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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 2013</b>
<b>REPORT OF THE:</b>	<b>CORPORATE DIRECTOR (s151) PAUL CRESSWELL</b>
<b>TITLE OF REPORT:</b>	<b>BUDGET STRATEGY 2014/2015</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 2014/2015 Council budget.

### **2.0 RECOMMENDATIONS**

2.1 That Council is recommended to approve the following strategy for the preparation of the 2014/2015 budget:

- (i) Proposals be brought forward for a 1.99% 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;
- (iii) Efficiencies to be maximised; and
- (iv) Options for service cuts to be provided. These proposals to be considered by the Resources Working Party and brought to the Policy and Resources Committee and Council.

### **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 budget review, shared services and service reviews. Notwithstanding this work it is almost certain that service cuts will be required to balance the budget (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 Major public consultation was undertaken to inform both the 2013/2014 and 2014/15 budgets. The outcome of that is attached at Annex A. Further public consultation will be required as work on the budget and requirements are undertaken. Early consideration of options for cuts by members will facilitate timely and meaningful consultation.

## **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) as approved by members with the Council's Financial Strategy in February 2013 set out the projected financial position. At that time the Council set a 0% increase in its part of the Council Tax bill for 2012/2013. This was supported by additional Government grant equivalent to a 2.5% increase in Council tax.
- 6.2 Within the MTFP projection was the need to identify nearly £300k of efficiency and cuts for the 2013/2014 budget. This position was based on the following assumptions:
- Further Cuts to Government Revenue Support Grant (RSG) of 23% 2014/2015
  - No significant Changes to the Business Rate Retention base
  - Using £495k of New Homes Bonus to Support Revenue
  - A Council Tax increase of 2% in 2014/15
  - Pay Inflation of 1%
  - Price inflation of 3%
- 6.3 There are a number of key influences on the finances of the Council for 2014/2015 which then impact on the budgetary position. These include:
- Government grant
  - The Business Rate Retention Scheme
  - Council Tax increase
  - Income from Fees and Charges
  - Issues arising from the current year
  - Pay and price inflation
  - Revenue effects of the Capital Programme
  - Efficiencies
  - Use of New Homes Bonus and Cuts to Services/Additional income

#### **Government Grant**

- 6.4 The Council has provided an indicative RSG for both 2014/15 and more recently 2015/16. This early announcement is welcomed, although more certain figures for each year are unlikely to be available until the preceding December to the relevant

financial year.

- 6.5 The actual figures are less welcome and show further significant cuts in RSG. With a number of further opportunities before the next General Election for the Chancellor to further revise these figures there are significant uncertainties whether further reductions will be made, in particular to the 2015/16 year's figures.
- 6.6 In drafting the projections for 2014/2015 in February 2013 the assumption was of a further cut in RSG of 23% in 2014/15 and then 17.5% 2015/16. This was considered a prudent estimate and was a greater cut than most North Yorkshire authorities had included in their medium term financial plans. The current projections are for cuts of 24.5% and 29.7%.

#### **The Business Rate Retention Scheme**

- 6.7 The basic operation of the Government Support for RDC in 2013/2014 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, with a safety net for falls of over 10%). RDC keeps the rest.
  - Growth in business rates above the average could lead to an increase in RDC resources, however the amount retained is only a percentage of the growth.
  - There is a safety net of 7.5% below the target. In the event a Council is below the safety net additional government grant will be paid to keep the Authority at least at the safety net.
- 6.8 For the 2013/14 budget the following table sets out the relevant figures.

	<b>Government Target £m</b>	<b>2013/14 Budget £m</b>
Business Rates Income Ryedale	15.925	16.278
RDC Share (40%)	6.370	6.511
Tariff payable to Government	4.938	4.938
Sub total	1,432	1.573
Funding Target	1.431	1.431
Levy payment (50%)		0.071
Business Rate Income retained by RDC	1.432	1.502

- 6.9 For the 2014/15 there are a number of factors which will change the income from the Business Rates Retention Scheme:
- Changes to the Business Rate base
  - The Government Decision on Small Business Rate Relief for 2014/15 (the cost of which is included above, but the Government contribution is met from yet to be announced revenue grant).
  - Collection Rates for Business Rates
  - The inflation factors to be applied to the Business Rate Multiplier and tariff
  - The potential for the Council entering a business rates pool and ability to therefore avoid some of the 50% levy on overachievement of business rates (see report to Council 5 September 2013).

6.10 Members were made aware at Council on the 5 September of the significant backdated successful business rates appeal lodged by RAF Fylingdales. This could have an impact on the 14/15 budget and indeed the decisions around the Council joining a business rates pool. The accounting treatment cannot be confirmed until further promised Government guidance and regulations are received.

6.11 The retained business rates calculation for 2013/14 and 2014/15 are clearly an ongoing issue.

#### **Council Tax Increases**

6.12 The Council's MTFP is predicated on a 2% increase in Council Tax for 2014/2015. The 2012/2013 charge was £176.72 per band D property. The Council has had 4 years of no increase in Council Tax.

6.13 The Government has confirmed that the referendum limit for increases in Council Tax is 2% for both 2013/14 and 2014/15. 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. Therefore the Council can effectively increase to 1.99% without referendum.

6.14 A rise of 2% would equate to £3.53 per year (under 7p per week) or less for the majority of Ryedale residents. 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 £34k.

6.15 The Government has again made an offer to Councils that freeze their Council Tax in the next 2 years:

- Those freezing their Council Tax in 2014/15 will receive a grant equivalent to 1% of Council Tax in 2014/15 and the same in 2015/2016
- Those freezing their Council Tax in 2015/16 will receive a grant equivalent to 1% of Council Tax in 2015/16 only

6.16 Whilst Council has accepted the various Council tax freeze offers from the Government so far, with the overall financial projections for the Council over the next 6 years, accepting the grant is a short term benefit but not a long term benefit, which may lead to greater service cuts. The following table set out the overall effect on Ryedale finances from accepting the offer next year, accepting the two years offer or not accepting them (assumes no Council Tax Base Growth and 1.99% increase in all years where freeze not accepted):

	<b>Reject both Offers (£000)</b>	<b>Accept 14/15 Offer Only (£000)</b>	<b>Accept 14/15 &amp; 15/16 Offers (£000)</b>
2014/15	3,479	3,411	3,411
2015/16	3,548	3,479	3,411
2016/17	3,619	3,548	3,479
2017/18	3,691	3,619	3,548
2018/19	3,764	3,691	3,619
2019/20	3,839	3,764	3,691
Freeze Grant		76	114
Total RDC Income	21,940	21,588	21,273
<b>Difference</b>		<b>352</b>	<b>667</b>
Ongoing		73	145

6.17 Therefore to Summarise:

- Over the next six years if the Council accepts the 2014/15 Freeze grant offer only it will have £352k less Council Tax income. This money will need to come from existing service delivery in cuts/additional income. Plus every year thereafter the Council is £73k worse off than rejecting the offer.
- Over the next six years if the Council accepts the 2014/15 and 2015/16 Freeze grant offer it will have £667k less Council Tax income. This money will need to come from existing service delivery in cuts/additional income. Plus every year thereafter the Council is £145k worse off than rejecting the offer.

6.18 Against this projection and the profile of the Council's finances up to 2020 (Annex B), which is prepared on the basis of a 2% increase in Council Tax, use of New Homes Bonus to support revenue and service cuts of £538k being required over the next two years. The officer recommendation is that the Council does not accept the Council Tax Freeze grant offer.

6.19 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 Annex B based on previous history
- Increased collection rates. A review of the rate and performance indicates their may be scope for making a higher assumed collection rate
- 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 precepting Authorities on next years council tax rises.

### **Income**

6.20 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 Year issues (2013/2014)**

6.21 The first issue relates to the Recycling contract with Palm Recycling. There are two strands to this issue, reduced volumes of recyclate which are recession related and reduced prices in the recycling market. Discussions are ongoing and further procurement work may be required for 2014/15, however Members should be aware

that this could be a cost pressure in the order of £60k in 2014/15, with underachievement of the budget in the current year.

6.22 2013/14 is the final year of the recycling incentive payment from NYCC therefore this leaves a growth area of £51,000 in the 14/15 budget. Payment relates to the exceeding of minimum recycling performance standards enshrined within the 2008 North Yorkshire Waste Partnership Service Level Agreement.

6.23 The tender of the Leisure contract, with the new provider coming in part way through 2014/15 adds uncertainty to cost for this service.

#### **Pay and Price inflation**

6.24 The 2013/2014 budget included provision for a 1% pay rise for all employees and employees have received this following the national negotiations.

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

6.25 The MTFP incorporate predictions around revenue impact of Capital Decisions, in particular the borrowing to finance the Brambling Fields junction upgrade.

#### **Efficiencies**

6.26 The Council has successfully reviewed all services in the preceding three years. This has seen many services reorganised and restructured as well as jobs and roles changing through investment in IT. This process over the 3 years highlighted £2.4m of savings, the majority being efficiency savings.

6.27 The scope for further significant efficiencies in services is limited. The forecast at Annex B assumes £150k of efficiencies in the current year and officers are working to achieve this through budget reviews and changes to services. Officers will seek to maximise efficiencies, however given the level of efficiencies identified over the past three years, significant savings will not be achieved without reducing services or the standard to which they are delivered.

#### **New Homes Bonus and Cuts to Services/Additional Income**

6.28 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

6.29 The Council has performed well in earning NHB. The projection is that the Council will receive around £1m in NHB in 2014/15. The £1.363m earned in total in the previous 3 years has not been used to support the revenue budgets, a position not shared by many Local Authorities. Members will be aware that the Government has announced top slicing of New Homes Bonus to provide funding for the Local Enterprise Partnerships from 2015/16. Notwithstanding this, Annex B providing an estimate of the impact, there will still be sizeable sums available for revenue support.

6.30 The Council's 2013/2014 budget did not plan to draw on the Council's General Reserve. Previous years had seen a planned draw of £100,000. The Council's reserves are adequate however the use of reserves to bridge revenue budgets only provides a short term solution to financing difficulties.

6.31 Ryedale has successfully avoided significant service cuts, however that position will be difficult to maintain. Charging for services previously provided free is the other

alternative. Other agenda items consider such proposals in cutting the Parish Grant and the introduction of charging for green waste. Whilst neither may not be members' preference, if initiatives such as this are not chosen other service cuts will need to be identified.

## **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:

Officers prepare options for discussion at Resources Working Party	Dates tbc
Member briefing on budget	15 January 2014
Policy and Resources Committee consider 2013/2014 Budget	6 February 2014
Full Council formally set budget and Council Tax	27 February 2014

**Paul Cresswell**  
**Corporate Director (s151)**

Author: Paul Cresswell, Corporate Director (s151)  
Telephone No: 01653 600666 ext: 214  
E-Mail Address: [paul.cresswell@ryedale.gov.uk](mailto:paul.cresswell@ryedale.gov.uk)

**Background Papers:**  
None.

## RISK MATRIX

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Efficiency savings unable to meet the shortfall therefore service cuts will be required.	Cuts to front line services, reputational damage to Council, possible poor external inspection.	<b>5</b>	<b>D</b>	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 budget review of revenue budgets. Any cuts will be fully worked up and considered by members at an early stage	<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