year:					
Contribution from General Fund	150,000	209,450	-	-	359,450
Interest on Investment of Balances	-	-	890,000	-	890,000
Capital Receipts	-	-	-	884,000	884,000
Capital Grants	-	-	-	531,000	531,000
	1,297,740	1,250,400	3,228,696	6,089,879	11,866,715
Deduct					
Estimated Expenditure During Year:					
Transfer to General Fund	(150,000)	(6,000)	(134,000)	-	(290,000)
Capital Expenditure	-	(302,000)	(872,000)	(858,000)	(2,032,000)
Estimated Balance 31 March 2008	**1,147,740**	**942,400**	**2,222,696**	**5,231,879**	**9,544,715**
Add					
Estimated Income During Year:					
Contribution from General Fund	-	209,000	-	-	209,000
Interest on Investment of Balances	-	-	780,000	-	780,000
Capital Receipts	-	-	-	-	-
Capital Grants	-	-	-	1,981,000	1,981,000
	1,147,740	1,151,400	3,002,696	7,212,879	12,514,715
Deduct					
Estimated Expenditure During Year:					
Transfer to General Fund	(250,000)	-	(134,000)	-	(384,000)
Capital Expenditure	-	(250,000)	(714,000)	(1,981,000)	(2,945,000)
Estimated Balance 31 March 2009	**897,740**	**901,400**	**2,154,696**	**5,231,879**	**9,185,715**

SUMMARY OF FUNDS & RESERVES

General

As with any organisation there is a need to maintain sufficient reserves to deal with any unforeseen events and this decision is guided by the professional judgement of the responsible financial officer (in Ryedale's case the Chief Financial Officer). The actual level of reserves are affected by spending decisions that happen as part of the budget and as a result of over/under spending throughout the financial year.

It is felt that current levels of reserves are prudent and the resultant interest from investments help fund both revenue and capital expenditure. Above all reserves should be used in meeting one-off rather than on-going liabilities.

General Reserve

This account is established to receive or contribute to any difference in the estimated or actual net expenditure on the Revenue Account. It also provides a working balance for the day to day revenue costs and income and meets any unforeseen expenses not provided for elsewhere in the accounts of the Council.

Repairs & Renewals Reserve

The Council owns property and equipment and has responsibilities as a tenant for other assets. Unlike a business that will charge depreciation against profits and may create a reserve of funds the Council needs to adequately provide for the replacement and major maintenance of its assets. The R&R Reserve provides this finance.

The R&R Reserve is not meant to finance normal day to day maintenance and repair but expenditure which is of a capital nature or major repair/maintenance projects.

The financing of expenditure in this way smoothes out the annual cost of such expenditure.

The Reserve will continue to be used for the financing of major repairs and renewals through the capital programme and an annual contribution will be made from revenue account - currently £209,000.

Investment Income Reserve

This account was created after the Council sold its housing stock in February 1991. It is used to finance capital expenditure and more recently a contribution is made to help fund revenue expenditure.

The interest earned on capital and revenue balances of the Council is transferred into this fund.

A reduction in interest earned will reduce the ability to fund capital schemes in particular.