

**REPORT TO** Cabinet  
**DATE:** 19 September 2007  
**DEPARTMENT:** Department of Resources  
**REPORTING OFFICER:** Head of Financial Management  
(*Val Hunter*)  
**SUBJECT:** **MEDIUM TERM FINANCIAL STRATEGY  
2008/2009 TO 2010/2011**  
**WARDS AFFECTED:** All  
**FORWARD PLAN REF:** N/A

## **1.0 PURPOSE OF REPORT**

- 1.1 This report aims to help translate the Council's policy objectives into action. It does this by reconciling spending ambitions with resource projections over the medium term, and by providing for appropriate resource reallocation.
- 1.2 This report should be read in conjunction with the Council's Strategic Plan and Corporate Improvement Plan. A key issue is that in taking decisions, due consideration is given to the Council's agreed corporate priorities. These priorities have been determined through consultation with local residents and other stakeholders.
- 1.3 The report emphasises the need for continued sound financial management in the face of difficult financial circumstances.
- 1.4 The report identifies 2008/2009 budget parameters and policy approaches for approval. It also identifies financial targets for the three-year period to reflect the overall policy stance.
- 1.5 All Departments and the Corporate Management Team have been consulted in the preparation of the report.

## **2.0 RECOMMENDATIONS**

- 2.1 To agree the following proposal for the Medium Term Financial Strategy (MTFS):
  - (a) That revenue budget targets for 2008/2009 to 2010/2011 be agreed. (See **Appendix 2** for illustrative figures.)

(b) That 2008/2009 budget parameters be agreed:

Fees and charges increase	4% guideline (subject to service considerations and market forces)
Pay increases provision	2.5%
Other non demand-led expenditure budgets	0%
Efficiency savings illustrations (provisional departmental targets)	1% cash

(c) That a continued working balance target of £2m to £2.75m be approved.

(d) That the cash limit for HIC be applied as outlined in the report.

(e) That the "Cultural Services" bottom-line budget be discontinued, as outlined in the report.

2.2 That, given the plan to repeat the SIMALTO consultation exercise in 2008/2009, the Council contains its formal consultation to the District Panel on the draft MTFS for this year.

2.3 That the Governance Panel of the Corporate Overview & Scrutiny Commission be allowed until 31 December 2007 to report on its deliberations on the MTFS 2008/2009 to 2010/2011.

### **3.0 RECOMMENDED REASON FOR DECISION**

3.1 It is long-standing Council policy, and good financial discipline, to have a medium term financial strategy to underpin the authority's budgeting framework. Within the Audit Commission's Key Lines of Enquiry on Use of Resources, KLOE 2.1 requires that "The Council's medium-term financial strategy, budgets and capital programme are soundly based and designed to deliver its strategic priorities".

### **4.0 ALTERNATIVE OPTIONS CONSIDERED AND RECOMMENDED FOR REJECTION**

4.1 Not to adopt a medium-term strategy. This alternative is recommended for rejection, as it would not conform to accepted standards of financial discipline. It would attract adverse comment from the District Auditor.

## 5.0 BACKGROUND

- 5.1 The Council's 2008/2009 to 2010/2011 MTFFS is driven by the corporate improvement planning process and plans. The 3-year Strategic Plan, agreed in October 2005 and updated each year, sets out the Council's strategic objectives and plans which reflect both local and national improvement priorities (see **Appendix 1**). These processes are integrated and look forward at least three years.
- 5.2 The corporate and financial planning process translates the Council's medium-term corporate priorities and objectives into an outward-looking improvement plan (the Strategic Plan), together with an inward-looking improvement plan which focuses on the organisation's strengths and weaknesses (the Corporate Improvement Plan). Both plans were rolled forward, updated and approved by Council on 19 July 2007.
- 5.3 As part of developing the corporate planning process in 2007/2008, the Council will develop its Corporate Resource Strategy. This will strengthen the links between the Council's finance, IT and property resources to deliver its strategic priorities. From 2008/2009 onwards, this will be the framework document for future resource planning.
- 5.4 The MTFFS looks ahead three years at the Council's broad financial prospects. It, together with the Strategic Plan, incorporates the outcomes of stakeholder consultation, the results of risk assessments, projected developments in Council services and external initiatives such as the national efficiency agenda. Both documents also reflect the Council's ambitions to improve the organisation's capacity to deliver improved services through its People Management, Asset Management and IT strategies.
- 5.5 Since 2004, the Council has used the findings of the CPA Corporate Assessment to build on its strengths, tackle its weaknesses and set out its improvement plans and actions in the Corporate Improvement Plan.
- 5.6 The Audit Commission recently completed their 2006/2007 Use of Resources and Direction of Travel CPA assessments. These assessments were positive and identified that the Council was continuing to put in place measures to address the weaknesses identified.
- 5.7 Within the Use of Resources judgement the Council was given an overall score of 3 (on a scale of 1 = lowest, 4 = highest) with financial management, financial reporting and value for money scoring 3 and the other two areas scoring 2. The Council continues to address the areas of weakness identified to enable further improvement in its use of resources to be achieved.

## **6.0 CURRENT FINANCIAL AND MANAGEMENT POSITION**

- 6.1 The Council's overall financial management position is in line with many other District Councils. Spending patterns over services and overall spending levels are broadly consistent with the national average position and reserves and balances are around average levels.
- 6.2 The main difference is that Harrogate's grant per head is £9 (12%) below the national average for shire districts and this is largely compensated by higher than average council tax levels. Since the introduction of Council Tax in 1993/1994, Harrogate's tax level has fallen relative to shire districts as a whole.
- 6.3 The other main factors distinguishing Harrogate from other shire districts are that it directly operates a major conference and exhibition business and that Harrogate is one of the largest districts in terms of population and geographic area. There is a roughly equal spread of rural and urban population, which poses particular challenges for service provision and resource allocation.
- 6.4 While the pattern of spending across different services follows broadly national patterns, there are some differences. The main area of relatively high spending is Recreation and Leisure while low spending areas include Environmental Health, Street Cleansing and Corporate costs.
- 6.5 Whilst the financial position of the Council is consistent with many similar councils, resources projected for the medium term are insufficient to meet spending needs, especially in those areas promoted or imposed by central government or over which the Council has little discretion. Examples include recycling, the impact of single status/job evaluation and a variety of outstanding capital projects.
- 6.6 On the other hand, the Council's financial position has been greatly strengthened over the last 15 years through strong financial discipline. Spending across the Council has been kept within budgets, external loans have been reduced from £55m to £15m and other credit liabilities have been reduced by not leasing offices, vehicles or computers. The Council has been successful in securing a variety of external grants and increasing income levels.
- 6.7 The present projected level of working balance of £2.141m is within the medium-term target range and is supported by a risk assessment.
- 6.8 For the medium term, revenue resources will be restricted due to low increases in (or frozen) government grant and effective capping of increases in Council Tax to a maximum of 5%. The Council has been successful at generating efficiency savings, but this is becoming increasingly difficult to achieve.

- 6.9 By contrast, **revenue-spending demands** are increasing at a rapid rate. A key purpose of this strategy is to reconcile these factors. The sources of pressures for growth in revenue spending are:

#### **External – mostly Government priorities**

- ◆ Waste Management
- ◆ Access to Services
- ◆ Pensions
- ◆ Concessionary Fares

#### **Internal**

- ◆ Buildings and Infrastructure
- ◆ Local priorities from Members and the community

### **7.0 CAPITAL**

- 7.1 The Council's overall approach to capital has developed in response to CIPFA's (statute-backed) Prudential Code. This requires Councils to adopt a medium term planning horizon, and to prioritise schemes with regard to their contribution to service and corporate objectives. Accordingly, Harrogate has developed a revised capital scheme appraisal process, for use as future schemes emerge.

- 7.2 Under the Prudential Code, councils now have freedom to determine their own borrowing limits but may only do so if the borrowing is 'affordable' ie taking account of debt charges and any running costs, set against 3 year projections of other revenue account pressures and Council Tax effects. For Harrogate this means that the opportunities for borrowing are likely to be limited, because Harrogate has debt charges (including HIC) above average by £1.5m per year and a Council Tax 33% above the shire district average.

- 7.3 The implication of the financial strategy set out in this paper is that for the immediate future, prudential borrowing to support capital spending will only be acceptable for corporate priorities and only in the following circumstances:

- a. The project is expected to be self funding and is backed by a robust business assessment
- b. Specific revenue support is available within existing budgets
- c. The project is related to a specifically agreed growth proposal, which also provides the agreed revenue support
- d. An emergency situation (eg health and safety)

- 7.4 Phase 1 of the HIC Exhibition Hall redevelopment has been approved, subject to sufficient external grant funding being awarded, with the balance from prudential borrowing as the scheme falls under category a. above. The Council has also agreed to progress feasibility work on the remaining phases of the project, with a view to securing a satisfactory and affordable financial solution.

- 7.5 In the longer term the use of prudential borrowing to support the achievement of the Council's priorities within the financial strategy may need to be further developed.
- 7.6 Once current schemes are brought to conclusion, **local capital resources** will be above minimum prudent levels, estimated to total £5.0m by March 2011. The Council's vigorous programme of asset disposals over the past decade provided valuable capital receipts to sustain the capital programme over that period. But the consequence is that the Council's asset base is now virtually reduced to its operational property and a small core of strategic or investment holdings, with no further major capital receipts in prospect.
- 7.7 In contrast, **capital spending demands** continue. A review in May 2003 identified £35m of future schemes of differing priority. These include necessary refurbishment of various buildings (including Harrogate Theatre) and economic development match funding for rural workshops.
- 7.8 Additional capital needs include refuse recycling vehicles and wheeled bins, IT and eGovernment equipment, replacement CCTV cameras and a forward strategy for Starbeck Pool and Ripon Spa Baths. There are also proposals for new car parks in Ripon and Knaresborough, which are potentially fundable from on-street income over a number of years.
- 7.9 Successful external funding bids (eg lottery) have been key to many projects in recent years. However, this source of funding is less likely for many of the future capital needs now identified.
- 7.10 Capital spending demands for the Housing Investment Programme are mainly the achievement of the Decent Homes Standard. The recent Housing Options Appraisal has indicated that this can be met from the existing funding framework.

## **8.0 CENTRAL GOVERNMENT APPROACH**

- 8.1 The Government's approach to financial control of local authorities is continuing to undergo considerable change.
- 8.2 The Government's second comprehensive spending review, CSR07 was launched in July 2005. The objectives of the review are to set the tone and direction of public spending for the next 10 years and release resources for national priorities. The result of CSR07 was originally scheduled to be announced in Summer 2007. This has now been delayed until the Autumn. It is clear, however, from the March 2007 Budget report that it is the Government's intention to restrict public spending increases to an average of 2% per annum in real terms.
- 8.3 In respect of efficiency savings, the December 2006 pre-Budget report stated that "the baseline savings ambition for the 2007 Comprehensive Spending Review period will be at least 3% per year across central and local government, with a focus on net cashable savings to free-up resources to meet the challenges ahead". The March 2007 Budget report confirmed that "all the savings delivered under the CSR07 value for money programme will

be net of implementation costs and cash releasing, thereby maximising resources available to improve frontline services and fund new priorities”.

- 8.4 Despite the Government’s apparent recognition as part of the 2006/2007 settlement of the need to identify, quantify and **fund** new burdens, there now appears to be little prospect of anything other than a real term freeze in funding for the foreseeable future.
- 8.5 The Department for Communities & Local Government (DCLG) have recently issued a consultation paper on Local Government Finance Formula Grant Distribution. The purpose of the current review is to “update and fine-tune” the existing system for the first full 3-year settlement from 2008/2009. Included within the consultation are proposals for the distribution of additional funds allocated to meet the cost of the new National Concessionary Fare scheme, which is due to be implemented from 1 April 2008. Indications are that whichever is allocation method is chosen; the grant will be insufficient to meet the likely additional costs of the new scheme. The Council will be seeking to highlight this through its response to the consultation paper.
- 8.6 The Department of Works and Pensions (DWP) has recently announced that as its expenditure limit will be reduced by 5% per annum in real terms in 2008/2009, 2009/2010 and 2010/2011, it plans to pass on a similar reduction in its subsidy to Local Authorities for Housing Benefit and Council Tax Benefit administration. A letter from the DWP Local Authority Performance Division in June 2007 states, “whilst appreciating that local authorities are free to determine how and where to achieve their efficiency gains, we believe there is significant scope for efficiency with the administration spend on HB and CTB. Our working assumption is that, with support from DWP to promote productivity improvements in authorities, a reduction in subsidy of 5% per annum in real terms is achievable within the overall framework for efficiency in local government in the CSR07 period.” A 5% real term reduction for Harrogate would result in a grant cut of approximately £25,000 per annum.
- 8.7 In 2005/2006 the Government introduced a Local Authority Business Growth Incentive (LABGI) scheme. This aims to encourage economic growth by allowing Councils to retain a share of additional business rates arising from growth in business rateable value in their area. The scheme is currently scheduled to run for three years. To date Harrogate Council has received a total of £692,490 (£197,000 in 2005/2006 and £495,490 in 2006/2007). The Council is free to spend LABGI income as it sees fit, whether this is on economic development or on any other services or simply to substitute for grant shortfall. To date £200,000 has been allocated as match funding for economic regeneration projects, £24,000 has been allocated to support the establishment of the Customer Services Unit and £200,000 per annum has been used to support the 2006/2007 and 2007/2008 revenue budgets. A further allocation of LABGI income is due in February 2008. Although it is almost impossible to predict how much Harrogate will receive in 2008, it is assumed for strategy purposes that it will be the same amount as was received in 2007.

- 8.8 In the March 2007 Budget report the Government committed to examining how the local government grant system could give local authorities greater rewards for delivering increased economic prosperity in their areas through reform of the LABGI scheme. This may include options, which involve a differential treatment of a proportion of the yield of national Non-Domestic Rates. The report suggested that proposals would be brought forward “before the summer” but to date nothing has been announced.
- 8.9 The proposed council tax revaluation (the first since 1991) originally scheduled for 2007 was postponed by the Government in September 2005 pending the outcome of the Lyons inquiry into the functions and financing of local government. The revaluation, if it eventually happens, has the potential for widespread changes in bills across the country, possibly masked by a phasing-in scheme. This process could particularly affect Harrogate district taxpayers, and the Council will continue to lobby hard to protect their interests.
- 8.10 A significant change in emphasis, which the Government is developing, seems to be control of local government by issuing policies, standards and targets rather than legislation. In this way, there is no legal requirement for Councils to pursue particular, often quite radical, initiatives promoted by the Government. However, they know that failure to follow Government signals can result in severe consequences, including loss of discretionary grants and freedoms, and also downgrading by the inspectors under the Comprehensive Performance Assessment process, which in the worst cases can bring replacement of management and direct Government intervention.

## **9.0 THE EFFICIENCY AGENDA**

- 9.1 The Council needs to achieve efficiency savings to meet two separate agendas:
- ◆ Government imposed efficiency savings
  - ◆ The Council’s own internal efficiency savings programme
- 9.2 The current Government efficiency agenda (“Gershon”) is due to end in March 2008. Under this, the Council’s target for the three-year period 2005/2006 to 2007/2008 (calculated in accordance with the Government’s formula) was £1,830,000 of which £915,000 was to be cashable.
- 9.3 Cumulative savings achieved to the end of 2006/2007 were £2,564,586, of which £1,770,946 were cashable savings, which means that the Council has achieved its target ahead of schedule.
- 9.4 As stated in paragraph 8.3 above, Government indications are that “the baseline savings ambition for the 2007 Comprehensive Spending Review period will be at least 3% per year across central and local government, with a focus on net cashable savings to free-up resources to meet the challenges ahead”. This represents a significant increase in the level of cash/cashable savings.

- 9.5 At this stage, guidance on the calculation of efficiency targets for the period 2008/2009 to 2010/2011 has yet to be issued. Based on the current target a 3% savings requirement would suggest a **provisional** figure for 2008/2009 of **£730,000**. It is also not known, at this stage, whether there will be any changes to what can or cannot be counted as efficiency savings. This information will not be available until after the publication of CSR07.
- 9.6 Notwithstanding the above, the Council has for over 10 years had a programme of internal efficiency savings, which have been used to assist in balancing the annual budget and to provide funds for resource reallocation. The target for 2007/2008 was 2% of which 0.75% had to be cash savings. This was a uniform direction to all services, regardless of priorities, service performance or value for money. This approach has, over time, enabled the Council to achieve a balanced budget within the agreed tax strategy.
- 9.7 As part of the 2007/2008 budget process, an Annual Efficiency pro forma was introduced. The production of information in a consistent format makes it easier to validate submissions and also facilitates the production of Annual Efficiency Statements.
- 9.8 For budget purposes, savings have previously been categorised as either 'Cash' or 'Non-Cash'. Cash savings are those that result in a reduced budgetary requirement. Non-cash savings are those resulting from improved efficiency but which do not result in a reduced budgetary requirement. These can be either cashable ie savings that have been reallocated to other corporate priorities or efficiency gains ie more outputs for the same inputs. Given the increased significance of cash/cashable savings, it will be necessary in future to separately identify non-cash savings as either cashable savings or efficiency gains.
- 9.9 As in previous years, the Council will need to determine the level of cash savings required in order to achieved a balanced budget and how these are to be achieved.
- 9.10 A senior management restructure within Leisure, Museums & Arts has identified annual savings of £290,750. Of this £135,000 is a cash saving and £155,000 is cashable.
- 9.11 It is proposed that for 2008/2009 a 1% cash efficiency target is agreed to apply uniformly across all departments (but excluding Leisure, Museums & Arts). This should produce cash savings in support of the 2008/2009 budget totalling £180,000.
- 9.12 Against the 2008/2009 provisional target of £730,000, this would leave a balance of £260,000 to be identified as cashable savings. The Corporate Improvement Officer (Governance) is currently looking at a number of options contained in the DCLG guidance note "Measuring and Reporting Efficiency Gains", which was updated in March 2007. These include the identification of savings in relation to Capital Expenditure, Treasury Management and Fees & Charges. These options will be discussed in detail with the officers concerned.

- 9.13 In respect of later years, a review of central support processes is currently underway. It is anticipated that this could generate savings of around £100,000 per annum with effect from 2009/2010 onwards.
- 9.14 Insofar as efficiency gains are concerned, whilst these appear to be no longer relevant to meeting Government efficiency savings targets, they still provide a very useful measure of service improvement. It is recommended, therefore, that Departments should continue to be encouraged to submit efficiency gains illustrations but that no specific target should be issued in respect of this type of saving.

## 10.0 FUTURE STRATEGY OPTIONS FOR THE COUNCIL

- 10.1 The Council's policy priorities are set out in the 2005 to 2008 Strategic Plan. Its improvement plans are explained in the 2005 to 2008 Corporate Improvement Plan. The MTFs sets out the financial planning framework for delivering the Council's policy priorities and planned improvements.
- 10.2 For 2007/2008 the Government gave clear indications that Council Tax rises above 5% were unacceptable and that it would use its capping powers against any Council whose increase was 5% or more. It can be expected to act similarly for 2008/2009. This would suggest, therefore, a maximum tax increase for 2008/2009 of 5%.
- 10.3 On the other hand, the Council needs to determine an equitable balance between spending on services and the resultant demands on local taxpayers. This would suggest as a starting point, a tax increase no higher than the 4.3% agreed for 2007/2008.
- 10.4 The level of government grant for the period 2008/2009 to 2010/2011 will not be known until November at the earliest. However, based on the Government's intentions for public sector spending, as set out in the 2007 budget report, the best possible outcome would appear to be a 2% grant increase with a cash freeze being a real possibility.
- 10.5 The following table sets out a range of target budgets for 2008/2009:

Grant Increase	Total Spend £m	Spending Increase %	Council Tax Increase %
0%	23.671	2.5	4.3
1%	23.778	3.0	4.3
2%	23.884	3.4	4.3
0%	23.747	2.8	4.9
1%	23.853	3.3	4.9
2%	23.959	3.8	4.9

Based on a grant freeze and tax-base growth in line with 2007/2008, this would result in a target budget for 2008/2009 of **£23.671m**. This represents an increase of £0.582m (2.5%) on the 2007/2008 budget of £23.089m. NB a council tax increase of 4.9% would result in an increase to the target budget of £76,000 based on the same grant and tax-base assumptions.

- 10.6 For 2009/2010 and 2010/2011, it is suggested that the Council should plan for target expenditure increases of no more than £0.65m (2.7%). This is based on a continued grant freeze and council tax increases at similar levels to 2008/2009.
- 10.7 Within the target budget increases, there are a number of cost pressures and demands for revenue budget growth, which the Council will need to address in order to meet both its own and externally imposed priorities whilst at the same time achieving a balanced revenue budget for 2008/2009 and beyond.

**HR Strategy (including Single Status).** The base budget figures for 2008/2009 onwards include provision for the results of the pay and grading review to be implemented from 1 April 2007. The results have been provisionally notified to staff but no formal agreement has been reached with the Trade Unions and the new grades have not yet been implemented. The increased costs to General Fund (ie excluding HIC and the Housing Revenue Account) are set out in the following table:

	<b>Annual Additional Cost</b>	<b>Cumulative Cost</b>
2007/2008	£380,000	£380,000
2008/2009	£220,000	£600,000
2009/2010	£280,000	£880,000
2010/2011	£130,000	£1,010,000

Funding for these increased costs is from a senior management restructure in 2005/2006 (£272,000) plus increased budget provision of £400,000 in 2007/2008. Planned further increases of **£50,000** in 2008/2009 and **£100,000** per annum in 2009/2010 and 2010/2011 are provided for. In addition the cost of salary protection for 2008/2009 is estimated at £240,000. It is planned to meet this cost from the Single Status Reserve.

There remain significant outstanding issues in respect of harmonisation, appeals and possible equal pay claims and no specific budgetary provision has been made for these factors at this stage (see risk assessment in paragraph 14). It is likely that a provision will be made in the 2008/2009 budget when clearer information is available.

**Pensions.** The North Yorkshire Pension Fund, like many other funds is in substantial deficit and over the past decade has agreed increases in the employer contribution rate to address this. The last triennial valuation in 2004 showed an overall funding level of just under 60%, although the position on Harrogate's element of the fund was slightly better. While the Pension Fund Committee did not agree any mandatory increase in employer contributions, Harrogate Borough Council decided to increase its contribution levels by 1.1% per annum from 2005/2006. Partly as a result of this policy, Harrogate's element of the fund had a funding rate of 67% at 31 March 2006, significantly ahead of most of the other local authority employers in the scheme. The issue of long-term solvency is, therefore, being addressed by the Council and should be aided by changes in the nature of the scheme to be determined at national level. The 2007 triennial valuation of the fund is currently in progress. The Actuary's report, due in October, will recommend funding levels for the three years starting in 2008/2009. Advice from North Yorkshire County Council is to assume continuation of existing rates for

2008/2009. It is considered prudent, however, to provide for further increases of 1% per annum in 2009/2010 and 2010/2011. The additional cost of a 1% increase in employers pension contribution (net of contributions from HIC and the Housing Revenue Account) is **£200,000** per annum.

**Concessionary Fares.** A new scheme was introduced from April 2006, which increased the statutory minimum bus travel concession from half fare to free fare for the over 60s and disabled people. Although additional national funding of £350m was provided, "to meet the additional cost", last year's report suggested that Harrogate's share of the additional grant may not be sufficient to meet the full additional cost of implementing the new scheme. This has proved to be the case. Following the recent submission of an additional cost claim for 2006/2007 by Harrogate & District Travel, agreement has been reached to pay the company an additional £141,500 in respect of 2006/2007 with the same amount plus inflation for 2007/2008. The estimated cost of this for 2008/2009 is **£150,000**.

Notwithstanding the above, a new national concessionary travel scheme is due to be introduced with effect from 1 April 2008. Although an additional £212m has been pledged to fund the scheme, this only presumes a small growth in numbers. There is also confusion over how the additional grant will be allocated. The DCLG are currently consulting on options to include the additional funding within formula grant (see paragraph 8.5 above). At the same time, however, the Department for Transport are giving strong indications at national meetings with the Concessionary Fares Working Group that the additional funding will be allocated as specific grant. This approach has the support of the Local Government Association. Whilst it is very difficult to predict the additional costs arising from the new scheme, the Head of Highways & Transport is predicting increases of up to £650,000 in 2008/2009. Current information would suggest additional grant of approximately £300,000. In view of the potential shortfall, the recent review of car parking charges recommended an increase in on-street charges, which it is anticipated would enable the contribution from on-street parking income to concessionary travel to be increased by £250,000. This would bring the budgeted contribution to concessionary travel from on-street parking income to £800,000. Use of on-street income is subject to annual approval by North Yorkshire County Council. The net effect of the above would be a further increased cost in 2008/2009 of **£100,000**.

**Vehicles.** The 2007/2008 to 2009/2010 strategy identified that the draft schedule of vehicle and plant replacements indicated that an increase to the base revenue budget would be required with effect from 2008/2009 onwards. This results from the need to start replacing recycling vehicles purchased in 2002/2003 as part of Phase 1 of the Council's recycling programme. The precise amount will depend on the scheduling of replacement vehicles but could be up to £300,000 per annum.

**Access to Services and ICT.** The Council is continuing to implement and support its Access to Services strategy and electronic government initiatives. Additional revenue growth needs of **£50,000** per annum have been identified for the period 2008/2009 to 2010/2011. This represents a significant decrease in previous growth estimates due to a reduction in the level of previously anticipated system replacements and an increased need to invest

in ongoing upgrades for existing systems rather than periodic complete replacements.

**Recycling and Waste Collection.** Cabinet agreed an interim Waste Management Action Plan in December 2006. The purpose of this was to increase recycling levels by expanding green garden waste collection and by expanding dry recycling to rural areas and accessible urban gaps. The full year effect of 2007/2008 agreed growth is **£82,000** in 2008/2009. This includes the introduction of a further green garden waste round on 1 April 2008, for which the capital cost of the vehicle was agreed as part of the 2007/2008 budget. The plan includes further revenue growth of **£76,000** in 2008/2009 and **£54,000** in 2009/2010. In addition to this a further kerbside-recycling scheme is now proposed with effect from September 2008 at an estimated cost of **£42,000** in 2008/2009 and **£8,000** in 2009/2010.

A further report will be submitted to Cabinet in the Autumn setting out the longer-term implications of implementing the agreed 'Option 4' of the Waste Collection Options Appraisal. This includes the implementation of alternate weekly collections for co-mingled recyclables and residual waste through wheeled bins and the introduction of a separate weekly food waste collection. The ongoing revenue cost of this is estimated **£384,000** from 2010/2011 onwards. In addition to this, project management costs of **£112,500** in 2008/2009 and **£107,500** per annum in 2009/2010 and 2010/2011 have been identified.

In addition to the above revenue costs, capital requirements of £6m have been identified. This is approximately £2m more than is currently available.

**Planning Delivery Grant (PDG).** The final allocation of PDG will be paid in 2007/2008. DCLG are currently consulting on options to increase planning fees with effect from 1 April 2008 with the intention that the increased fee income will compensate for lost PDG. Planning fees were last increased in April 2005. The three options being consulted on are:

Option 1 – no increase

Option 2 - £10 increase for householder applications and approximately 40% increase for all others

Option 3 - £10 increase for householder applications and approximately 25% increase for all others

Option 3 is the Government's preferred option. Applying the proposed increases to Harrogate Borough Council's mix of fee income for 2005/2006 and 2006/2007 suggests that Option 2 would produce sufficient additional income to compensate for the loss of PDG, whereas with Option 3 there is a potential shortfall of **£100,000**. Any decision to reduce staffing to bridge the funding shortfall would seriously compromise the improved performance standards that have been achieved in recent years. The Head of Planning has submitted a response to DCLG, which supports strongly Option 2 but the outcome of the consultation is unlikely to be known for some time.

**Memorial Safety/Cemetery Walls.** A review of Bereavement Services infrastructure spending needs over the next 10 years is nearing completion. This indicates that the projected income stream from burial and cremation fees will largely cover the cost of wall, footpath and other cemetery infrastructure repairs and maintenance. So long as external support from the Probation Service continues, projected income may also cover memorial safety works, but if it ceases, there could be significant cost implications to the Council.

**Utility Costs.** The Council has sought to negotiate fixed tariff contracts covering a number of years in order to provide a degree of certainty in the medium-term. In respect of electricity, contracts were renewed in April 2006 for a three-year fixed tariff to March 2009 for the larger buildings (74% of the total budget) and for a two and a half year fixed tariff to September 2008 for smaller buildings (26% of the total budget). The Council's gas contract was renewed in October 2006 at a fixed tariff for five years expiring in September 2011 in order to achieve the best package in terms of cost and medium-term stability. Energy markets remain volatile, and as such, it is impossible at this stage to predict the likely effect on budgets when the current contracts come up for renegotiation.

**Cultural Services.** A review of Cultural Services spending needs in buildings, facilities and parks infrastructure will be completed in 2007/2008 following the reporting of Stage 1 work in April 2007. This identified savings of £290,750 per annum from a restructure of the Leisure, Museums & Arts Division, as well as other management changes. Of this £64,750 was taken to balance the 2007/2008 budget, leaving a net efficiency saving of **£135,430** available in 2008/2009. The balance of £90,750 (above the £200,000 target) is being appropriated to a new Cultural Services Reserve established to address these spending needs. Stage 2 work will identify the extent to which net 10-year spending needs currently estimated at £5m can be addressed by affecting further efficiency savings in Cultural Services revenue budgets.

**Homelessness.** Homelessness, and in particular the cost of temporary accommodation, remains a risk area in the medium-term. Increased preventative work has achieved a significant reduction in the level of homelessness acceptances, and a number of initiatives aimed at reducing the number in and cost of temporary accommodation are being implemented in 2007/2008. However, the fundamental issue of the shortage of affordable housing for rent remains.

- 10.8 Whilst the above paragraphs set out the major cost pressures that the Council will face in 2008/2009 and beyond, the list is not exhaustive. Other examples of spending pressures include the need to deal with specific areas of recruitment difficulty, to respond to demands for increasing financial assistance to the voluntary sector and to respond to a range of other local and Member priorities. Some of the smaller items can be considered for 2008/2009 as part of the normal budgeting process later in the year, but this is likely to be against the backcloth of a very difficult budgetary situation.

- 10.9 **Appendix 2** sets out revenue budget illustrations based on the target budget levels as set out in this strategy. This shows that for 2008/2009, it should be possible with good financial discipline (and another successful annual efficiency savings exercise) to deliver a balanced budget, but with little scope to respond to demands for budgetary growth in key areas such as Access to Services and Recycling.
- 10.10 For 2009/2010 the position is more difficult with a potential budget shortfall of close to £0.45m before consideration of growth.
- 10.11 It is important and long-standing Council policy in terms of the medium term financial strategy that annual budgets should be closely in balance so the working balance is not depleted below the shire district average. **For this reason it is essential that resources and spending demands are properly reconciled.** Any year-end savings, where possible, should be used to increase the working balance progressively back towards the upper end of the Council's £2m to £2.75m target. (It should be recognised that given the current pressure to reallocate resources to current policy priorities, only limited progress here is likely.)
- 10.12 This section of the report has shown that financial prospects facing the Council, once again, appear to be a combination of external pressures which challenge the Council's available resources, including taking into account the Council's continued efficiency savings measures and its underfunding of inflation in service budgets. If existing services and standards are to be maintained, bearing in mind the requirements under Best Value for continuous improvement in all services, then tax rises well ahead of inflation seem the unavoidable consequence. The Council will need to continue to demonstrate this analysis to the community by way of local consultation. The aim is to enhance public knowledge on the reasons for increase and to enable a careful assessment of the extent to which there would be public support (crucial in the case of any Government review under capping powers).

## **11.0 STAKEHOLDER CONSULTATION**

- 11.1 In recommending the Medium Term Financial 2006/2007 to 2008/2009 to Council, Cabinet recognised the success of the 2004 SIMALTO consultation and agreed that a similar exercise should be planned at the end of its three-year validity period.
- 11.2 This consultation was initially planned for Spring 2007 in order that it could inform the 2008/2009 to 2010/2011 financial strategy. However, due to the uncertainty over the Council's future, a decision was taken to defer the consultation until the outcome of the County Unitary bid was known.
- 11.3 Now that the future is more certain, planning can commence to repeat the SIMALTO consultation in Spring 2008.

- 11.4 In the meantime, subject to any further views from Cabinet, it is proposed that formal consultation on the draft MTFFS 2008/2009 to 2010/2011 should be limited to the District Panel. This consultation will take place during Autumn 2007 and relevant issues will be reported back to Cabinet as part of the 2008/2009 budget process in January 2008.
- 11.5 In addition to the formal consultation with the District Panel, the Council will continue to consult informally on both the Medium Term Financial Strategy and budget issues through briefing meetings with the Chambers of Trade, major employers, the Voluntary and Community sector and parish consultation meetings.
- 11.6 A copy of the District Panel consultation will also be placed on the Council's intranet to all Council employees and Members to comment on the draft strategy

## **12.0 RESOURCE REALLOCATION**

- 12.1 Coming out of the CPA in January 2004 was the need for a policy-led approach to financial planning and budgeting. The Council is continuing to move towards this.
- 12.2 The establishment of the Department of Corporate Policy & Improvement in April 2005 has led to a greater involvement of Policy staff in the financial process, but there are still further changes to be made to the process.
- 12.3 The Council has reviewed its corporate planning process and agreed that a Corporate Resource Strategy will be produced in 2007/2008. This will strengthen how the Council's resources (ie, people, assets and finance) are allocated to achieve the corporate priorities and actions set out in the Strategic Plan and the Corporate Improvement Plan.
- 12.4 The Council has continued to develop its policy-led approach to financial planning. The Environment Initiatives Fund, set up from 2005/2006 underspends will continue to be used to help deliver the Council's top corporate priority of "Caring for the Environment".
- 12.5 The Council has also established a Corporate Improvement Fund to help fund improvements in the organisation itself as set out in the Corporate Improvement Plan.
- 12.6 The Council's approach to resource re-allocation was informed initially by the SIMALTO exercise undertaken in 2004 and backed up by consultation with residents, partner agencies, businesses and the voluntary and community sector in 2006. The outcome of the consultation was broad support for the existing pattern of the allocation of resources and a preference for an increase in Council Tax of 4.4% to 4.9% to achieve the Council's priorities.
- 12.7 The Council has, as part of its Strategic Plan, confirmed that it will aim to protect existing services at current levels, whilst continuing to link future investment into its agreed corporate priorities and strategic actions.

12.8 The re-alignment of resources will be a phased process linked to the agreed three-year Strategic and Service Review Programme, Annual Efficiency Programme and Budget planning exercise.

12.9 The Corporate Resource Strategy will also enable the Council to articulate how its resource allocation helps deliver its agreed corporate priorities and strategic actions.

### **13.0 ANNUAL BUDGET 2008/2009**

13.1 This review of financial strategy needs to produce the guidance and parameters for officers on preparing the Budget for 2008/2009. The following is proposed:

- (a) A target budget of £23.671m for 2008/2009 (an increase of 2.5% on the 2007/2008 approved budget of £23.089m);
- (b) Target budgets for the two subsequent years 2009/2010 and 2010/2011 increasing by £0.65m (2.7%);
- (c) Increases in fees and charges – guideline of 4% subject to service considerations and market forces (an increase of 0.05% on the current year). This is higher than the current forecast for general RPI next year, but is recommended based on an assessment of the Council's own costs, which are rising faster than the index, particularly due to the impact of single status;
- (d) Provision for pay increases of 2.5%;
- (e) Presumption of no increase in other non demand-led budgets;
- (f) Cash efficiency savings targets of 1% for Departments;
- (g) Working balance target remaining at £2m to £2.75m, as for previous years.

13.2 The budget parameters as suggested above should be seen as a coherent and inter-related package. This means that if, for example, a lower increase in fees and charges was to be recommended, this would imply a corresponding increase in the net target budget and Council Tax level.

13.3 Financial Management for Harrogate International Centre is conducted somewhat differently from other services because of the predominantly trading nature of the business. HIC is given a bottom-line budget target to meet. This arrangement is well established and effective. In the case of efficiency savings, HIC is required to identify savings equal to 1% of controllable expenditure. Under current arrangements, HIC is required to contribute 30% of efficiency savings to the General Fund with the balance retained within HIC for reinvestment. It is proposed that the above arrangements should continue.

- 13.4 For a number of years the former Department of Leisure & Amenity Services (DLAS) has also operated within a bottom-line budget. The operation of a bottom-line budget has always been more relevant to Leisure, Museums & Arts than to Parks, Bereavement Services & Markets, but because the whole Department previously operated as a single business unit the bottom-line budget was applied to all services. Following the Council restructure in April 2005, DLAS became part of the larger Department of Community Services. It was agreed that in view of the other changes that were ongoing in bringing together the new Department, that a bottom-line budget for "Cultural Services" would continue for the 2006/2007 budget. A further one-year extension was agreed for 2007/2008. In July 2007 the Director of Community Services submitted a report to CMT proposing the discontinuance of the cultural services bottom-line budget with effect from the 2008/2009 budget, subject to the agreement of continuing 100% carry forward of underspends. In agreeing the proposal, CMT recommended that the continued 100% carry forward of underspends should be reviewed annually for Parks, Bereavement Services & Markets and every three years for Leisure, Museums & Arts.

#### **14.0 RISK MANAGEMENT**

- 14.1 Generally the Council's approach to risk management satisfied the CPA Inspectors in January 2005, although the need for further development especially to embed processes was recognised and this is being progressed.

- 14.2 Harrogate has a sound track record on overall financial management stretching back over 15 years, but the financial position remains vulnerable due to the tightly constrained resource position and increasing spending demands. The key issue is to continue the alignment of resources and spending in the medium term.

- 14.3 The key risks to the financial strategy are as follows:

**Job Evaluation/Single Status** - Completion of existing project - mainly Trade Union acceptance and outstanding harmonisation and equal pay issues.

**Government Grant** - Uncertainty over grant position due to delay in announcement of CSR 07.

**Concessionary Travel** - Cost increases are difficult to predict, the method of allocating additional grant has still to be determined and use of on-street income in support of concessionary travel requires approval by NYCC.

**Efficiency Savings** - Inability to meet potential increase in cashable efficiency savings targets.

- 14.4 The Council needs to remain vigilant against failure on core services due to lack of funds, and to avoid resources being pre-empted to meet Government targets or local aspirations.

## 15.0 PARTNERSHIPS

- 15.1 In developing its financial strategy the Council has reviewed its partnership arrangements. The only partnership, which has been assessed as significant, is the partnership HIC has with Kudos Hospitality (formerly Crown Catering) to provide catering services within its Conference & Exhibition facilities. This is a long-term partnership, which involves the catering partner investing significantly in facilities at the venues and working directly with HIC to develop a comprehensive commercially viable service to offer to clients in a very competitive national and international environment for conferences and exhibitions.
- 15.2 Daily liaison exists with Kudos Hospitality and they are involved in the development of annual service plans.
- 15.3 The risk to HIC (and ultimately the Council) if Kudos Hospitality were to experience financial problems has been assessed and is considered to be low.

## 16.0 CONCLUSION

- 16.1 The elements of the recommended strategy are shown in **Appendix 2**, and the Cabinet is asked to determine its preferred approach.

**Background Papers:** None.

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### SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity		✓	
(i)	General		✓	
(ii)	Customer Care/People with Disabilities		✓	
(iii)	Health Implications		✓	
D	Crime and Disorder Implications		✓	

If all comments lie within the shaded areas, the proposal is sustainable.

# The Strategic Plan 2005-2008

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## Introduction

In July 2006 the Council completed a review of its long-term vision and priorities and adopted a long-term vision, corporate priorities and an organisational goal (see below) for inclusion in the Strategic Plan.

The aim of the Strategic Plan is to make it clear to residents, partners and visitors what the Council was focusing on and what it was aiming to achieve in 2007/2008 and beyond.

The Strategic Plan sets out clearly the Council's vision, goal, priorities and strategic actions, which emerged from the consultation with all sections of the community and which were adopted last summer.

## Vision

The Council's 10-year vision is:

" To make the Harrogate District a better place to live, work and visit" by:

- ❖ Preserving its heritage
- ❖ Enhancing its unique environment
- ❖ Delivering first-class public services
- ❖ Encouraging everyone to share in its success

The vision recognises that the Council has a key role in ensuring that the Harrogate District continues to be recognised as a prestigious place, with a quality environment, excellent facilities and a unique heritage.

## Goal

The Council's organisational goal is:

"To be a GOOD PERFORMING Council by 2007 and EXCELLENT by 2010"

The Council has defined a "Good" Council as one that:

- ❖ Has strong services overall and knows where they need to improve
- ❖ Provides effective leadership and management
- ❖ Is ambitious and focused on what matters to the community

This organisational goal underpins the Council's determination to improve and increase its capacity to meet the needs of the community.

## Corporate Priorities

In looking to deliver its vision, the Council has identified seven Corporate Priorities. These will be the framework for everything the Council does over the next three years. These priorities are:

- ❖ **Caring for the Environment** – ensuring the enhancement and protection of the natural and built environment District-wide (Top corporate priority)
- ❖ **Affordable Housing** – ensuring people have access to housing opportunities throughout the District.
- ❖ **Traffic and Transport** – ensuring the provision of a transport network that will provide access to public transport in all areas and provide integrated facilities including car parks.
- ❖ **Keeping the District Safe** – ensuring communities across the District are safe and secure and that they feel safer.
- ❖ **Supporting our Local Economy** – ensuring a robust and varied economy that benefits local people and creates employment opportunities in rural areas and the market towns across the District.
- ❖ **First Class Public Services** – ensuring that the services delivered throughout the District meet the needs of customers, are accessible and of high quality.
- ❖ **Organisational Improvement** – a commitment to invest in improving the organisation by being a good employer and building its organisational capacity to deliver first-class services and increase its service performance.

## Strategic Actions

To help deliver the Corporate Priorities, the Council has identified 13 Strategic Actions that will be delivered by March 2008 to achieve its vision and goal. These are:

**Community Planning** – shaping the future of the Harrogate District up to 2021 on transport, housing, the environment and public services.

**Resources and Priorities** – ensuring the Council uses its resources to provide value for money services across the District.

**Long-term investment in the Harrogate International Centre** – assessing the feasibility of refurbishing the existing exhibition space and other HIC facilities to support the local economy.

**Cont'd...**

**Royal Hall** - completing this agreed heritage restoration project and bringing the Hall back into use.

**City Region Initiative** – securing the Harrogate District local economy's place within the wider economic region centred on Leeds.

**Holiday Tourism** – supporting an effective holiday tourism strategy in the District's market towns and rural areas.

**Cultural Services Resource Review** – sustaining a viable District-wide provision of the Council's sports, parks, arts and museum services.

**Customer Services** – providing local people with a point of contact and access to Council information and services.

**IT Investment and Strategy** – enabling the Council to deliver more services electronically to local people.

**People Management** – focusing on Council employees to support them in the delivery of high quality services to the public.

**Leadership** – ensuring Councillors and senior managers have the right skills and support to meet the changing needs of the modern public sector.

**Rural Community Investment** – investment in rural areas and market towns to improve transport, housing the quality of life and address rural diversity issues.

**Environmental Investment** – investing in the natural and built environment in the Harrogate District.

## **Corporate Improvement Plan**

The Council needs to ensure it can deliver the Council's long-term vision and priorities set out in the Strategic Plan. To do this, the Council has developed the Corporate Improvement Plan which seeks to ensure that it increases its organisational capacity, develops its strategic leadership, improves performance and improves the way the Council works. This is a companion document to the Strategic Plan, which looks at the organisation itself and the improvements required in the organisation to deliver the Council's ambitions.

The Strategic Plan sets out what the Council wants to achieve by March 2008 and the improvements needed to deliver its long-term vision. These priorities will not be delivered without the support of partners, residents, businesses and visitors and with significant investment by a whole host of agencies, not least the local taxpayers themselves. The Strategic Plan will provide the focus for all the Council does over the next three years with the aim of benefiting the whole community and REALISING THE POTENTIAL of the District.

**ONE IMPROVEMENT AGENDA**

<b>Corporate Priority</b>	<b>Strategic Actions</b> (Delivery: CMT)	<b>Corporate Service Action Areas</b> (Delivery: Relevant Head of Service)	<b>Corporate Improvement Plan (CIP)</b> (Delivery: Relevant Head of Service)
Caring for the Environment	(SA01) Community Planning/LSP/LDF (SA04) Royal Hall Restoration (SA12) Rural Community Investment (SA13) Environmental Investment	<ul style="list-style-type: none"> <li>• Recycling waste</li> <li>• Impact of new housing</li> <li>• Energy efficiency and renewable energy</li> <li>• Nidderdale AONB</li> <li>• Re-use empty property</li> <li>• Litter, graffiti and dog fouling</li> <li>• Public Spaces – parks, buildings, etc</li> </ul>	No actions
Affordable Housing	(SA01) Community Planning/LSP/LDF (SA12) Rural Community Investment	<ul style="list-style-type: none"> <li>• Affordable housing agenda</li> <li>• Housing opportunities for all</li> <li>• Homeless duty</li> </ul>	No actions
Traffic and Transport	(SA01) Community Planning/LSP/LDF (SA12) Rural Community Investment	<ul style="list-style-type: none"> <li>• Traffic flows in our towns</li> <li>• Rural transport</li> <li>• Market Town car parking</li> <li>• Concessionary fares</li> </ul>	No actions
Keeping our District Safe	(SA12) Rural Community Investment	<ul style="list-style-type: none"> <li>• Reduce anti-social behaviour</li> <li>• Young people diversionary activities</li> <li>• CCTV service</li> <li>• Information sharing</li> <li>• Reduce the fear of crime</li> </ul>	No actions
Local Economy	(SA01) Community Planning/LSP/LDF (SA03) HIC Investment (SA05) City Region (SA06) Holiday Tourism (SA12) Rural Community Investment	<ul style="list-style-type: none"> <li>• Market Town renaissance</li> <li>• Employment opportunities in rural areas/ Market Towns</li> <li>• HIC visitor spend</li> </ul>	No actions
First-Class Public Services*	(SA07) Cultural Services (SA08) Customer Services (SA12) Rural Community Investment	<ul style="list-style-type: none"> <li>• Retain floral excellence</li> <li>• Civil contingencies duty</li> <li>• Planning standard</li> <li>• Sport and leisure</li> <li>• Core service performance/VFM</li> <li>• Benefits service customers</li> </ul>	No actions
Organisational Improvement	(SA02) Resources/Priorities (SA08) Customer Services (SA09) IT Investment (SA10) People Management (SA11) Leadership	No actions	CIP actions on: <ul style="list-style-type: none"> <li>- provide clear direction</li> <li>- improving performance</li> <li>- delivering customer services</li> <li>- building organisational capacity</li> </ul>

\* **Core Public Services:** Highways and traffic, Revenue and benefits, Cultural services, HIC, Economic Development, Parks and Open Spaces, Planning services, Waste management (including recycling), Housing, Environmental Health, Car parking, Street cleansing, Public conveniences, Street lighting, CCTV, Bereavement Services, Licensing, Civil contingencies.

**Revenue Budget Illustrations**

	<b>2008/2009</b>	<b>2009/2010</b>	<b>2010/2011</b>
	<b>£k</b>	<b>£k</b>	<b>£k</b>
<b>Base Budget</b>	23,089	23,671	24,321
<b>add Unavoidable Cost Increases</b>			
Pay Awards & Inflation net of Fees & Charges increases	500	500	500
Single Status (General Fund cost) <b>(1)</b>	50	100	100
Increased pension contributions <b>(2)</b>	0	200	200
Concessionary travel	250	0	0
Recycling – full year effect of 2007/2008 agreed growth	82	0	0
Shortfall on vehicle revenue account	150	150	0
DCS Business Support – reduced charge to HRA	80	80	0
Loss of LABGI income	0	0	75
<b>add Potential Growth</b>			
Access to Services	50	50	50
Recycling <b>(3)</b>	230	170	490
Loss of Planning Delivery Grant	100	0	0
<b>less Budget Reductions</b>			
Efficiency Savings – Cultural Services	-135	0	0
Efficiency Savings – Other	-180	-220	-220
Treasury Management Income	-275	275	0
<b>Estimated Spending Requirement</b>	23,991	24,976	25,516
<b>Target Budget</b>	23,671	24,321	24,971
<b>Budget Shortfall</b>	320	655	545

**Notes:**

- (1)** Amounts are over and above £0.67m already included in 2008/2009 base budget. Total cost of Single Status is estimated at **£1m**.
- (2)** Subject to the outcome of the fund triennial valuation (currently in progress).
- (3)** Does not include any provision for capital costs of recycling growth.
- (4)** The above illustrations include those items where increased costs can be predicted with a degree of certainty. The figures exclude a number of cost pressures eg homelessness and utility costs where the potential impact is less certain.