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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>5 FEBRUARY 2015</b>
<b>REPORT OF THE:</b>	<b>FINANCE MANAGER (s151) PETER JOHNSON</b>
<b>TITLE OF REPORT:</b>	<b>FINANCIAL STRATEGY 2015/2016</b>
<b>WARDS AFFECTED:</b>	<b>ALL</b>

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## **EXECUTIVE SUMMARY**

### **1.0 PURPOSE OF REPORT**

- 1.1 The report sets out the budget for 2015/16, a proposed Council Tax level, the Financial Strategy, details of balances and reserves, the indicators under the Prudential Code for capital finance as required by the Local Government Act 2003 and the Pay Policy for 2015/2016.
- 1.2 Members should note that this report is prepared on the basis of the provisional Local Government Finance Settlement. Further updates will be provided to the meeting.

### **2.0 RECOMMENDATIONS**

- 2.1 That Council is recommended:
- (i) To approve the Council's Financial Strategy (Annex A) which includes:
    - a. Savings/additional income totalling £402k (Financial Strategy Appendix A)
    - b. Growth Pressures totalling £294k (Financial Strategy Appendix A)
    - c. The Prudential Indicators (Financial Strategy Appendix B)
    - d. The revised capital programme (Financial Strategy Appendix D)
    - e. The Pay Policy 2015/2016 (Financial Strategy Appendix E)
  - (ii) a Revenue Budget for 2015/2016 of £6,895,350 which represents a 1.99% increase in the Ryedale District Council Tax, equivalent to £3.51 per band D property and taking the total charge to £180.23 for a Band D property (note that total Council Tax, Including the County Council, Fire and Police is covered within the separate Council Tax setting report to Full Council);
  - (iii) to approve the special expenses amounting to £35,130;
  - (iv) to approve the use of the New Homes Bonus Reserve to finance the initial £120k funding shortfall for the capital programme (paragraph 6.30 of this report);

- (v) to note the financial projection for 2015/16 – 2019/20 (Annex B).

### **3.0 REASON FOR RECOMMENDATIONS**

- 3.1 To agree a balanced revenue budget for submission to Council for the financial year 2015/2016 and prepare the Council to deliver the same in future years.

### **4.0 SIGNIFICANT RISKS**

- 4.1 Section 9 of the Financial Strategy outlines the significant risks in the Council's finances and mitigating controls.

### **5.0 POLICY CONTEXT 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.
- 5.3 Budget consultation with the public took place last year. A questionnaire was made available for residents to complete online via the Council website, and was also sent out to the members of the Citizens Panel. A summary of the result of the consultation is available for Members..
- 5.4 Member consultation has been through the Resources Working Party and Member Briefing.

## **REPORT**

### **6.0 BACKGROUND AND INTRODUCTION**

- 6.1 The Financial Strategy sets out the Council's financial position in the medium term in detail, including issues around the Local Government Finance Settlement and efficiencies as well as the principles and procedures adopted by the Council to manage its finances to a high standard.
- 6.2 Monitoring of the 2014/2015 budget has taken place through the Resources Working Party and this Committee who receive Revenue Budget Monitoring reports. There are currently no material issues arising from the current year's revenue budget.

#### **KEY ASSUMPTIONS**

- 6.3 In preparing the draft budget for consideration a number of pieces of key information are not yet known and government announcements are awaited. Key assumptions therefore are:
- The final settlement will not vary significantly from the draft announcement.

- The figures in this report are based on the draft NNDR1, the deadline for the NNDR1 is the 31 January.
- Capital receipts assumed in the capital programme for the sale of a property in Norton will be received.

### **Budget and Council Tax for 2015/2016**

6.4 Budgets have been drafted in line with Service Delivery Plans and the Budget Strategy. The following budget assumptions have been made in preparing the budget:

- General Inflation 3%
- Pay Inflation 1.2%
- Council Tax 1.99%
- Fees and Charges up to 4.5%, with exceptions considered by the Policy and Resources Committee (all Fees and Charges were set within the parameters).

6.5 Council resolved on the 9 October 2014 that the budget be prepared on the assumption of a 1.99% rise in Council Tax.

6.6 The referenda limit for 2015/16 was proposed at 2% as part of the Local Government Finance Settlement announced on 18<sup>th</sup> December. With a referenda costing c£70k to undertake and with 2% on Council Tax equating to c£70k it is clear that the Council should not approve a position which requires a referenda.

6.7 The Government also confirmed the criteria for the Council Tax Freeze Grant. If a Council chooses to freeze Council Tax it receives a grant equivalent to 1% of the basic amount of council tax set for 2014-15 multiplied by the amount calculated as the authority's council tax base for 2015-16 but not taking into account reductions to be awarded under council tax reduction schemes equivalent, in RDC's case £39k.

6.8 The budget as presented with this report therefore assumes an increase in the RDC part of the Council Tax of 1.99%. Should members wish to revert to take the freeze grant, the adjustment to the figures is relatively straightforward, with the shortfall being seen through a £33k increase in the New Homes Bonus required to support the revenue budget.

### **Grant Settlement and specific grants**

6.9 The Provisional Local Government Finance Settlement was announced on the 18 December 2014, at the time of writing this report the final announcement had not been received.

6.10 The Council received indicative figures for Revenue Support Grant (RSG) for 2015/2016 as part of last years financial settlement. The draft announcement on the 18 December was better than expected mainly through the inclusion of additional grant for rural service delivery of £28k. This brings the total rural service delivery funding to £109k within RSG. The new funding is welcomed, although is still far from compensating for lost grant for rural areas through the formula damping system.

6.11 There were a number of announcements and changes to business rates announced in the autumn statement. Councils will not lose financially from the announcements and section 31 grant will be available to compensate.

6.12 In addition to the above there are the following significant specific grant movements

for RDC:

<b>Grant</b>	<b>£k</b>
Loss of Community Right to Challenge New Burdens Grant	(9)
Loss of Community Right to Bid New Burdens Grant	(8)
Loss of Benefits Administration Subsidy	(32)
Add New Burdens Funding LCTS	(47)

### **Retained Business Rates**

- 6.13 Members will be aware that from 2013/14 the Council retains a percentage of business rates. The Council retains 40% of the rate income it collects; it then pays a fixed tariff to the Government (£5.131m in 15/16). If it then has income above a pre determined target the Council keeps 50% of this sum with the remainder paid as a levy to the Government.
- 6.14 Members are also aware that the Council has formed a business rates pool with North Yorkshire County Council (NYCC), Richmondshire District Council, Scarborough Borough Council, Hambleton District Council and Craven District Council. The benefit of forming the pool is that the levy rate on growth above target is reduced to zero. This benefit is shared between the pool members in accordance with the agreement, the level of benefit is dependent on the performance of each member of the pool (excluding NYCC), having particular regard to the level of business rate appeals.

### **Council Tax Income**

- 6.15 Council Tax income, including the projected surplus on the collection fund is estimated at £3.805m. The Council Tax Base has increased by 2.27% for 2015/2016 and provides additional income to assist the Council's financial position.

### **Base Budget Adjustments**

- 6.16 These are as follows:

<b>Issue</b>	<b>£k</b>	<b>Comments</b>
Pay and Price Inflation	150	3% Price and 1.2% Pay
Cost of Borrowing	22	Brambling Fields Junction Improvements
Total	172	

### **Growth Items**

- 6.17 The position is detailed in appendix A to the Financial Strategy at Annex A.

### **Savings/Cuts/Additional Income**

- 6.18 Over the three budget years 2011/12, 2012/13 and 2013/14 the Council undertook a fundamental review of all services resulting in significant efficiency savings. Whilst the scope for large efficiencies is limited, through budget review efficiencies of £178k have been identified, as well as offsetting small growth items with savings elsewhere.
- 6.19 At Council in October 2013 members approved the following cuts/additional income:
- Charging for Garden Waste Collection. Revised estimated savings of £192k in 2015/16 (£120k in 2014/15).
  - Reduction in the parish grant (relating to the implementation of LCTS), saving £32k in 2015/16 (£32k in 2014/15).

### **New Homes Bonus**

- 6.20 Provisional figures for 2015/16 show an increase in New Homes Bonus from

£1.127m to £1.387m. To date the Council has used £175k to support the revenue budget, the plans approved last year identified the gradual increase in use of this revenue funding to protect services. It is predicted that NHB will rise to a total of around £1.7m by 2016/17 before it plateaus (this being the maximum six years on which the payments are based).

- 6.21 The budget as proposed includes an additional £260k in NHB receipts and uses an additional £317k of the 2015/2016 NHB to support the revenue budget and a further £288k to fund the shortfall on the capital programme. There is therefore £608k NHB unallocated in the budget and this will be put into reserves. Members can allocate this funding as they see fit at any time in the future. In producing the MTFS last year it was estimated that an additional £432k of New Homes Bonus would be required this year to fund the revenue budget.
- 6.22 Members need to be aware of risks around the capital programme later in this report which may need to be financed from this remaining sum.

### Summary Revenue Budget Position

- 6.23 Taking all of the above into account the summary position is as follows:

Issue	£k
Base Budget Brought forward	7,176
Add:	
Base Budget Adjustments	172
Growth items	294
Total 'Cost'	7,642
Less:	
Retained Business Rates	1,775
Council Tax Income	3,805
Revenue Support Grant	1,315
Efficiencies/Savings/Additional Income	402
Movement in New Homes Bonus	345
Balance	0

- 6.24 Given the significant efficiencies already within the proposed budget and Financial Strategy it will be difficult to identify additional robust deliverable efficiency savings for the 2015/16 budget. Therefore any Member proposals for additional expenditure will necessitate allocation of more of the 2015/2016 New Homes Bonus or cuts to existing services.

### MTFS projections to 2019/20

- 6.25 Members will note the financial projections to 2019/20 (Annex B). This shows the NHB being drip fed into the budget to enable the Council to survive the austerity years with the vast majority of its services maintained. Notwithstanding the decisions already taken and being implemented the forecasts show the continued choice between use of NHB to support revenue and service cuts being required. The forecast identifies £600k of cuts being required in the four year period 2016/17 to 2019/2020. This would provide an estimated cumulative £1.8m of New Homes Bonus available over the 5 years for members to consider.
- 6.26 Annually when updating the capital programme a further year is added, which equates to around £500k. At present there is around a £288k shortfall in funding each additional year and the proposed capital programme has therefore taken an

allocation from 2015/16 New Homes Bonus to meet this shortfall. Without this action and in the absence of significant capital receipts Members would either have to remove existing schemes from the programme or considering borrowing with the associated revenue cost and affordability test under the prudential code.

### Capital Programme

- 6.27 The Financial Strategy provides a detailed breakdown of the Council's Capital Programme (appendix D) up to 2018/2019 totalling £5.817m. External funding of £1.308m is included, leaving a balance of £4.509m to be financed by the Council's funds and reserves as follows:

Funding Source	£
Capital Fund (incl £288k from NHB)	1,821k
Capital Receipts	618k
Borrowing	2,070k
	4,509k

- 6.28 The principle of the capital plan is that only those schemes which are fully worked up, evaluated and approved by Members and as such would not require further Member approval to proceed (other than in meeting constitutional requirements) are within the Capital Programme. The Capital Programme, as profiled above, necessitates borrowing to be undertaken in 2014/2015.
- 6.29 Members should note that there are only £14k unallocated capital resources available for investment in new schemes based on existing assumptions of capital receipts and investment interest receipts. Schemes on the reserve list are for information and the inclusion of any of the schemes will be a Council decision based on evaluation of the detailed proposals.
- 6.30 The 4 year capital programme is based upon the full capital receipt from the sale of Norton Bowls Club. This is assumed within the capital programme at a value of £350k, of which £120k is deferred to be paid by instalments over 10 years, therefore **Members are recommended to approve the use of the New Homes Bonus Reserve to initially fund this shortfall** and as a result to reduce the required ongoing contribution from the New Home Bonus Reserve to the Capital programme from £300k to £288k over the next 10 years in order to recoup this initial funding.
- 6.31 The capital programme as proposed also includes the predicted final payment towards the Brambling Fields junction improvements. The final cost is now estimated to be £250k over the budget provided and the unprecedented weather was the major factor in creating this cost. Assumptions about developer contributions have been increased to cover this cost. The position on the receipt of these will need consideration over time and may necessitate other funding to be identified if they are not received.

### Pay Policy 2015/2016

- 6.32 The Pay Policy for RDC for 20105/2016, as required under the Localism Act is attached at appendix E to the Financial Strategy (Annex A). Members will note that there are few changes to the policy as presented to Council in February 2014.

### Special Expenses

- 6.33 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 residents of the Parishes concerned and are estimated as follows:-

<b><u>Town/Parish</u></b>	<b>£</b>
Malton	4,870
Norton	9,780
Pickering Rural	<u>20,480</u>
<b>TOTAL SPECIAL EXPENSES</b>	<b><u>35,130</u></b>

#### **National Non-Domestic Rates (NNDR)**

- 6.34 For 2014/15 the NNDR multipliers are: a small business non-domestic rate multiplier of 47.1p and a non-domestic rate multiplier of 48.2p. For 2015/16 the draft multipliers are 48.0 and 49.3p respectively.

#### **Prudential Code**

- 6.35 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. Appendix B of the Financial Strategy lists the various indicators.
- 6.36 These indicators can be amended during the year if they are found to be inadequate.

#### **Funds & Reserves**

- 6.37 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. Appendix C in the Financial Strategy sets out the projected major Funds and Reserve balances. The Council's revenue budget for 2015/2016 assumes no draw on the General Reserve to support the budget.

#### **Local Government Act 2003 – Section 25 Report**

Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer) to report to the Authority when it is making the statutory calculations required to determine its Council tax or precept. The Authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides.

What is required is the professional advice of the Chief Finance Officer on these two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together. In particular, decisions on the appropriate level of reserves should be guided by advice based on an assessment of all the circumstances considered likely to affect the Authority.

In each Local Authority the Chief Finance Officer alone must prepare the Section 25 report.

Section 25 requires the report to be made to the Authority when the decisions on the calculations are formally being made (i.e. Council). However, those decisions are the conclusion of a process involving consideration of the draft budget by various parts of the organisation. During this process appropriate information and advice has been

given at the earlier stages on what would be required to enable a positive opinion to be given in the formal report.

DCLG guidance states that *“it should be possible to identify the sections of a composite report that are made under section 25, so that the Authority is able to discharge its duty to take account of the statutory report under section 25 (2).”*

### **Section 25 Report (Report of the Chief Finance Officer – Finance Manager (s151))**

In setting the Revenue budget for 2015/2016 **I consider that the proposed budget is robust, and reflects a realistic and prudent view of all anticipated expenditure and income.**

The total savings and additional income proposals are £402k. This level is significant in relation to the Authority’s overall budget and therefore inherently carries a risk. The achievement of these savings will be crucial in managing within the budget. The risk of this has been mitigated in part by thoroughly reviewing all savings proposals for their robustness and effective budget monitoring procedures are in place. There inevitably remains a risk in delivering on this level of savings and there is always potential for delay in achieving savings or failure to achieve income targets. Where this occurs, compensating savings will need to be identified. Assumptions are within the 2015/2016 budget that the 3 month moratorium £31k will be delivered.

The overall level of reserves is considered in detail within the Financial Strategy. I consider that the overall level of reserves is adequate.

The Capital Plan and Capital Programme have been regularly reviewed during the year. The unapplied capital resources will need to be considered in knowledge of the ongoing expectations of low interest rates and limited capital receipts generated by the Authority. It is important that proper project management disciplines are followed for schemes within the programme together with regular monitoring to minimise the potential for unexpected overspends.

Within the current economic climate it will be important that close budget monitoring of services which generate income and partnerships takes place. In particular Land Charges, Building Control, Recycling, Trade Waste, Green Waste, Car Parking, Planning and Ryecare to enable action to be taken in year where necessary.

## **7.0 IMPLICATIONS**

7.1 The following implications have been identified:

- a) Financial  
Significant financial implications on the Council are detailed in the report and the Financial Strategy.
- b) Legal  
There are no additional legal issues on the Council from the recommendations.
- c) Other  
The proposals within the Financial Strategy do impact on the staffing resources of the Authority. Appropriate procedures and plans are in place to manage these issues.



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**Background Papers:**  
None

**Background Papers are available for inspection at:**  
N/A