
REPORT TO Cabinet
DATE: 13 July 2005
DEPARTMENT: Department of Resources
REPORTING OFFICER: Head of Financial Management
(*Steven Hoyes – Strategic Finance Manager*)
SUBJECT: **MEDIUM TERM FINANCIAL STRATEGY
2006/07 TO 2008/09**
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 needs to be read in conjunction with the Medium-term Corporate Strategy. A key issue is the determination of priorities, with decisions being taken in the light of the 2004 SIMALTO exercise (and any further consultation) to identify residents' views and preferences.
- 1.3 The report necessarily emphasises the need for sound financial management in the face of difficult financial circumstances.
- 1.4 The report identifies 2006/07 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 CMT have been consulted in the preparation of this report.

2.0 RECOMMENDATIONS

- 2.1 To agree the following proposal for the Medium Term Financial Strategy:
 - (a) That revenue budget targets for 2006/07 to 2008/09 be agreed.
(See Exempt Appendix 6 for illustrative figures.)

(b) That 2006/07 budget parameters be agreed:

Fees and charges increase	3% guideline (subject to service considerations and market forces)
Pay increases provision	2.95% (or RPI October 2005 if higher)
Other non demand-led expenditure budgets	0%
Efficiency savings illustrations (provisional targets)	2.5% (of which 1.25% to be cash-based)

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

(d) That the cash limits for Cultural Services and HIC be applied as outlined in the report.

(e) That the emerging requirements in respect of Resource Reallocation and other CPA standards be noted (para 10.0).

(f) That the further spending pressures illustrated in paragraph 9.8 of the report be classified as follows:

Recycling revenue	growth item 2006/07 (detailed assessment)
Recycling capital	growth item 2006/07/capitalise (detailed assessment)
Access to Services/ICT	growth item 2006/07
Memorial Safety	continue in base budget for one more year
HR Strategy (including Single Status)	growth item 2007/08 (detailed assessment)
Other Issues	growth item 2006/07
Capital Investment	Deferred

2.2 That, mindful of the success of the SIMALTO exercise, and its three year validity, the Council contains its consultation to the District Panel on the draft medium-term strategy for this year.

2.3 That the Resources Scrutiny Commission be allowed until 31 October 2005 to report on its deliberations on the Medium Term Financial Strategy 2006/07 to 2008/09.

3.0 RECOMMENDED REASON FOR DECISION

It is long-standing Council policy, and good financial discipline, to have a medium term financial strategy to underpin the authority's budgeting framework.

4.0 ALTERNATIVE OPTIONS CONSIDERED AND RECOMMENDED FOR REJECTION

Not to adopt a medium term strategy. This alternative is recommended for rejection as it would not conform with accepted standards of financial discipline. It would attract adverse comment from the District Auditor and would certainly be viewed unfavourably by the CPA Inspectors.

5.0 BACKGROUND

5.1 The Council's 2005 to 2008 Medium Term Financial Strategy is driven by the corporate improvement planning process and plans. The Medium Term Corporate Strategy, agreed in September 2004, sets out the Council's strategic objectives and plans which reflect both local and national improvement priorities (see Appendix 1). The Council's corporate planning process and financial planning process are integrated and look forward at least three years in line with the following 2005 timetable:

◆ Initial Strategic Planning "Away Day" (CMT)	19 May 2005
◆ Joint Strategic Planning Meeting (Cabinet/CMT)	14 July 2005
◆ Strategic consultation on the draft strategies (Members, employees, partners)	June to September 2005
◆ Council approval	12 October 2005

5.2 The above corporate and financial planning process will translate the Council's medium-term corporate priorities and objectives into an outward-looking improvement plan (called the Strategic Plan) for 2005/06 and beyond, together with an inward-looking improvement plan which focuses on the organisation's strengths and weaknesses (called the Corporate Improvement Plan).

5.3 The Medium Term Financial Strategy looks ahead three years at the Council's broad financial prospects. It, together with the corporate strategy, incorporates the views and outcomes of stakeholder consultation, the results of risk assessments, projected developments in Council services and external initiatives such as the national efficiency agenda in local government. Both strategies also reflect the Council's ambitions to improve the organisation's capacity to deliver improved services through its People Management Strategy, its Asset Management Strategy, its IT Strategy, etc.

5.4 Last year's strategy proved successful. The Council set a budget and tax in line with the strategy, achieved the desired level of efficiency savings and dealt with the growth issues arising.

5.5 The CPA Inspection, in January 2004, rated the Council as "fair" and concluded:

(a) **Main Strengths**

- ◆ The Council provides some good quality services such as housing, keeps the streets clean and public satisfaction is high
- ◆ It is making good progress on improving Council properties, and tenants are satisfied with the services they receive
- ◆ Its staff are well-trained and highly motivated
- ◆ Adequate current financial capacity
- ◆ Sound financial control
- ◆ Good track record in securing external funding

(b) **Main Areas for Improvement**

- ◆ It lacks clear ambitions in terms of what it wants to achieve for residents
- ◆ It needs to focus on clear priorities that are important to local people in order to make the best use of resources. Priorities do not drive decisions about how the Council spends its money, and some key improvements are reliant on external funding
- ◆ It does not have a systematic approach to consulting local people and therefore lacks a clear understanding of their needs, particularly those of young people and hard-to-reach groups. Decisions are not always based on a clear understanding of local needs and priorities
- ◆ Ambition limited by the Council's view of a lack of resources
- ◆ No strategic re-alignment of budgets on priorities
- ◆ Major projects limiting the future availability of revenue and capital resources for the development of general council services
- ◆ Unable to demonstrate that the Council is making the best use of resources
- ◆ Capital and revenue for investment in priority areas is tight.

The Council has already started to address a number of these issues. It has used the findings of the CPA inspection to build on its strengths and tackle the weaknesses and set out its improvement plans and priorities in the 2005/06 Corporate Improvement Plan in the context of its local priorities.

6.0 CURRENT FINANCIAL AND MANAGEMENT POSITION

6.1 The Council's financial position is somewhat weaker than many similar councils. Although revenue reserves are close to the shire district average, capital reserves are not sufficient to meet currently identified priorities. Government grant per head is the next lowest in North Yorkshire and 14%

below the national average for shire districts. On the other hand Harrogate has a genuinely balanced budget and has a record of keeping actual spending within budget.

Harrogate's total spending is a little above the average, although the pattern of spending between authorities on individual services shows much diversity. In particular, Harrogate has above average spending on Leisure, at least partly due to the need to provide services across the District's wide geographic area; above average spending on refuse collection due to the wide area covered and the high level of service (weekly back door collection); but below average net spending on Car Parks and on Environmental Health. There is also a very substantial shortfall on the Council's share of the North Yorkshire Pension Fund. This is being addressed through phased increases in employer contributions included in the target budgets shown. The financing costs of the conference centre also increase the gross spending comparison (but the effect on Council Tax is limited because Government grant now reflects this debt, and HIC make an annual payment to General Fund of around £0.75m).

- 6.2 On the other hand, the Council's strong financial discipline has significantly strengthened its position over the previous decade, which started with a negative working balance and very low reserves. Over the period, external loans have been reduced from £55m to £16m, and credit liabilities have been reduced by not leasing offices, vehicles or computers. HIC's trading position is much enhanced, and the Council also has access to on-street parking income flows to supplement resources for highways and off-street parking projects. Income generation has been enhanced across the Council and with notable success in securing External Funding as reported each year. In particular very strong financial discipline has been exercised by all departments with no overspendings of any real significance over many years.
- 6.3 The present working balance of £2m, whilst adequate, remains at the lower end of the Council's target of £2m to £2.75m. The target levels for reserves and balances are a matter for professional judgement based on assessed risks and needs. These factors include the dependency on HIC external income and the treasury management strategy and cashflow. The working balance target represents about 2-3% of gross turnover or 10-13% of net turnover.
- 6.4 When assessing **Revenue Resources** it should be borne in mind that the Council's budget was cash frozen between 1991 and 1998/99. Continuing savings exercises allowed inflation and other increased costs to be met without undue effects on direct services to the public. However, this means it is now very difficult, in most areas of activity, to find further meaningful savings without reducing services to the public.
- 6.5 In contrast, **Revenue Spending Demands** are increasingly apparent in several areas. Over the medium term many of the following issues will have to be addressed as growth proposals. The overall sum could easily be £3m per annum ultimately.

External Factors – mostly Government priorities

1. **Waste Management** – recycling measures to meet rising Government targets; different collection methods to increase efficiency.
2. **Access to Services** – implementing Electronic Government to meet Government targets.
3. **Pensions** – increased employer's contributions to address the deficit on the NYCC pension fund.
4. **Concessionary Fares** – possible Government failure to fully fund the 2006 scheme.
5. **Comprehensive Performance Assessment** – continuing to address and implement improvements in Council services and in the organisation which have been agreed with the District Auditor and are monitored by him each year.
6. **Job Evaluation** – implementation of national agreements on Single Status and Pay and Grading reviews for determining employee remuneration levels.

Internal Factors

7. **Buildings and Infrastructure** – re-fixing memorials; other building investment needs. Inadequate capital resources.
 8. **Local Priorities** - local facilities/member initiatives.
 9. **Best Value** – outcomes of BV reviews identifying service improvements and priorities requiring extra funding.
- 6.6 In addition there are a variety of other revenue pressures, including the managerial and support costs of administering Government reforms eg Comprehensive Performance Assessment and improvement planning processes, Best Value reviews and inspection costs, specific pressures on individual services for improvement, financial forward planning and resource reallocation work. This is alongside dealing with further Government pressures for change eg revenue and capital finance modernisation, and other service-specific initiatives. Increased customer expectation is reinforcing the drive for better quality and levels of service.
- 6.7 The financial outturn for 2004/05 is likely to show a reasonable General Fund underspending but is not expected to ease the revenue budget pressure for future years. There is pressure on existing tight budgets, and the majority of any underspendings typically consist of a wide variety of small savings across all areas of the Council's activity – including higher income levels, higher staff turnover vacancies, lower benefits take-up – being areas where underspendings are welcome but which cannot readily be budgeted for.

- 6.8 The Council has, in recent years especially for the 2005/06 budget, responded to the general growth pressures by significantly reallocating resources in the budget process. Growth of £0.3m was introduced into the 2005/06 budget, more than matched by cash efficiency savings of over £0.5m. No service cuts were made (in light of the SIMALTO public consultation) but a resource reallocation review process for Leisure was agreed (to address their investment needs). In this way the Council has been responding to the Government's agenda.
- 6.9 However the future revenue pressures are increasing, amidst a heightened need for moderate Council Tax increases. In these circumstances the Council may wish to consider a more pro-active approach to reallocation of resources (with attendant consequences for some existing local services).

7.0 CAPITAL

- 7.1 The Council's overall approach to capital has developed in response to the new (statute-backed) Prudential Code. CIPFA felt that authorities' capital plans were often assembled piecemeal, taking issues as they emerged. Councils are now expected 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.

Under the Prudential Code, councils now have freedom to determine their own borrowing limits. Yet they 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 £1.7m per year and a Council Tax 30% above the shire district average.

- 7.2 The implication of the financial strategy set out in this paper is that for the immediate future and certainly until the Royal Hall project is concluded, 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)

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 (although there is a negative side effect on HRA subsidy).

- 7.3 Once current schemes are brought to conclusion, **Local Capital Resources** will be at minimum prudent levels, but supplemented by annual HIC repayments of Breakout Space loan estimated to total £2.5m by March 2008.

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.

- 7.4 In contrast, **Capital Spending Demands** continue in evidence. There is one major scheme in hand, the Royal Hall £8.0m. (NB: Most major schemes are by nature vulnerable to possibly unaffordable cost escalation.) This scheme will dominate the capital programme until Spring 2007. Meanwhile forward planning is continuing for the next Capital Strategy period. A recent review 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.

Additional capital needs include refuse recycling vehicles and wheeled bins, IT and eGovernment equipment, replacement CCTV cameras and gym equipment, mercury filters for cremators, and a forward strategy for Starbeck Pool. 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 (perhaps underwritten by the HIC repayments mentioned above).

- 7.5 Repeatedly 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.
- 7.6 Capital spending demands for the Housing Investment Programme are mainly the achievement of the Decent Homes Standard, and the recent Housing Options Appraisal has indicated that this can be met from the existing funding framework – mainly Major Repairs Allowance.

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 For 2005/06 the national RSG increase for shire districts was 4.0%, whereas Harrogate received just 2.2% (but topped up to 2.5% by the 'floor' minimum). The latest announcement by the Chancellor of the Exchequer covering local authority funding suggests an implied 5.5% council tax increase for 2006/07 yet only a 3.5% increase in grant for the average shire district. Harrogate's grant is likely to be less than average – say 2% (before allowing for concessionary fares as described in paragraph 9.6). Even 2% may be optimistic, as 2005/06 grant was underpinned by temporary money at a national level.
- 8.3 The emerging **Gershon** agenda on achieving efficiency gains in the public sector, now requires annual savings of 2.5% of which half (1.25%) should be cashable. The Director of Corporate Policy and Improvement is leading the process, and presented a strategy report to Cabinet on 6 April 2005.

This Council's traditional efficiency savings targets (2% efficiency savings including 0.5% cash) will now have to be replaced by Gershon-style methods and percentages. The new methods do allow for a wider range of efficiencies to be evaluated and recognised, and it may be that the former 2% targets will achieve 2½% in Gershon terms. However the cash savings targets (raised from 0.5% to 1.25%) may be more difficult to achieve, despite the new evaluation method, because of the sheer duration of this Council's ongoing efficiency exercises over many years (in contrast to central government where the Gershon targets may be more relevant). This report does, provisionally, recommend the new target levels, although this may need amendment in the light of experience and precise assessment methods ultimately adopted in the budget process.

- 8.4 The Government is also introducing a Local Authority Business Growth Incentive scheme this year. Councils will be eligible to receive a share of the extra business rates arising from the business rateable value growth in their area. The distribution formula is arbitrary and complex, and Harrogate's entitlement (expected around December) could be nothing or could be in six figures. The Council is free to spend the proceeds as it sees fit, whether this is on economic development or on any other services or simply to substitute for RSG underfunding. I suggest that the sum is allocated as part of the 2006-07 budget process once the RSG settlement is known.
- 8.5 Also introduced in 2005/06 are Business Improvement Districts (BIDs) permitted to undertake local projects funded by a levy on the rates, if a majority of businesses agree. For 2007 the Government aims for the first council tax revaluation since 1991. This has the potential for widespread changes in bills across the country, possibly masked by a phasing-in scheme. Harrogate district taxpayers may be particularly damaged by this process, and the Council has been lobbying hard for some time to protect their interests.
- 8.6 For 2006/07 the Government also aims to introduce fixed three year settlements for RSG, specific grants and capital allocations. This will leave councils vulnerable from 2007 onwards to the full cost of variations in estimates (eg higher population, higher benefit claims, higher interest rates) on which they presently receive full subsidy.
- 8.7 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, councils are not required by force of law to pursue particular, often quite radical, initiatives of the Government's intent. But councils know that failure to follow the Government signals can bring 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 FUTURE STRATEGY OPTIONS FOR THE COUNCIL

- 9.1 The Council's policy priorities are set out in the 2005 to 2008 medium-term Corporate Strategy. Its improvement plans are explained in the 2005/06 Corporate Improvement Plan. The medium-term Financial Strategy sets out the financial planning framework for delivering the Council's policy priorities and planned improvements.
- 9.2 The existing medium term financial strategy agreed in July 2004 assumed a budget target of £19.880m for 2005/06 plus resources for Recycling and Access to Services (ultimately agreed at £87k and £100k). The strategy provided for £0.6m (3%) target increases in future years. The budget ultimately set by Council in February 2005 was £20.034m ie within target. It contained a £0.3m response to growth pressures including Recycling and Starbeck Pool repairs.
- 9.3 For 2005/06 the Government is pursuing its national capping powers for the second time. It can be expected to act similarly for 2006/07. This year the capping criteria were a 6% budget increase and a 5½% tax increase. A 5% tax cap (as the Government targeted in the current year) would imply for Harrogate a budget of about **£20.820m (+3.9%)** for 2006/07 (compared with £20.034m budget 2005/06). These figures depend crucially on the grant settlement – see 9.5 below.
- 9.4 In general, a £0.6m (3%) target budget increase (and another successful annual efficiency savings exercise) should, with good financial discipline and before externally imposed cost increases, enable the Council to deliver a balanced budget for 2006/07. 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. 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.)
- 9.5 The target base budget for 2006/07 is £20.034m + £0.6m, a total of **£20.634m (+ 3.0%)**. This could imply a starting tax rise of about **3.4%**, assuming £200k of efficiency savings and depending on the grant settlement. This can have a considerable impact and a 2% floor increase has been assumed.
- 9.6 However, there are several ongoing major issues which the Council will need to consider as part of the 2006/07 budget round.

Concessionary Fares. In the Chancellor's Budget in March 2005 he announced a new scheme from April 2006 to increase the statutory minimum bus travel concession from half fares to free fares for the over 60s and disabled people. Additional national funding of £350m was promised, "to meet the additional cost". It is too early to quantify the financial impact on Harrogate. (Provisionally the extra cost may exceed £550k, however the

associated RSG increase will not be known until December). For Strategy purposes I have therefore assumed full Government funding and no net cost. However it is prudent to consider that a net deficit (ie grant shortfall) of say £100,000 or so may ultimately need to be dealt with in the 2006/07 budget process.

Recycling and Waste Collection. The government target for waste recycling and composting, and for diversion of biodegradable waste from landfill, is increasing sharply for 2005/06 onwards, requiring the expansion of multi-material dry recyclable and green garden waste kerbside schemes, the improvement of our network of “bring” sites, and the integration of residual waste collection and recycling schemes to achieve economies (without sacrificing effective performance on limiting waste generation from households). With regard to the expansion and rationalisation of schemes, these are included for review in the **Waste Management Action Plan 2005/06** and proposals will be brought before Cabinet later this year, for inclusion in the Waste Management Action Plan 2006/07 onwards.

Initial costings for recycling expansion show a 2006/07 revenue requirement of **£450k** and capital costs for vehicles and containers (including improvements to the network of “bring” sites) initially estimated at **£2,120k**. Very substantial expenditure is implied for future years (as shown in Appendix 6). A detailed position statement is provided at Appendix 4.

As mentioned above, an options appraisal for integrating recycling and residual waste collection schemes will be reported on later in the year, so the cost of the containers required to achieve a phased approach to this has been included.

The level of savings will depend on the collection system, the size of bins and speed of implementation, but before details can be proposed, a policy decision will be needed on the principle of integration and its effect on local residents’ services.

Access to Services and ICT. Cabinet on 15 December 2004 received a report which assessed the medium term financial requirements for implementing the **AtS Strategy**. Additional revenue growth needs of **£100k** were identified for 2006/07 and a further **£100k** for 2007/08. The ICT strategy framework approved in principle by Cabinet on 28 July 2004 identified £600k of necessary funding over the next two years for replacement Financial Management and Payroll /HR systems, of which £300k was approved from the HIC rate refunds by Cabinet in November 2004. The remaining £300k may be found from corporate underspends in 2004/05 and 2005/06 but will otherwise need to be resourced from the 2006/07 revenue budget. (An additional £1m of capital spending was also identified to Cabinet on 7 April 2004, subject to the availability of funding.)

Memorial Safety/Cemetery Walls. 2005/06 is the second of a three-year growth item of £100k pa for these works. If further phases of these Health & Safety Executive directive-related works are needed beyond 2006/07, a detailed report to Cabinet will be required.

Vehicles. These annual requirements are generally bought from revenue, because of the lack of ongoing capital resources. However in order to balance the 2004/05 budget, £300k of the expenditure was charged to capital. The Council agreed to restore the base revenue budget in phases over three years. The extra cost in 2006/07 is **£59k** and **£150k** in succeeding years.

Homelessness. The number of homeless acceptances has risen in recent years, and the 2004/5 outturn is £140k above the original estimate (before use of reserves). Although action is being taken eg increasing the number of hostel places, there remains the need to augment the base budget by a sum possibly £60k - £100k.

HR Strategy (including Single Status). In order to make progress on implementing the 1997 national agreement on pay and conditions of employment, the stage 1 implementation costs of £52k were provided in 2003/04 out of prior year corporate underspends. The 2004 national pay agreement requires pay and grading reviews to be implemented by March 2007, and provision in the base budget will be required. Exempt Appendices 5 and 6 illustrate the likely costs. Implementing the single status agreement would also be a positive recruitment and retention measure, which could reduce the excessive staff turnover (and resultant inefficiency) occurring in many areas, and hence improve service provision.

9.7 Beyond the range of imposed extra costs outlined in preceding paragraphs, the Council faces additional external spending pressures eg the increasing cost and frequency of vehicle replacements and the need for funding to counter specific areas of recruitment difficulty. There are also calls to increase financial assistance to the voluntary sector, a need to consider the outcome of Best Value reviews calling for extra funding, and to make inroads into a range of other local and Member priorities. (The 2006/07 loss of LASHG compensation is matched by the ending of the one-off increase for Starbeck Pool repairs.) Some of the smaller items can be considered for 2006/07 as part of the normal budgeting cycle later in this year, but it is likely to be against a backcloth of a very difficult budgetary situation. Finally, there is a serious shortfall on capital account. The Council's vigorous programme of asset disposals over the years has left virtually no further capital receipts to be available. Yet the schedule of required **Capital Investment** is ongoing, and to fully respond to outstanding demands would require a contribution from revenue (illustrative up to £3m pa) which is not realistically affordable in the near term.

9.8 In order to guide officers in preparing the draft budget for 2006/07, it would be helpful if Cabinet could give a preliminary indication as to which if any items should be treated as further additions to the target for 2006/07; which items it would be prepared to see as growth items for 2006/07 later in the Budget process; and which items should be deferred until future years because of present financial limitations. As a starting point, the following draft classifications are initially suggested given the external pressures, but the Council may well find the Council Tax implications unacceptable and

therefore make different suggestions. **It is essential that resources and spending demands are properly reconciled.**

Recycling revenue (£450k)	- growth item 2006/07 (detailed assessment)
Recycling capital (say £2,120k)	- growth item 2006/07/capitalise (detailed assessment)
Access to Services/ICT (£100k)	- growth item 2006/07
Memorial Safety (say £100k)	- continue in base budget for one more year
Single Status Issues (costs to be assessed)	- growth item 2007/08 (detailed assessment) (see Exempt Appendix 5)
Other Issues	- growth item 2006/07
Capital Investment	- Deferred

Cabinet's classification of these items into appropriate categories will conclude the choice of strategy options presently foreseen for 2006/07. The tax implications of any 2006/07 items are that **every £112k** of spending growth will mean a **1% Council Tax rise** beyond the 3.4% starting level suggested at paragraph 9.5 (depending crucially on the grant settlement). Illustrative figures are shown at Exempt Appendix 6.

9.9 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 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).

9.10 The issue of **Stakeholder Consultation** on the Medium Term Financial Strategy is set out in Recommendation 2.2. Appendix 2 to this report contains a summary of the main requirements to be taken into account on stakeholder consultation. The Appendix is a self-contained paper which provides the key information on the proposals to consult stakeholders.

10.0 RESOURCE REALLOCATION

10.1 A core part of the Comprehensive Performance Assessment (CPA) Inspection report (dated 6 May 2004) was the need for the Council to take a more policy-led approach to financial planning and budgeting. The Inspectors said that priorities do not drive decisions about how the Council

spends its money. The issue of the reallocation of resources is equally applicable within as well as between services and business units. For the 2005/06 Budget process, a policy led approach arrangement was not achieved but arrangements will be put in place for the 2006/07 Budget process.

- 10.2 This approach is in line with the Government's agenda for modernising the way councils are run. The White Paper of December 2001 describes how the best councils, in their medium term revenue and capital budgets, are already driven by a clear vision for the future and a realistic strategy for getting there – linking the resources employed with the outcomes intended. The new prudential borrowing system from 2004 adds to the process. Before authorities may avail themselves of this facility they must demonstrate they can afford the debt charges. Three year forecasts of revenue budget and tax effects are required, to highlight trends in income and expenditure and any apparent headroom, accompanied by a risk assessment or sensitivity analysis.
- 10.3 Harrogate has made significant progress in the last three years, with £0.75m redirected this year towards its corporate priorities (see Appendix 3). The underlying implication for Harrogate is that its track record in financial planning and resource reallocation is good, but further development will be required across the Council in the way it has traditionally operated. This will have significant implications for senior management around the authority especially over the transitional period, and also requires the ongoing management of new and more sophisticated processes. The Council has begun to establish stronger centralised corporate arrangements for linking service and financial planning and budgeting, and for monitoring service performance by the creation of the Department of Corporate Policy and Improvement. The CPA process also urges a clear and planned approach to the use of reserves. This accords with Harrogate's practice of reallocating underspends through a disciplined budget process.
- 10.4 One need under CPA is for service and financial planning to be more directly policy-led (although this approach is constrained by the capping arrangements). Our current policy planning arrangements and our relatively simple and straightforward approach to budgeting, whilst preserving public services and standards, will require further development to address the weaknesses identified in the CPA Inspection report on resource reallocation. Members can be assured the policy-led approach is based on political choice and discretion at budget time.
- 10.5 This topic has been broached with Members in previous Financial Strategy reports and also in the reports of the Chief Executive to the March 2002 Cabinet. At that time it was recognised that subsidised discretionary services are often publicly popular. Accordingly the Council restated its approach of protecting services at current levels, and agreed a ranked schedule of revenue and capital priorities for 2002/03 onwards. In addition progress has been made in resource reallocation through annual budgets especially in 2004/05.

- 10.6 In 2004, the CPA Inspectors were not entirely satisfied with the Council's approach on resource reallocation and on improvement planning using efficiency savings. They were seeking greater clarity on what the Council is wanting to achieve, how its budget strategically aligns with these priorities and how resources are reallocated to deliver them through an improvement fund approach. The Council is developing a rationale on resource allocation which is policy-led and explicitly driven by its corporate priorities and improvement agenda.
- 10.7 The results of the SIMALTO exercise gave a significant measure of support to the Council's existing pattern of resource allocation. The research also showed a consensus preference for an increase in Council Tax of inflation plus £5 (broadly a 5% to 6% increase).

11.0 ANNUAL BUDGET 2006/07

- 11.1 This review of financial strategy needs to produce the guidance and parameters for officers on preparing the Budget for 2006/07. The following items are suggested:
- (a) Target base budget of £20.634m for 2006/07 (up £0.6m or 3% in line with the existing strategy) plus resources for approved items (eg recycling, Access to Services) at levels to be approved by Cabinet;
 - (b) Target base budgets for two subsequent years increasing by £0.6m (3%) plus resources for approved items (eg recycling) at levels to be approved by Cabinet.
[Note: these annual £0.6m increases are unchanged from the current strategy];
 - (c) Increases in fees and charges – guideline of 3% subject to service considerations and market forces (as for the current year). This is in line with current forecasts for general RPI next year, but it should be noted that service sector and local authority costs are rising faster than this index;
 - (d) Provision for pay increases of 2.95% (or RPI October 2005 if higher) in line with the employers' offer. Increases at least in line with RPI are necessary in the public sector after years of underfunding, especially in view of recruitment difficulties being experienced nationally;
 - (e) Presumption of no increase in other non demand-led budgets;
 - (f) Efficiency savings targets of 2.5% for Departments, of which 1.25% to be cash-based (provisional targets);
 - (g) Working balance target remaining at £2m to £2.75m, as for previous years.
- 11.2 The budget parameters as suggested above are seen as a coherent and inter-related package. This means that if, for example, a lower increase in

fees and charges was to be contemplated, this would imply a corresponding increase in the net target budget and Council Tax level.

- 11.3 Financial Management in HIC and Cultural Services is conducted somewhat differently from others because of the predominantly trading nature of much of their business. They are given bottom line budget targets to meet, and these arrangements are well-established and effective. These arrangements are that (i) in each case, efficiency savings of 2% of controllable expenditure are identified on a memorandum basis; (ii) the cash limit for Culture is increased by 1% in line with the overall budget change (ie 3% for pay and prices less 2% efficiency savings) plus approved ring-fenced memorial spending; and (iii) for HIC (which has an existing baseline contribution to the General Fund via capital charges) 30% of efficiency savings are returned to General Fund with the balance kept within HIC for reinvestment. All these arrangements are proposed to be continued.
- 11.4 Within Cultural Services there is an identified backlog maintenance/ investment requirement of several million pounds in the portfolio of leisure buildings, plant and infrastructure. This is to be addressed by a resource reallocation exercise within that Department to be carried out in the second half of the current financial year.

12.0 RISK MANAGEMENT

- 12.1 Generally on risk management, the CPA Inspectors were satisfied with the Council's approach and we have done risk assessments on major projects eg Royal Hall which have been a vital part of the decision-making process.
- 12.2 Even with a decade of good financial management, Harrogate's finances are still relatively weak. Given the Government's new approach putting capping back on the agenda, the risks to the Council on strategic financial management are now much greater. The key issue is to ensure that spending and resources are brought properly into alignment and that difficult decisions on spending reductions are made in a timely manner. There are some well publicised cases of councils getting into difficulties in this area.
- 12.3 The key risks foreseen on financial strategy are as follows:
- ◆ overspends (eg Royal Hall, Single Status implementation)
 - ◆ grants below minimum expectations (eg RSG, concessionary fares)
 - ◆ project failure (eg Gershon, Access to Services).
- 12.4 The Council needs to remain vigilant against the risk of failure on core services due to lack of funds, and to avoid resources being pre-empted to meet Government or local aspirations. There is an increasing risk of dislocation due to difficulties in recruitment and retention and agency workforce.

13.0 CONCLUSION

13.1 The elements of the recommended strategy are shown in Exempt Appendix 6, and the Cabinet is asked to determine its preferred approach.

Background Papers: None.

OFFICER CONTACT: Please contact Steve Hoyes (Strategic Finance Manager) if you require any further information on the contents of this report. The officer can be contacted at the Department of Finance, Crescent Gardens Harrogate; by telephone on (01423) 556101 or by email steve.hoyes@harrogate.gov.uk

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.

CORPORATE OBJECTIVES 2005 TO 2008

BUILDING A DISTRICT OF DISTINCTION

The Council's long-term vision:

“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 and ensuring everyone can share in its success”



The Council attaches great importance to delivering first-class public services and maintaining its current pattern of service provision in line with the direction set out in the following long-term corporate priorities:



Corporate Priority 1 - Affordable Housing:

providing housing opportunities for all (e.g. homeless families, elderly persons); focusing on the needs of young people, key workers and our rural communities

Working with others to deliver the following corporate objectives:

- 1.1 To re-assess and prioritise affordable housing needs in the District following a review of the needs of young people, key workers and rural communities



(Former Josephine's Nightclub Development – newly developed for affordable homes)

- 1.2 To provide housing opportunities, including decent homes, for all



Corporate Priority 2 - Traffic and Transport:

tackling traffic congestion in our towns and improving transport in rural areas

Working with others to deliver the following corporate objectives:

- 2.1 To improve traffic flows in our towns
2.2 To improve the availability of, and access to, rural transport



Corporate Priority 3 - Keeping our District Safe:

curbing crime, reducing anti-social behaviour and the fear of crime

Working with others to deliver the following corporate objectives:

- 3.1 To tackle anti-social behaviour
- 3.2 To reduce the fear of crime



Corporate Priority 4 - Caring for the Environment:

preserving and enhancing the quality of our natural and built environment

Working with others to deliver the following corporate objectives:

- 4.1 To increase the amount and type of domestic waste recycled
- 4.2 To limit the impact of new housing development
- 4.3 To improve our public spaces – Council buildings, parks and gardens
- 4.4 To reduce litter, graffiti and dog fouling by more effective encouragement, publicity and enforcement
- 4.5 To improve our use of energy efficiency and use of renewable energy
- 4.6 To increase our re-use of empty property



Corporate Priority 5 - Supporting our Growing Local Economy:

promoting a robust and varied economy which benefits local people and creates a range of local job opportunities

Working with others to deliver the following corporate objectives:

- 5.1 To create a range of employment opportunities focusing, in particular on job creation in the District's rural and market towns
- 5.2 To increase tourism visitor spend in the District



Corporate Priority 6 - Delivering First-Class Public Services:

a well managed council delivering first-class, accessible public services, focused on value for money, working with the community, understanding the needs of local people, being a good employer.

Working with others to deliver the following corporate objectives:

- 6.1 To improve the public's access to Council services and information
- 6.2 To continue to be a well-managed Council
- 6.3 To deliver first-class services
- 6.4 To remain a good employer
- 6.5 To improve the Council's overview and scrutiny arrangements
- 6.6 To continue to provide effective community leadership
- 6.7 To improve the training and development of Members and employees
- 6.8 To tackle fraud by implementing the Benefits Verification Framework

**Summary of Requirements for Stakeholder
Consultation on
Medium Term Financial Strategy**

1.0 Introduction

- 1.1 This Appendix aims to summarise the main reasons why it is appropriate for the Council to consult stakeholders on the Medium Term Financial Strategy. It contains background information on the requirements of the Council's constitution and current Central Government advice on best practice.

2.0 Requirements of the Council's Constitution

- 2.1 The general rules are in the section of the Council's Constitution entitled 'Budget and Policy Framework Procedure Rules', which can be found on pages 192 to 197 of the Members' Handbook.
- 2.2 The Constitution rules provide a requirement for the Executive to publish initial proposals on the Financial Strategy at least three months before the strategy needs to be adopted. Effectively, the three month period starts with publication of the Financial Strategy immediately following the Cabinet meeting on 13 July 2005.
- 2.3 The Constitution rules also include a provision that the initial Financial Strategy proposals should be published "having first canvassed the views of local stakeholders as appropriate and in a manner suitable to the matter under consideration". Specific consultation has not taken place in advance of the production of the Medium Term Financial Strategy report, largely because sufficient relevant information was not previously available to permit meaningful consultation to take place. However, the Council in 2004 arranged for consultation to take place with Council taxpayers to obtain their views on a wide range of spending options, using the SIMALTO system and via the services of a research company Research for Today Limited. The results of this survey were reported to Cabinet in July 2004 and are valid for a period of three years.
- 2.4 The Executive's "initial proposals" as contained in the Medium Term Financial Strategy report are referred to the Resources Scrutiny Commission for consideration as part of its role in scrutinising Corporate Financial issues. The Commission may canvass the views of local stakeholders if it considers it appropriate. Alternatively it could comment on the consultation proposed by the Executive. The Resources Scrutiny Commission will consider the Medium Term Financial Strategy report at its first meeting following the Cabinet on 13 July 2005.
- 2.5 The Resources Scrutiny Commission will report to the Executive on the outcome of their deliberations, which may be by minute or by memorandum of report. Normally they have six weeks to respond to the "initial proposals" unless there are special factors which make the timescale inappropriate.

- 2.6 In view of the possible complexity of this issue, it is suggested that the Resources Scrutiny Commission should plan to provide any response to the Medium Term Financial Strategy report by 31 October 2005.

The Cabinet will consider responses in November and recommend formal adoption of the strategy to the December Council.

- 2.7 The Constitution also provides that Councillor Skidmore, as the relevant Cabinet Member, is entitled to attend all or any meeting of the Commission, to contribute to the debate on the Medium Term Financial Strategy, or to answer questions. He may take relevant officers with him if he wishes to do so. His attendance there is as of right not on summons for these issues.
- 2.8 The methods to be adopted in consulting local stakeholders are not specified in the Constitution, but they must be "in a manner suitable to the matter under consideration".
- 2.9 The Constitution also provides that any representations made to the Executive as a result of consultation shall be taken into account in formulating proposals and shall be reflected in any report dealing with them.

3.0 Current Central Government Advice on Best Practice

- 3.1 Reference is made to consultation with taxpayers on budget and Council Tax issues in the DTLR White Paper 'Strong Local Leadership – Quality Public Services'.

- 3.2 Key points made in the White Paper are:

- ◆ It is in authorities' own interests to establish their taxpayers' views on Council Tax increases before they take Budget decisions
- ◆ Evidence of how an authority has engaged local taxpayers will be an important part of the authority's performance assessment
- ◆ Communication of financial information should not be over-complex. It should answer questions of consultees
- ◆ Local authorities and residents often have different views about the strengths and weaknesses of different methods of consultation, and these should be taken into account when deciding a package of consultation techniques

- 3.3 The Audit Commission's Comprehensive Performance Assessment report issued in May 2004 contained some criticism of the Council because stakeholder involvement in developing some of the Council's plans was regarded as a relative weakness. It is clearly good practice to develop and continue to improve arrangements for stakeholder consultation appropriate to the issue under consideration. The results of the 2004 SIMALTO survey do clearly represent an improvement on consultation delivered in previous years.

4.0 Proposed arrangements for stakeholder consultation in 2005 on Medium Term spending priorities and on the Medium Term Financial Strategy 2006/07 to 2008/09.

4.1 Subject to the views of the Cabinet, the following consultation is planned.

4.2

- To recognise the success of the 2004 SIMALTO exercise, and to plan for a similar exercise at the end of its three year validity period.
- In the meantime, to consult the District Panel on relevant issues and to report back to Cabinet in due course.
- Chambers of Trade – Leader’s presentations on:
 - (a) Financial Strategy
 - (b) Budget 2006/07
- Major Employers – on budget 2006/07
- Parish Council Consultation Meetings – on Budget issues 2006/07

FUNDING CORPORATE PRIORITIES

The Council has reallocated existing funding, or provided additional funding, to deliver its corporate objectives as set out below:

Corporate Priority		2004/05 £'000	2005/06 £'000
CP2	Traffic and Transport		
2.2	Accessibility of rural transport		65
CP4	Caring for the environment		
4.1	Recycling	481	90
4.3	Public Spaces – parks, swimming pools	50	80
CP5	Supporting our growing local economy		
5.1	Creating a range of local job opportunities	20	
CP6	Delivering first-class public services		
6.1	Access to Services	287	130
6.2	Well-managed council		30
6.4	Good employer – single status		350
6.7	Training and development – IT training		10
6.8	Benefit verification framework	142	
6.9	Civil Contingencies		10
	Total	980	765

The figures set out above represent nearly 4% of the Council's annual net budget. It is a significant reallocation of Council resources to address issues and deliver commitments against the Council's corporate objectives and priorities

WASTE RECYCLING & COLLECTION
Position Statement prepared by Head of Environment

1.0 INTRODUCTION

- 1.1 **Legal and Statutory Obligations** – The government have indicated that the target (Best Value Performance Standard) for recycling will be raised for 2007/08. It is the officer view that this will be set at 30%, which is the national target for that period. If the target is not met the service will be judged not to have achieved best value, a judgement which could have implications for the Comprehensive Performance Assessment. Currently the Council is working towards its 2005/06 target of 21%.
- 1.2 Under the Household Waste & Recycling Act 2003 all residents must have two or more materials collected from the kerbside by 2010. Currently the Council services 76% of properties in this way.
- 1.3 North Yorkshire County Council are obliged to divert an increasing proportion of biodegradable waste (excluding glass and metal cans) from landfill to avoid costly financial penalties. They have powers of direction over waste collection authorities, but a corresponding obligation to pay extra costs incurred by districts in helping to meet these targets by increasing recycling performance.

2.0 IMPLICATIONS FOR SERVICE DEVELOPMENT

- 2.1 In order to meet the anticipated Best Value Performance Standard for 2007/08 of 30%, 3 to 4 more green waste kerbside schemes of 10,000 properties are required, together with an expansion of dry recyclable kerbside recycling to all rural areas.
- 2.2 In order to meet the challenge of providing a three-stream waste collection service at a reasonable cost, an examination of more efficient ways of working is required. This is dealt with in more detail below. The requirements of the Gershon report on efficiency, and comments made by the Audit Commission inspectors with regard to the cost of Harrogate Council's waste service, reinforce the need for this work.

3.0 FUNDING

- 3.1 There is available to this Council in 2005/06 a waste performance and efficiency grant of £48k aimed at improving capacity and participation. This amount may increase to about £100k in the years 2006/07 and 2007/08.
- 3.2 There is a need to establish mechanisms, timetables and negotiate with North Yorkshire County Council on the extent to which they will assist this Council with the cost of introducing waste recycling services which will help them to meet their landfill diversion targets.

- 3.3 Other than that, no further aid is anticipated in the period covered by the financial strategy.

4.0 WASTE RECYCLING AND COLLECTION 2006/07 TO 2008/09

- 4.1 At its meeting in March 2005 Cabinet agreed a Waste Action Plan for 2005/06 which committed the Director of Community Services to undertake an options appraisal of Waste Collection systems. The Department of Food and Rural Affairs (DEFRA) has agreed to assist Harrogate Borough Council in this work by providing some consultancy support this summer. A further report will then be made to Cabinet.
- 4.2 The aim of the appraisal will be to look at how the Council's collection systems can provide the required boost in recycling and waste reduction performance whilst maintaining service quality and achieving efficiency savings. In the meantime, the financial requirements for recycling service improvement as reported to Cabinet in March are detailed in the appendix.

5.0 BUDGETARY IMPLICATIONS OF RECYCLING EXPANSION AND RATIONALISATION

- 5.1 The budget items attached to this appendix fall into the following categories:

a Expansion of recycling performance to meet a predicted 30% target for 2007/08:

- i expanding green garden waste recycling to a total of 50,000 properties
- ii expanding multi-material kerbside scheme to remaining rural areas

b Working towards equal access (i.e. 100% coverage) recycling:

- i expanding multi-material kerbside scheme to all areas
- ii improvement of 'bring' recycling sites and infrastructure

c Providing collection systems which maximise the efficient use of vehicles and crew:

- i conversion of kerbside box/bag schemes to wheeled bins (dependent on materials recycling facility)
- ii integration of recycling/residual waste collection (black bag scheme) using wheeled bins (alternate weekly collection)

d Providing the infrastructure to enable efficient delivery and bulking up of recyclables:

- i facilities in north of district to improve bulk storage of recyclables
- ii expansion of leaf composting facility to improve street cleansing leaf recycling rate.

- 5.2 The above items form a draft programme which will be subject to a later and more detailed report to Cabinet. The items included in this appendix which

relate to efficiency savings contain estimates which will be subject to review in the light of the options appraisal mentioned in 4.0 above.

- 5.3 One collection system option to be considered is the integration of recycling/residual waste collection. This involves the alternate weekly collection of residual waste (i.e. a reduction in frequency of residual waste collection). The costs of introducing the containerisation of residual waste, which are an essential component of this approach, have been included so that the estimated invest to save costs are included. However, the appendix does not make an estimate of the potential to offset the cost of expanding recycling by introducing alternate weekly collection because the options appraisal has not yet been undertaken.
- 5.4 A further important caveat relates to the deliverability of the implied timetable. With waste management undergoing such a fundamental change, the delivery times for containers and vehicles are under pressure. Decisions will be required well before budget setting if the full year effect of the outline schemes are to be achieved within the years indicated for implementation.

6.0 TABULATION OF FINANCIAL IMPLICATIONS

- 6.1 The attached table contains financial estimates of the cost of introducing a phased expansion of recycling over the 3 years covered by the financial strategy. The items listed are categorised according to their contribution to the criteria listed in section 5.1 above. Meeting the recycling performance targets in 2007/08 is an obvious priority. There are also clear benefits in investing to deliver a more efficient service through changes and improvements in the service and its infrastructure. In addition, there is the issue of equal access to recycling services. The prioritisation process will be addressed as the cabinet review the draft Waste Action Plan for 2006/07 onwards later this year.

Medium-Term Financial Strategy 2006/09 – Waste Collection/Recycling

2006/07

Scheme	Capital cost (£k)	Revenue cost (£k)	Recycling performance	Equal access	Efficiency savings	Service/infra structure improvements
Expansion of green garden waste scheme (20,000 properties)	764	184	✓	✓		
Expansion of multi-material kerbside scheme to rural areas (15,000 properties)	466	105	✓	✓	✓	
Expanding leaf composting facility	50	20	✓			✓
Improvement of 'bring' recycling site infrastructure and service	180	110	✓	✓		✓
Additional bulking station in north of district	60	35		✓	✓	✓
Integration of residual waste collection & recycling schemes (30,000 properties)	600	5.3 of appendix			✓	
TOTAL	2,120	454				

2007/08

Scheme	Capital cost (£k)	Revenue cost (£k)	Recycling performance	Equal access	Efficiency savings	Service/infra structure improvements
Expansion of green garden waste scheme (20,000 properties)	787	184	✓	✓		
Conversion of 10,000 multi-material scheme to wheeled bins	377	–			✓	
Integration of residual waste collection & recycling schemes (30,000 properties)	400	5.3 of appendix			✓	
TOTAL	1,564	184				

Medium-Term Financial Strategy 2006/09 – Waste Collection/Recycling

2008/09

Scheme	Capital cost (£k)	Revenue cost (£k)	Recycling performance	Equal access	Efficiency savings	Service/infra structure improvements
Expansion of green garden waste scheme (10,000 properties)	393	92	✓	✓		
Conversion of 10,000 multi-material scheme to wheeled bins	377				✓	
Replacement of recycling vehicles (additional to VRP)	300					
Integration of residual waste collection & recycling schemes (10,000 properties)	200	5.3 of appendix			✓	
TOTAL	1,270	92				

Single Status Summary Statement
Prepared by Head of Human Resources

1.0 INTRODUCTION

- 1.1 In 1997 a new national agreement relating to terms and conditions of employment was introduced. This is known as the 'Single Status agreement'.

Certain elements of the agreement have been implemented, however the issue of a pay and grading review remains outstanding.

- 1.2 The national agreement states that "the pay and grading of jobs must be fair and non-discriminatory complying with equal pay legislation"

"The basic pay for each employee will consist of a point or points on the local Government pay spine if a common system is not adopted there needs to be objective justification for jobs paid on scales and jobs paid on points".

The current pay and grading arrangements at Harrogate Borough Council do not comply with the national agreement.

Failure to implement a new system for the grading of jobs puts the Council at greater risk of equal pay/equal value claims.

2.0 THE WAY FORWARD

- 2.1 The Council in October 2002 resolved in principle that a new job evaluation system be implemented and a new pay and grading system be introduced. This would be done in two stages. Stage One the evaluation and ranking of jobs using a new job evaluation scheme. Stage Two the pay to points ratio which will establish new salaries and grades.

3.0 THE CURRENT SITUATION

- 3.1 A joint agreement has been reached with the unions on the new scheme to be used. Further work on the introduction of the new scheme had been put on hold pending the outcome of the Pay Commission report. Following the publication of the pay commission report in October 2003, it was decided that further work would be put on hold pending a decision on a restructure and its implementation.

- 3.2 The 2004 national pay award provided for a three year pay deal.

Part of the three year pay deal requires employers to have implemented the pay and grading review by March 2007. Work is currently ongoing planning for the implementation of the pay and grading review and a project plan should be produced shortly.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The stage one implementation costs of £52k were provided for in 2003/04 out of prior year corporate underspends.

- 4.2 It is anticipated by the Director of Resources, based on implementation of such agreements by other authorities, that the current pay bill of nearly £23m could potentially be increased by about "*Exempt Information*" by the end of a three-year phase-in period. Allowing for the proportions to be recharged eg to HRA and HIC would leave a residual cost to General Fund of approaching "*Exempt Information*".

- 4.3 As the first step towards meeting this obligation, the Council is earmarking the ongoing savings from the corporate restructure which are estimated at £350k pa, leaving about "*Exempt Information*" pa to be found ultimately.

Illustrative Total Budget and Council Tax Levels

These figures represent the target base budgets recommended to Cabinet plus illustrative figures for resources which Cabinet may decide to deploy on approved items (eg Recycling, Access to Services).

The illustrative Council Tax increases are based on assumptions for a number of unknown factors – in particular Government grant, which can have a considerable impact.

The budget and tax figures are intended **purely to illustrate** the various competing spending priorities facing the Council. Decisions on these will be taken in due course. The figures should not be taken as indicative of the likely outcome for the years in question. The target base budget is subject to variation depending on developments in 2005/06 eg interest rates.

It was not considered realistic to include any substantial sum for Capital Investment. But, for example, a £½m annual contribution to capital would require a one-off 4.5% tax rise.

	Budget Options Checklist	2006/07		2007/08		2008/09	
		£k		£k		£k	
A.	Target Base Budget	20,634		21,234		21,834	
B.	Concessionary Fares	-		-		-	
C.	Recycling – revenue	450		630		720	
D.	Recycling – capital	2,120		1,560		1,270	
E.	Access to Services/ICT	100		200		200	
F.	Memorial Safety	-		-		-	
G.	Vehicles	59		150		150	
H.	Single Status	<i>“Exempt Information”</i>					
A.	Target Tax Rise illustration	£6.30	3.4%	£6.20	3.2%	£6.00	3.0%
B.	Concessionary Fares	-	-	-	-	-	-
C.	Recycling – revenue	£7.40	4.0%	£10.40	5.4%	£11.80	5.9%
D.	Recycling – capital	£35.00	18.8%	£25.60	13.3%	£20.80	10.5%
E.	Access to Services/ICT	£1.70	0.9%	£3.30	1.7%	£3.30	1.7%
F.	Memorial Safety	-	-	-	-	-	-
G.	Vehicles	£1.00	0.5%	£2.50	1.3%	£2.50	1.3%
H.	Single Status	<i>“Exempt Information”</i>					

Note: The 2005/06 budget is £20,034k and the Band D tax is £186.16.

This table demonstrates that to keep within an assumed maximum of 4.5% on the council tax, the Council cannot even afford the target tax rise of 3.4% plus (for the sake of example) the Access to Services strategy and the Vehicles revenue requirement, a total of 4.8%, without some attention to underlying costs. This would also leave nothing at all for recycling or other emerging items. The remainder would have to be met from savings or deferred or capitalised (subject to funding availability).

Single Status Costs

This information is considered exempt under the Local Government Act 1972 as disclosure could prejudice the Council in its labour relations negotiations.