RYEDALE DISTRICT COUNCIL

PART B:	**RECOMMENDATIONS TO COUNCIL**
REPORT TO:	**POLICY AND RESOURCES COMMITTEE**
DATE:	**2 FEBRUARY 2012**
REPORT OF THE:	**CORPORATE DIRECTOR (s151)** **PAUL CRESSWELL**
TITLE OF REPORT:	**FINANCIAL STRATEGY 2012/2013**
WARDS AFFECTED:	**ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 The report sets out the budget for 2012/13, a proposed Council Tax level, the Financial Strategy, details of balances and reserves and the indicators under the Prudential Code for capital finance as required by the Local Government Act 2003.

2.0 RECOMMENDATIONS

2.1 That Council is recommended to approve:

(i) the Council's Financial Strategy (Annex A) which includes:

a. The prudential indicators (Financial Strategy Appendix B)
b. The revised capital programme (Financial Strategy Appendix D)
c. Growth Pressures totalling £148k (Financial Strategy Appendix A)
d. Investment in Priorities of £100k (Financial Strategy Appendix A)
e. Savings/additional income totalling £628k (Financial Strategy Appendix A)
f. Cuts to Services of £164k; (Financial Strategy Appendix A)

(ii) a Revenue Budget for 2012/2013 of £6,972,100 which represents no increase in the Ryedale District Council Tax of £176.72 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) approve the special expenses amounting to £47,400; and

(iv) members note the financial projections for 2013/2014 and authorise officers to continue to maximise efficiencies through service reviews, income generation and shared services.

3.0 REASON FOR RECOMMENDATIONS

3.1 To agree a balanced revenue budget for submission to Council for the financial year

2012/2013, and prepare the Council to deliver the same in 2013/2014 with minimum cuts to services.

4.0 SIGNIFICANT RISKS

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

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 Full Council on the 3 November 2011 in considering recommendation from the Policy and Resources Committee on the 29 September 2011 on the budget strategy resolved:

That the following parameters for the preparation of the 2012/2013 budget be approved:

(i) Proposals be brought forward for a nil 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 the Policy and Resources Committee.

5.2 Details of the action taken and savings proposals have been presented to the members through the Resources Working Party on the 22 November 2011, 10 January 2012 and at the Budget Briefing on the 18 January 2012.

6.0 POLICY CONTEXT

6.1 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.

6.2 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.

7.0 CONSULTATION

7.1 Significant budget consultation with the public took place last year through the Budget simulator. Further consultation on priorities has taken place through the citizens panel. This consultation was planned to provide information to support the budget setting process for 2011/12 and 2012/13, to reflect the move by the government to a three year forecast for the grant settlement.

The reports , both in summary and in detail, can be found on the Councils website on the consultation pages at
http://www.ryedale.gov.uk/system_pages/council_information/consultations/budget_simulator.aspx

7.2 Member consultation has been through member briefings and workshops.

8.0 REPORT DETAILS

8.1 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.

8.2 Monitoring of the 2011/2012 budget has taken place through the group leaders, Resources Working Party and this Committee who received Revenue Budget Monitoring reports.

8.3 Annex B provides a variance analysis summary of the 2011/2012 budget to the 2012/2013 budget.

Budget and Council Tax for 2012/13

8.4 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% plus committed
- Pay Inflation 1%
- Council Tax 0% (based on accepting the Council Tax Freeze grant equivalent to 2.5% increase, see below)
- Fees and Charges 3.5% to 4.5% (with exceptions considered by the Commissioning Board, the Policy and Resources Committee and Council)

8.5 The government has confirmed the offer of grant, equivalent to a 2.5% increase in Council Tax to those Authorities that set a nil increase in 2012/2013. Unfortunately unlike the grant provided last year this is not built into the base finance allocations and therefore it will create a financial pressure in 2013/2014, unless a 'catch up' 5% increase in Council Tax is made. 2013/2014 is already predicted to be a turbulent year with a number of big issues including Localised Council Tax Benefit and Localised Business Rates. A provisional grant settlement for 2013/2014 has not been made. The following table sets out the basic financial impact on RDC income of the grant being for one year only over the next 4 years assuming the same tax base:

Year	CT Income with 12/13 Grant	CT income (2.5% increase p.a.)
2012/2013	£3.715m	£3.808m
2013/2014	£3.808m	£3.903m
2014/2015	£3.903m	£4.001m
2015/2016	£4.001m	£4.101m
CT Grant 2012/2013	£0.093m	
Total 4 year income	**£15.520m**	**£15.813m**
Loss		**£293k**

8.6 Nationally a small number of Authorities have indicated they may reject the Freeze grant, due to the detrimental longer term impact on the Council Tax income. The government has also confirmed that any increase in Council Tax of 3.5% or higher will only be permitted following a referendum. For information both North Yorkshire

County Council and North Yorkshire Police have indicated that they are likely to accept the grant and both therefore set a nil increase in their element of the Council Tax.

8.7 Members will be aware of the impact of the spending review on the Council's government grant which has seen significant reduction as detailed in the following table summarises the impact of the draft announcement on the grant:

2010/2011 Grant Received	£4,520k
Adjusted 2010/2011 Grant *	£4,243k
2011/2012 Grant	£3,598k
2012/2013 Grant (provisional)	£3,207k

*adjusted for the transfer of responsibility for concessionary fares from District Councils to County Councils in two tier areas and other formula changes.

8.8 Confirmation of the provisional announcement of Government Grant for 2012/2013 as detailed above is imminent with no significant changes expected.

8.9 Officers launched the 'Going for Gold' efficiency programme in early 2011 when the estimated savings requirement for 2012/2013 was £707k. Employees have been regularly informed through presentations. Whilst the expected requirement was below that achieved the previous year through the 'One-11' programme, the reduced base meant it was a significant challenge. Savings of that magnitude were well above the Council's usual savings requirement and government efficiency target of £300k prior to the economic downturn.

8.10 The Going for Gold Programme contained a number of key big ticket items including:

- Streetscene Review target at £250k
- Shared Service and other efficiencies £150k
- Localised Planning fees £200k

8.11 Even with all of the above there still remained the expectation at the outset that cuts would be required to balance the 2012/2013 budget.

8.12 The following table identifies the overall proposals to balance the budget:

	£	Detail
Initial Savings Projection	707k	
Delayed Borrowing	(63k)	See para 8.17
Growth items	148k	Financial Strategy Appendix A
Savings and Efficiencies	(628k)	Financial Strategy Appendix A
Cuts Proposals	(164k)	Financial Strategy Appendix A

8.13 Members will note that the expected Localisation of Planning Fees, following the Government consultation which closed in January 2011, has not been forthcoming. Despite significant rumour no announcements have been made. In the event that localised fees are not approved it is expected that there will be an increase in the nationally set fees which have not increased since 2008. Such an increase is expected to mitigate the current pressure on the income budget, which is unlikely to be achieved in the current year. If there is no increase, it is likely that the income target will not be achieved in 2012/2013 and further pressure will be a revision to the budget in the 2013/2014 budget strategy.

8.14 Members should note that the proposals within this report include:

- An unallocated growth provision of £50k in the budget
- £62k provided for an anticipated 1% nationally agreed pay rise for RDC employees. The pay award outcome will not be known ahead of setting the 2012/2013 budget, officer advice is that it is prudent to retain this provision.
- No use of the New Homes Bonus Grant Allocation for 2012/2013 of £439,779 (provisional announcement).

8.15 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 2012/2013 budget. Therefore any member proposals for additional expenditure will necessitate allocation of the growth provision or new homes bonus or cuts to existing services.

Capital Programme

8.16 The Financial Strategy provides a detailed breakdown of the Council's Capital Programme up to 2015/2016 totalling £11.252m. External funding of £1.894m is included, leaving a balance of £9.358m to be financed by the Council's funds and reserves as follows:

Funding Source	£
Capital Fund	4,532k
Capital Receipts	2,756k
Borrowing	2,070k
	9,358k

8.17 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 does not necessitate borrowing to be undertaken until 2013/2014, which benefits the 2012/2013 budget by £63k.

8.18 Members should note that there are no unallocated capital resources available for investment in new schemes. In the absence of significant capital receipts further major capital schemes will not be possible without either removal and/or reduction in existing capital schemes. Given the financial projections and significant uncertainty over the future arrangements for local government finance further borrowing will not be recommended as affordable and therefore not in line with the prudential code.

Special Expenses

8.19 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	5,300
Norton	13,700
Pickering Rural	28,400
TOTAL SPECIAL EXPENSES	**47,400**

National Non-Domestic Rates (NNDR)

8.20 For 2011/12 the NNDR multipliers are: a small business non-domestic rate multiplier of 42.6p and a non-domestic rate multiplier of 43.3p. For 2012/13 the draft multipliers are 45.0p and 45.8p respectively.

Prudential Code

8.21 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.

8.22 These indicators can be amended during the year if they are found to be inadequate.

Funds & Reserves

8.23 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.

8.24 The Council's revenue budget for 2012/2013 assumes a £100k draw on the General Reserve to support the budget.

8.25 No other significant changes to the reserves, other than through capital expenditure, are proposed this year.

The 2013/2014 Budget Strategy

8.26 The two year settlement announcement in CSR10 allowed the Council to forward plan its budgets to minimise cuts to services over that period. Unfortunately no provisional announcement for years beyond 2012/2013 have been made. In addition there are significant other issues in predicting future settlements:

- Localisation of Business Rates. A consultation has recently ended on this proposal. Further legislation and regulations are expected, but this is likely to see Local Authority funding linked to the growth in Business Rate income, with District Councils taking a significant proportion of the risk in two tier areas. Work is ongoing across the county on this issue.
- Localisation of Council Tax Benefit. Although the Council currently administers Council Tax Benefit it is part of a national scheme and the Council is reimbursed for expenditure made. The new proposals are that the Council continues to manage the benefit under its own scheme and receives a grant. The grant however is 10% lower than actual expenditure. Again work is ongoing County wide and legislation and regulations are expected this year.
- Formula changes. The formula by which Grant is allocated to Local Authorities is programmed to be reviewed in specific areas.
- Council Tax Freeze Grant. The effect of accepting the grant for the 2012/2013 budget is a further pressure of £94k in 2013/2014.

8.27 Members will receive the details of the Medium Term Revenue Forecast and savings requirement to balance the 2013/2014 budget as part of the Council meeting on the 20 February 2012.

8.28 Work is underway within the Council to generate savings towards this target. A restructure and centralisation of support teams is underway with a voluntary redundancy programme. This project is branded as 'Round 3' and is expected to generate savings of £250k - £300k in 2013/2014. Existing restructure reserves and salary budgets will be used to meet costs associated with the project.

Notwithstanding this and other efficiencies which may be identified it is likely that further service cuts will need to be considered next year.

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, including the member committees and officers. 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 – Corporate Director (s151))

In setting the Revenue budget for 2012/13 **I consider that the proposed budget is robust, and reflects a realistic and prudent view of all anticipated expenditure and income.**

The total savings proposals are £792k. 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. Most savings have been identified through the Going for Gold programme. As a result many are considered low risk in that several months planning and lead in to the 2012/2013 budget has been possible to embed procedures to secure the savings. However, there inevitably remains a risk in delivering on this level of efficiency 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 2012/2013 budget that the 3 month moratorium £58k will be delivered.

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

The Capital Plan and Capital Programme has been regularly reviewed during the year. With the ongoing expectations of low interest rates and limited capital receipts generated by the Authority there are no surplus capital resources available for new schemes, or finance unavoidable overspends on existing schemes. 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, Car Parking and Planning to enable action to be taken in year where necessary.

9.0 IMPLICATIONS

9.1 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