



REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	27 SEPTEMBER 2018
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) ANTON HODGE
TITLE OF REPORT:	RYEDALE'S FINANCIAL STRATEGY 2018-23
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 This report provides an update to members on progress towards refreshing the Council's Financial Strategy.

2.0 RECOMMENDATIONS

- 2.1 That the report be noted and that the Committee agrees the proposals around Quarterly budget monitoring (section 8) and budget timetable (section 11).

3.0 REASON FOR RECOMMENDATIONS

- 3.1 This reports sets out some of the detail relating to work already undertaken in relation to issues that will impact on the Council's financial strategy. It also sets out a proposed timescale and work plans for formal approval and other proposals regarding work ongoing budget monitoring.
- 3.2 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. As the timetable in section 11 sets out, the intention is to provide an update on this strategy to Council on 6 December with final decisions taking place in the New Year.

4.0 POLICY CONTEXT AND CONSULTATION

- 4.1 The 2018-19 budget strategy was approved at Council in July 2017 and is a key document 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.

REPORT

5 REPORT DETAILS

5.1 This report is split into the following sections which mirror the format of the Financial Strategy.

- Section 6 – Background
- Section 7 – 2017-18 Outturn Variances
- Section 8 – 2018-19 Outturn and Proposed Budget Monitoring process
- Section 9 – Pressures for 2019-23 and other funding information
- Section 10 – Reserves
- Section 11 – Key Dates

6 Background

6.1 At the meeting with the Resources Working Party on 12 July 2018, and following further discussion at the Policy and Resources Committee and Overview and Scrutiny Committee later that month, particularly around the impact of two years of significant underspends on the financial strategy, a proposal was made to begin a programme of work looking at the following issues:

- Understanding the reason for the 2017-18 underspend
- 2018-19 outturn estimates and proposed new budget monitoring process
- Pressures for 2019-23 and other funding information
- Savings required during that period
- Use of Reserves

6.2 This report presents information which has been collected as part of the work undertaken to date, especially around the 2017-18 outturn and an initial view on the 2018-19 position.

6.3 it also notes the feedback from the Resources Working Party meeting held on 27 September, which supported the introduction of more comprehensive and regular budget monitoring information for members.

7 2017-18 Outturn Variances

7.1 The report to the Working Party in July set out the 2017-18 outturn summary below, showing that underspends appeared across the board.

2 0 1 7 - 1 8		
Budget	Actual	Variance

	£	£	£
Central Services to the Public	757,230	601,841	-155,389
Cultural and Related Services	893,270	833,258	-60,012
Environmental and Regulatory Services	2,348,930	1,860,750	-488,180
Planning Services	1,027,620	274,167	-753,453
Highways and Transport Services	-558,760	-568,434	-9,674
Housing Services	1,057,715	792,888	-264,827
Corporate and Democratic Core	1,151,500	1,018,388	-133,112
Other Corporate and Non Distributed Costs	159,492	10,986	-148,506
Cost of Services	6,836,997	4,823,844	-2,013,153

- 7.2 Further work has been undertaken to identify the underlying reasons for these variances and, critically, whether we can expect these to be recurring in 2018-19 and future years. Details regarding the variances for 2017-18 are presented in Appendix A.
- 7.3 A substantial proportion of the underspend (approx. £400k) was in staffing budgets. Some of this was due to unfilled vacancies but some will also be due to the method of budgeting – which assumes that all staff are paid at the top of their respective pay bands and that there are no savings achieved through vacancy management. The underspend equated to around 9% of the available budget. Organisations will tend to set a budget based at 3% vacancy factor and perhaps at mid-point of the pay band. Together this might equate to 5% or more of the bill.
- 7.4 There were also a number of underspend or over-recovery of income which are less likely to recur in future years. These included planning fees.
- 7.5 The analysis of the 2017-18 position provides some important detail which is picked up in the next section, looking at the 2018-19 position.

8 2018-19 Outturn and Proposed Budget Monitoring process

- 8.1 A proportion of last year's underspend will be recurring. The intention is to calculate and provide to members a detailed and comprehensive 2018-19 position based on Quarter 2 (Q2) actuals (i.e. to 30 September), and the impact of the ongoing underspend will be reflected in that.
- 8.2 Until this work has been completed, any estimates provided now should be treated with caution. The 2018-19 budget approved by Council in February agreed to the reduction of funding in some areas – in order to balance the overall budget position. This equated to £436k and therefore, all things being equal, we could expect this to impact on any recurring underspends to the same amount. There may be additional one-off underspends (or overspends) to add to this figure. The next step of the process will be to confirm any pressures and additional spending requirements, before coming to a view on the bottom line. This is illustrated in figure 1 below.

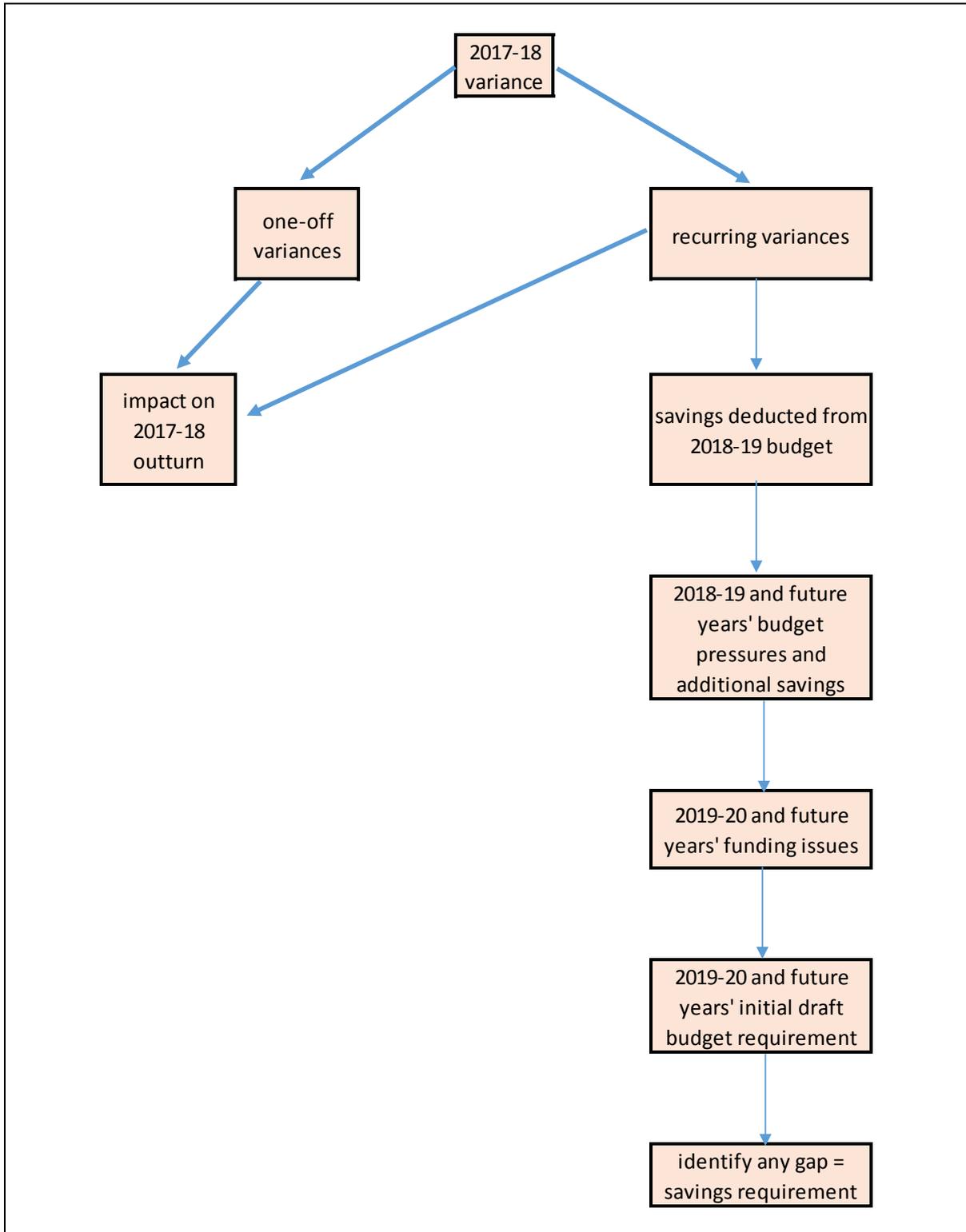


Figure 1: 2017-18 to 2019-20 and future years

8.3 The Q2 monitoring report will therefore provide members with a robust position on the entire budget and will move away from simply showing detail around specific budget areas. Although this detail has been important and informative, an overall position statement is essential to enable members to consider this alongside funding information (which will become apparent later in the autumn) and other emerging budget pressures. In turn, this will allow us to propose the level of Council Tax and any further savings required to balance the budget.

- 8.4 This information will also prompt us to look at revising certain budget lines. For example, taking the issue with salary budgets mentioned above should we revise the method of budgeting for salaries, thus potentially releasing £200k - £300k back into the overall pot?
- 8.5 It is then intended that a full monitoring exercise is undertaken on a quarterly basis, i.e.
- Q1: estimates based on performance April – June
Q2: estimates based on performance April – September
Q3: estimates based on performance April – December
Q4: Outturn
- 8.6 In future years, the Q1 report would be made available to all members in July/August. Q2 would follow in Oct/Nov and Q3 in January.
- 8.7 Feedback from the Resources Working Party on 13 September showed strong support from members for regular and comprehensive budget monitoring reports.

9 Pressures for 2019-23 and other funding information

- 9.1 Appendix B sets out the current MTRF 2018-23 as presented to the Council in February of this year. Assumptions at that stage showed an annual increase in pressures of £783k in 2019-20, £709k in 2020-21 and £300k thereafter. These assumptions will be challenged through a series of “root and branch reviews” which have been set up with all budget managers to take place in October and in time to report back to the late October/November cycle of meetings.
- 9.2 This information will enable the pressures to be identified and will be added to other intelligence such as that around the impact of the new pay award.
- 9.3 Funding information for income and grants will be available later in the year. This will include reviewing assumptions previously made regarding the use of the New Homes Bonus (NHB) funding and Localised Business Rates.

10 Reserves

- 10.1 Appendix C shows a summary of the council’s earmarked reserves and balances. These have increased from £8,692k at 01.04.17 to £12,808k at 31.03.18. The main increases in reserves have been as a result of:
- £2.1m in-year revenue underspend in 2017-18
£1.3m increase to New Homes Bonus reserve
£0.7m increase to Capital Fund
- 10.2 The Local Government Act 2003 places a specific duty on the Chief Finance Officer, i.e. the Resources and Enabling Services Lead (s151), to make a report to the authority when it is considering its budget and the level of the Council Tax. This report must deal with the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. The Council must have regard to this report in making their decisions.
- 10.3 The Council also has a fiduciary duty to local taxpayers and the Chief Finance Officer must be satisfied that the decisions taken on the level of balances and reserves

represent the proper stewardship of funds.

- 10.4 In assessing the adequacy of the contingencies, balances and reserves, the Chief Finance Officer takes account of the key financial assumptions underpinning the budget, together with an assessment of the Council's financial management arrangements. This assessment will include a review of past performance and external influences on the financial plan, and full consideration of the risks and uncertainties associated with the plan, their likelihood and potential impact.
- 10.5 The Council's policy is to maintain its contingencies, balances and reserves at levels that are prudent but not excessive.
- 10.6 Work has been undertaken to confirm the level of reserves and planned use over the period covered by the Financial Strategy and this will also be brought to members in the meetings set out in the timetable below.

11 Key Dates

11.1 The following table sets out some key dates for the budget process:

<i>Date</i>	<i>Meeting</i>	<i>Details</i>
3 Oct	Members' Development	Budget Planning Process
22 Oct	Group Leaders' Briefing	Update on Budget Strategy
1 Nov	Resources Working Party	Update on Strategy <ul style="list-style-type: none"> - Budget Monitoring 2018-19 - Key budget issues/initial proposals for 2019-20 and beyond
15 Nov	Policy and Resources Cttee	Update on Strategy <ul style="list-style-type: none"> - Budget Monitoring 2018-19 - Key budget issues/initial proposals for 2019-20 and beyond
6 Dec	Council	Update on Strategy <ul style="list-style-type: none"> - Budget Monitoring 2018-19 - Key budget issues/initial proposals for 2019-20 and beyond
7 Jan	Group Leaders' Briefing	Preparing for final stages of budget process
9 Jan	Members' Development	Review of budget issues and any proposals
17 Jan	Resources Working Party	Draft Budget Strategy 2019-23
27 Jan	Overview and Scrutiny Cttee	Treasury management statement and Investment Strategy 2019-20
7 Feb	Policy and Resources Cttee	Budget Strategy 2019-23
21 Feb	Council	Budget Strategy 2019-23, including <ul style="list-style-type: none"> - approving 2019-20 revenue and capital budgets - setting Council Tax 2019-20 - Treasury management statement and Investment Strategy 2019-20

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Background Papers: Report to Resources Working Party 12 July 2018

APPENDIX A – Variances 2017-18

Income

Description	Budget	Actual	Variance	Comments
Fees & Charges	-2,782,615	-3,170,124	-387,509	A summary of the key variances within fees & Charges include: - Planning Income increase (£251k) due to an increase in volume of both small and large applications, in addition to the nation fee increase applied in the final quarter of the year. Council tax recovery court costs are were consistent with the prior year activity, at £25k above the budgeted figure. Taxi licence income exceeded budget (£24k) due to the introduction of the 3 year licencing fee. The administration fee from Disabled Facilities Grants exceeded budget by £30k due to an increase in activity in capital grants and Income from Housing Benefit overpayments exceeded budget by £92k as the anticipated effects of Universal Credit have not yet been seen. These surpluses are partially offset by shortfalls in Car Parking (£45k) and Markets income (£22k). Markets have seen a decline in popularity nationally.
Government Grants - Benefits	-9,186,370	-9,275,966	-89,596	Additional grants have been received in relation to New Burdens funding, Local Authority Data Share (LADS) and Universal Credit roll out.
Business Rates Pool	-1,819,750	-2,186,754	-367,004	Ryedale share of Business Rates generated through the Pool exceeded budget by £332K, this was topped up by renewable energy business rates £35K
Major Income Variances			-844,109	

Expenditure				
Description	Budget	Actual	Variance	Comments
Employee Costs	5,766,019	5,260,132	-505,887	Salaries were underspent by £461k due to a number of vacancies throughout the year, and the impact of budgeting at the top of the pay grade. (These were partially offset by increase in contracted staff £112K employed to back-fill, see Supplies & Services). In addition. Training budgets were underspent by £46k as the restructure delayed training plans. Members allowances were underspent by £18k
Premises	1,055,000	908,822	-146,178	Repairs and Maintenance budgets for across RDC properties were underspend by around £52k, and contracted spend for Leisure Facilities management were underspend by £37k this is mainly due to a large portion of the budgets being reactive 'contingency'. In addition Business Rates costs for RDC properties were underspent by £65k
Provisions	92,743	0	-92,743	Contingency
Supplies & Services	3,211,265	2,895,631	-315,634	Major variances include; Local Development Framework (LDF) consultants £49K, this is a reactive budget that wasn't called upon during 17/18 and LDF inspection fees of £50k as this is only a 5 yearly cyclical requirement. Agency & Hired services were overspent in total by £52k, of which £112k relates to back-filling vacant posts. Bad Debts provision allowance was underspend by £43k as a result of reducing debt. Underspends of £39k were seen against central postage and printing costs due to lower than estimated costs. Costs for Council asset valuations were also overestimated, resulting in a £25k underspend. In addition there was a net combined underspend of £135k against various budget lines with non-material variances.

Vehicles & Transport	732,110	515,230	-216,880	Budgets were adjusted in 17/18 in anticipation of additional vehicles being added to the Streetscene fleet, this has been delayed as a result of the Streetscene review resulting in a saving of £87k against expected lease costs. In addition, a surplus of £103k was seen against fleet diesel budgets, along with other non-material variances.
Major Expenditure Variances			-1,277,321	
Major Variances Analysed			-2,121,430	

APPENDIX B

Medium Term Revenue Forecast 2018-19 to 2022-23

£5 increase for the life of the MTFS, revised CTB growth

	2018-19 Projection £'000	2019-20 Projection £'000	2020-21 Projection £'000	2021-22 Projection £'000	2022-23 Projection £'000
Base Budget and Inflation					
Base Budget	6,157	6,067	5,955	6,474	6,618
Pay Increase & General Inflation	138	150	150	150	150
	6,295	6,217	6,105	6,624	6,768
Add Future Cost Increases					
Budget Pressures	139	364	220	150	150
Deduct Future Savings:					
Efficiencies/Service Cuts/Additional Income	-424	-200	-150	-100	-85
Movement in NHB Applied to Revenue	32	-426	-160	-56	-70
Movement in Rural Service Delivery Grant	-113	113	459	0	0
Movement in Transition Grant	25	0	0	0	0
Increase in Transfer to Reserves	113	-113			
Net Revenue Budget	6,067	5,955	6,474	6,618	6,763
Financing					
RSG	143	-120	0	0	0
Business Rates	1,775	1,775	2,015	1,997	1,978
Collection Fund Surplus	31	25	25	25	25
Council Taxpayers	4,061	4,227	4,385	4,546	4,709
CT Base Growth	57	48	49	50	51
Budget Requirement	6,067	5,955	6,474	6,618	6,763
NHB Earned	964	900	900	900	900
Applied to Revenue cumulative	0	426	586	642	712
Applied to Capital	188	188	188	188	188
To be allocated	776	286	126	70	0

APPENDIX C

EARMARKED RESERVES AND BALANCES

£000s	01.04.17	31.03.18	change
General Reserve	1,328	3,331	2,003
Capital Fund	2,199	2,929	730
Collection Fund Equalisation Reserve	236	506	270
Ryedale Development Fund	95	94	-1
Election Reserve	41	61	20
Council Tax Hardship Fund	18	24	6
New Homes Bonus Reserve	2,389	3,698*	1,309
Grants Reserve	164	163	-1
IT Fund	97	95	-2
ICE Fund	766	807	41
Local Development Framework	50	50	0
Operational Reserve	870	648	-222
Restructure Reserve	439	402	-37
	8,692	12,808	4,116

*£2.5m subsequently moved to Capital