

**MEDIUM TERM FINANCIAL STRATEGY
2011/2012-2013/2014**

**Head of Financial Management
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1.0 BACKGROUND

- 1.1 The Council's 2011/2012 to 2013/2014 Medium Term Financial Strategy (MTFS) is driven by the corporate planning process and plans. The key elements of the Corporate Plan are set out in **Appendix 1**.
- 1.2 The MTFS looks ahead three years at the Council's broad financial prospects. It, together with the Corporate 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.

2.0 ECONOMIC AND FINANCIAL CONTEXT

- 2.1 The pressures within the global, European and UK economies are worse than at any time in the past 80 years, and may possibly be without precedent. Problems came to the surface in Autumn 2008 and were manifested in a global banking crisis followed by a severe economic downturn, notably in the US and European economies. This has been followed by sovereign debt issues in a number of European countries (ie insolvency of governments) where public sector and annual deficits have reached unsustainable levels.
- 2.2 The current economic circumstances of the UK include the following:
- ◆ An unsustainable public sector deficit of £156bn
 - ◆ Rising inflation
 - ◆ Falling living standards
 - ◆ Falling employment
 - ◆ Falling exchange rate
 - ◆ Very low interest rates

A key issue is that dealing with these problems individually would imply mutually exclusive policy measures.

- 2.3 A priority for the new coalition Government is to address the public sector deficit without pushing the country into a double dip recession. Failure to do this will badly affect the country's credit worthiness. The Government's first act has been to identify in-year (2010/2011) savings of £6bn and will follow this up with a more wide-ranging review of public spending before the end of the calendar year. There are, as yet, no significant direct implications for local government spending, which impact on Harrogate Borough Council.

- 2.4 It is unclear at this stage what the scale of spending reductions facing local government as a whole will be. Independent commentators have suggested between 15% and 25% over 4 years in cash terms. If the Council's formula grant was cut pro rata at the highest level, this would be in the region of £2.8m – say £0.7m per annum (6%). Given that the Council receives less than its full entitlement at present, as a result of the floor protection arrangements, it is quite likely that the worst scenario will be less severe and a provisional reduction of 4% has been used in the projections. This factor for 2011/2012, although very important, is less critical than the impact of the grant adjustments relating to the transfer of concessionary travel to the County Council.
- 2.5 The current low level of interest rates has an equally important impact on the Council's finances with short-term lending (less than 12 months) achieving a maximum yield of 1%, compared to a 'normal' position of up to 5%. This is equivalent to an interest loss of £1m to £1.5m per annum. Interest rates are predicted to start to rise in 2011 but only slowly.
- 2.6 The overall context for the preparation of the financial strategy is of major resource pressures over the next three years, with a key feature being extreme uncertainty over the impact of factors affecting the public sector as a whole and Harrogate in particular. The strategy covers a range of scenarios to reflect this.

3.0 FINANCIAL AND MANAGEMENT POSITION

- 3.1 The Council's overall financial position is in line with many other District Councils with spending patterns over services and overall spending levels broadly consistent with the national average position.
- 3.2 The main difference is that Harrogate's grant per head is £9 (10%) below the national average for shire districts although the gap is narrowing slowly. This is largely compensated by higher than average council tax levels.
- 3.3 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.
- 3.4 While the pattern of spending across different services follows broadly national patterns, there are some differences. The main area of high spending is Recreation and Sport at 63% per capita above the Shire District average, while low spending areas include Environmental Health, Street Cleansing and Corporate costs, which are 26%, 39% and 12% respectively below average.
- 3.5 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 such as recycling and pensions.

- 3.6 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 £10m 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.
- 3.7 Reserves per capita are above the District Council average but this reflects the large scale of the Council's activities compared to net revenue spending and the risks borne eg HIC and a higher than average dependency on income from sales, fees and charges.
- 3.8 The present projected level of working balance of £2.63m is at the lower end of the target range of £2.5m to £3.0m included in the previous strategy.
- 3.9 For the medium term, revenue resources will be restricted due to potential reductions in government grant and a freeze on Council Tax. The Council has been successful at generating efficiency savings, but this is becoming increasingly difficult to achieve and an enhanced corporately based strategy through the [Innovate@Harrogate](#) agenda has been developed.
- 3.10 By contrast, **revenue-spending demands** continue. 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
- ◆ Pensions

Internal

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

4.0 CAPITAL

- 4.1 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. The Council's overall approach is reflected in the Capital Strategy 2007 to 2011, which was approved by Council in December 2007, alongside the Council's Asset Management Plan 2007 to 2011.
- 4.2 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 £1.0m per year and a Council Tax 35% above the shire district average.

- 4.3 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 or substantially self funded 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)
- 4.4 Phase 1 of the HIC Exhibition Hall redevelopment is due to commence in August 2010. The Council's contribution to the overall funding is being met through prudential borrowing as the scheme falls under category a. above.
- 4.5 It is also likely that additional capital funding for an enhanced approach to waste recycling will be needed and this may also require prudential borrowing if it meets the above criteria.
- 4.6 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.
- 4.7 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.
- 4.8 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.
- 4.9 In contrast, **capital spending demands** continue. A review in May 2003 identified £35m of future schemes of differing priority. Additional capital needs include recycling vehicles and wheeled bins, replacement IT software and hardware, replacement CCTV cameras, a forward strategy for Ripon Pool and the capital cost of investing in carbon reducing technologies. In the case of recycling, the Council has for a number of years been making contributions to its Capital Reserves in order to provide funds to meet the capital costs of its planned recycling expansion.
- 4.10 The Council has met the Decent Homes Standard 20 months ahead of the Government's target timescale. Future housing investment programme strategy will focus on how, having reached the Decent Homes Standard, planned investment can maintain the Council housing stock to the level of amenity it currently provides. The approach of the new government to the future of the Housing Revenue Account is awaited.

5.0 CENTRAL GOVERNMENT APPROACH

5.1 2010/2011 was the final year of the three-year financial settlement set out in the Government's second comprehensive spending review, CSR07. The next comprehensive spending review (CSR10?), which in the normal political timetable should have taken place in summer 2009 and provided details of grant increases for the three years after April 2011 when the current spending plans expire was shelved pending the outcome of the 2010 General Election.

5.2 An overall review of public spending will, therefore, need to be undertaken during the Autumn, which will be followed by the announcement of the overall financial settlement for local government in early December together with the notification of individual Council's grant settlements. At this stage, indications are that the announcements in December 2010 are likely to cover the period to 2014/2015.

5.3 The recently published coalition agreement between the Conservatives and the Liberal Democrats includes the following pledge in relation to local government finance:

"We will promote the radical devolution of power and greater financial autonomy to local government and community groups. **This will include a review of local government finance**".

5.4 The coalition agreement also makes the following pledge in relation to Council Tax:

"We will freeze Council Tax in England for at least one year, and seek to freeze it for a further year, in partnership with local authorities."

There are currently no indications as to how this freeze would be funded.

5.5 Early indications are for a shift away from the current emphasis, developed by the previous Government, of controlling local government by issuing policies, standards and targets and penalising failure to follow Government signals by loss of discretionary grants and freedoms, and by downgrading by the inspectors under the Comprehensive Area Assessment process, which in the worst cases could bring replacement of management and direct Government intervention. How the promised "fundamental shift of power from Westminster to people" will translate into detailed proposals remains to be seen although the immediate abolition of the Comprehensive Area Assessment is an early indication of the shift in emphasis.

6.0 FUTURE STRATEGY OPTIONS FOR THE COUNCIL

- 6.1 The Council's policy priorities are set out in the 2009 - 2012 Corporate Plan. The MTFs sets out the financial planning framework for delivering the Council's policy priorities and planned improvements.
- 6.2 A key element in determining the budget strategy for 2011/2012 and future years is to calculate a target budget. This represents the amount of resources available to the Council from the Government (through Formula Grant and redistributed NDR) and from council taxpayers. This is the amount within which the Council's net spending plans need to be constrained.
- 6.3 To do this, assumptions are required in a number of key areas:
- ◆ Council Tax levels
 - ◆ Tax Base
 - ◆ Formula Grant levels
- 6.4 **Council Tax levels** – The budget agreed by Harrogate BC in March 2010 resulted in a Council Tax freeze for 2010/2011. As stated in paragraph 5.4, the Government has already promised to freeze Council Tax for 2011/2012 and has pledged to work in partnership with Local Government to freeze it for a further year in 2012/2013. For strategy purposes the following levels of Council tax increase have been assumed:
- 2011/2012 – 0%
2012/2013 – 1%-2.5% (NB could be reduced to 0% subject to Government funding)
2013/2014 – 2.5%
- 6.5 **Tax Base** – this represents an estimate of the number of properties (or Band D equivalents) against which Council Tax will be levied and, therefore, impacts on the total revenue collected. For example, an increase in the tax based would result in increased council tax revenue even if council tax levels are frozen, but at the same time a reduction in the tax base would result in reduced revenue. For strategy purposes, no change to the 2010/2011 tax base has been assumed.
- 6.6 **Formula Grant levels** – Estimating the likely level of formula grant for 2011/2012 and beyond is by far the most difficult and, therefore, the most risky. For this reason, two alternative scenarios have been developed based on prudent and best-case assumptions. For 2011/2012 in particular there are two separate factors that need to be taken into consideration
- 6.7 The first issue relates to the reduction in formula grant required following the decision to transfer responsibility for concessionary travel from lower to upper tier authorities with effect from 1 April 2011. Consultation has been undertaken on how the amount of grant to be transferred should be calculated. This has resulted in a number of exemplifications, which for Harrogate range from **£1.476m** to **£2.238m**. It should be noted that in all cases the amount to be transferred exceeds the amount of formula grant (ie

excluding special grant) that Harrogate BC believes it has previously been given in respect of this function, which has been calculated at £825,000.

6.8 The second issue relates to the extent to which the Government might look to reduce Formula Grant levels as it seeks to address the public sector deficit. For strategy purposes reductions of 4% per annum have been assumed within the prudent scenario, while the best-case scenario assumes reductions of 2% per annum.

6.9 The following table sets out a range of target budgets based on the assumptions set out above.

	Target Budget		
	2011/2012	2012/2013	2013/2014
Prudent	22,270	22,060	22,070
Best-case	23,200	23,350	23,510

6.10 Within the target budget, 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 2011/2012 and beyond. Again, for those areas where the greatest uncertainty exists, increased costs have been estimated using both prudent and best-case assumptions.

6.11 **Employers' National Insurance Contributions.** The pre-budget report in December 2009 announced a 0.5% increase in both employers' and employees' national insurance contribution rates with effect from 1 April 2011. This was in addition to the 0.5% increase that had already been announced in April 2009. The Coalition Government has now confirmed the proposed increases as set out by the previous Government but has stated that the threshold at which employers start paying NICs on earnings will be increased (probably by £21 per week as proposed in the Conservative party's manifesto). This will mean that from April 2011, employers will be paying more NICs in respect of anyone earning over £20,000 but less NICs in respect of anyone earning less than this. It is estimated that the impact of this on Harrogate BC will be an additional cost of approximately **£70,000** per annum.

6.12 **HR Strategy (including Single Status).** The base budget figures for 2007/2008 onwards include provision for the results of the pay and grading review and harmonisation of terms and conditions, which was implemented from 1 April 2007. Funding for these increased costs is from a senior management restructure in 2005/2006 (£272,000) plus increased budget provision of £850,000 between 2007/2008 and 2010/2011. The final planned contribution of **£100,000** in 2011/2012 is provided for.

6.13 **Pensions.** The North Yorkshire Pension Fund, like many other funds is in substantial deficit. At the last triennial valuation in 2007 the overall fund had a funding level of 67.2% with the Harrogate element at 70.2% funding (ie better than the fund overall). Despite contribution increases of 1.5% (by Harrogate) over the period 2008 to 2011, the deficit on the fund has increased further since the 2007 valuation was completed (due to the mechanism of valuing contributions, low interest rates and increased

longevity) and it is expected that this will be reflected in the outcome of the 2010 triennial valuation when this is completed later in the summer. Advice from the actuary on the likely impact of the 2010 valuation on employer contribution rates payable from 1 April 2011 suggests that, given the impact on the fund of the current financial markets plus the consequences of other factors referred to in the 2008 funding review, employers should be planning for contribution increases of between 1% and 2% per annum from 2011/2012 onwards. For strategy purposes a prudent provision of 2% and an best-case provision of 1.5% has been assumed. The additional cost of a 1% increase in employers' pension contribution (net of contributions from HIC and the Housing Revenue Account) is approximately **£200,000** per annum.

The Government has announced the setting up an independent commission to review public sector pensions and various work streams are hand already to seek ways of addressing the increasing costs of the Local Government Pension Scheme.

- 6.14 **Treasury Management.** The MTFs has been produced based on the following prudent and best-case interest rate projections:

Year	Prudent	Best-Case
2011/2012	0.75% - 1.25%	1.25% – 2.25%
2012/2013	1.5% - 2.75%	2.5% – 3.75%
2013/2014	2.75%	3.75%

The above rates result in reduced interest on temporary lending in 2011/2012 of **£61,000** based on prudent projections while best-case projections result in increased interest of **£219,000**. From 2012/2013 onwards, interest rates are projected to rise steadily resulting in increased interest on lending in 2012/2013 (compared to 2011/2012) of between **£651,000** and **£680,000** and increased interest on lending in 2013/2014 (compared to 2012/2013) of between **£310,000** and **£333,000**.

- 6.15 The calculation of the net cost of prudential borrowing in relation to the HIC Exhibition Hall Redevelopment Phase 1, which commenced in 2010/2011 is dependent on a number of factors – the overall cost of the scheme, phasing of expenditure, interest rate projects and net additional income generated by the new facility. Based on prudent interest rate projections, there is an estimated saving of **£43,000** in 2011/2012 (compared to 2010/2011), with a cost of **£71,000** in 2012/2013 and a saving of **£64,000** in 2013/2014. Based on the best-case interest rate projections the additional net cost is **£4,000** in 2011/2012 and **£36,000** in 2012/2013 with a net saving of **£88,000** in 2013/2014. At this stage no repayment by HIC of the cost of prudential borrowing has been assumed, beyond the estimated additional net income generated. However, this can be reviewed as and when there is an improvement in HIC's overall trading position.
- 6.16 **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 urban gaps in provision. This plan will be completed in 2010/2011 with the implementation of the final full round of green garden waste collection and the implementation of the 'hard

to reach' project for dry kerbside recycling.

In reviewing the Interim Plan in 2009, Cabinet decided to ask officers to bring forward detailed costings, including the substantial capital costs and identified efficiencies, of the conversion to the preferred waste collection option, which would boost recycling beyond current performance. 2010/2011 will see current methods expanded to their full extent and the availability of the results of a recent house to house recycling survey. The report, setting out how waste collection performance can be boosted to meet targets and help manage the risk of landfill exceedance penalties for local taxpayers in future years, can therefore be brought to Cabinet later in 2010. That report will set out the current financial implications of the required capital investment and the service and revenue advantages of the optimum option.

- 6.17 **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 work is ongoing to continue to identify initiatives aimed at reducing the number in and cost of temporary accommodation. However, the fundamental issue of the shortage of affordable housing for rent remains.
- 6.18 **Loss of LABGI income.** The Local Authority Business Growth Incentive Scheme (LABGI) gave local authorities a financial incentive to encourage local business growth by rewarding qualifying business growth with a non-ringing-fenced grant. LABGI operated for three years from 2005/2006 to 2007/2008 and resulted in total grant to the Council of £1.4m. LABGI did not operate in 2008/2009 and returned in 2009/2010 but in a substantially changed form, which resulted in a grant for the Council of £76,410 in 2009/2010. Grant of £56,130 had provisionally been announced for 2010/2011 but this has now been cut as part of the DCLG contribution to the interim £6bn spending cuts package. Based on this it is unlikely that LABGI will continue beyond 2010/2011. The Council is currently providing £212,000 per annum from LABGI income in support of the General Fund revenue budget. Based on the balance brought forward at 1 April 2010 and assuming that no further income is received, it is estimated that there will be a shortfall of **£12,000** in 2011/2012 with a further shortfall of **£200,000** in 2012/2013.
- 6.19 **Housing and Planning Delivery Grant.** Since 2003/2004, Planning Delivery Grant (PDG) has supported revenue and capital expenditure by the Planning Division. From 2006/2007 PDG was supplemented by additional planning fee income following an increase to the statutory fees. In 2008/2009 PDG was replaced by Housing and Planning Delivery Grant (HPDG), which gave greater emphasis to the provision of additional homes but which retained an incentive of £60m per annum in relation to planning activities. As with LABGI it has recently been announced that the 2010/2011 HPDG allocation is being cut completely as part of the DCLG contribution to the interim £6bn spending cuts package. Beyond 2010/2011 the picture remains pessimistic with any incentives likely to be focussed on the provision of additional housing. This is unlikely to result in additional funds for Harrogate BC due to the policy within the Core Strategy to restrict the number of new homes to 390 per annum. The ability to fund the Planning Division at its existing level will, therefore, become increasingly reliant on the

ability to generate additional planning fee income once the economy hopefully begins to recover. Based on current estimates of income and expenditure there is a potential shortfall of **£90,000** in 2013/2014 increasing to £140,000 per annum from 2013/2014 onwards.

- 6.20 **Planning.** Funding for a public examination into the Local Development Framework Sites and Policies Development Plan Document will be required in 2012/2013. The estimated cost is £250,000 against which provision of £165,000 currently exists in the Planning Business Unit Reserve, leaving a shortfall of **£85,000**, although it may be possible to provide for this from underspends between now and 2012/2013.
- 6.21 **Utilities.** Future rises in utility costs are extremely difficult to predict given the volatility of energy markets. However, 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 2009 for an 18-month fixed tariff to September 2010 for the larger buildings (75% of the total budget) and in October 2008 for a two and a half year fixed tariff to March 2011 for smaller buildings (25% 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.

The Council have approved and are currently working in partnership with the Yorkshire Purchasing Organisation (YPO) to purchase energy in bulk in order to establish competitive tariffs and to minimise increases. Team Energy Solutions have also been appointed to assist in monitoring consumption and reducing energy use. This, in conjunction with the current economic climate and reduction in consumer demand, may contribute to lower increases although this cannot be guaranteed. For strategy purposes a provision of **£50,000** per annum has been included.

The first 'flexible and aggregated' contract negotiated via the YPO will commence in October 2010 and a detailed review of this will be undertaken in addition to future contract renewals as part of the 2010/2011 revised estimate and 2011/2012 budget process.

- 6.22 **Carbon Reduction.** With effect from 2010/2011 the Council will be required to participate in the Government's Carbon Reduction Commitment. This requires the purchase of carbon credits at the start of each financial year based on the Council's CO2 emissions. Recycling payments are then made to the Council 6 months later, with the repayment being subject to a bonus or penalty depending on the Council's performance within the league of participating organisations. The maximum bonus or penalty in the first year is 10% rising incrementally to 50% in year 5. For strategy purposes it is assumed that the scheme will be cost neutral, though there may be additional costs of managing the scheme.
- 6.23 **Transformation Programme.** It is likely that in order to achieve ongoing efficiency savings from the [Innovate@Harrogate](#) programme, significant one-off expenditure (both revenue and capital) may be required in the medium term. This particularly relates to the Collaboration strand and the Accommodation Review with the Better Use of Resources strand. The exact level of spending is currently uncertain but will become clearer as the

projects progress during 2010/2011.

6.24 Whilst the above paragraphs set out the major cost pressures that the Council will face in 2011/2012 and beyond, the list is not exhaustive. Other examples of spending pressures include the need to respond to demands for increasing financial assistance to the voluntary sector, the development of a tourism strategy and to respond to a range of other local and Member priorities. Some of the smaller items can be considered for 2011/2012 as part of the normal budgeting process later in the year, but this is likely to be against the backcloth of a difficult budgetary situation.

6.25 **Concessionary Fares.** The transfer of responsibility for concessionary travel to North Yorkshire County Council on 1 April 2011 will result in the following cost savings totalling £1,898,470 (reimbursements to bus operators (net of special grant and on-street parking income) £1,800,060; operational costs £25,600; salaries £72,810).

The Council currently charges overheads totalling £82,590 to other authorities via the concessionary fares partnership. To the extent that these overheads cannot be eliminated they will need to be offset against the cost savings. The budget for concessionary travel also includes a total of £93,000 for local discretions, which are paid in addition to the main scheme. To date, no decision has been taken on whether these local discretions will continue following transfer to NYCC.

For strategy purposes prudent savings of **£1,816,000** have been assumed with best-case savings calculated at **£1,950,000**.

6.26 **Appendix 2** sets out revenue budget illustrations based on the target budget levels and other assumptions as set out in this strategy. This shows a wide potential for variance between the prudent and best-case scenarios and reflects the high level of uncertainty that currently exists in a number of areas. **Appendix 2a** sets out the position based on prudent assumptions. This shows that for 2011/2012, even with another successful efficiency savings exercise, there is a potential budget **shortfall**, before consideration of growth, of **£556,000**. The position based on best-case assumptions is set out in **Appendix 2b**. This shows a possible **surplus**, before consideration of growth, of **£1,162,000**. **Given that the final outcome is likely to be much closer to the prudent than the best case assumptions, members are asked to consider what action is required to identify options for balancing the 2011/2012 budget.**

6.27 For 2012/2013 the projections range from a potential budget shortfall of £288,000 based on prudent assumptions to a potential surplus of £951,000 based on best-cast assumptions, with a broadly similar picture for 2013/2014.

6.28 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.**

7.0 EFFICIENCY AND BALANCING THE BUDGET

- 7.1 The Council's approach to efficiency is set out in its Efficiency Strategy, which focuses on two separate agendas:
- ◆ Government imposed efficiency savings (Gershon, CSR07)
 - ◆ The Council's own internal efficiency programme
- 7.2 The Comprehensive Spending Review 2007 (CSR07), included a requirement for Councils to demonstrate annual efficiency savings of 3%. Savings must be 'cash releasing' ie leading to either budget changes or reinvestment in priority services. The Budget 2009 introduced a requirement for local government to make a further £600m of efficiency savings from 2010/2011. This resulted in a further 1% on existing targets ie from 3% to 4% giving a revised target of £1.38m. In announcing the additional requirement, the Government indicated that the additional savings "will be directly recycled within local authorities' budgets to be put towards front line services and keeping council tax down."
- 7.3 Annual savings are reported through National Indicator 179 (NI179) - 'cumulative cash releasing value for money savings'. This is monitored using Covalent and the national data hub. From 2009/2010 efficiency savings totals have also been a requirement on council tax bills and information leaflets.
- 7.4 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. To assist in balancing the budget for 2010/2011 each Department was given a 2% cash efficiency savings target. 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. For 2010/2011 a separate procurement savings target equivalent to 1% of relevant spend was agreed.
- 7.5 The exact level at which the Council will need to generate cash efficiency savings to produce a balanced budget for 2011/2012 will be dependent on a number of factors, most of which will not be known until much later in the year. For strategy purposes, it has been assumed that cash efficiency savings of 2.5% will be required but it is considered prudent to plan for a potentially higher total.
- 7.6 Since 2009, the Council has been working on a three to five-year Business Transformation Programme ([Innovate@Harrogate](#)) to identify further improvement and efficiency through new ways of working, streamlining processes and procedures and changing the organisation's culture. Each of the five Programme Boards is currently working on identifying potential savings to be achieved in 2011/2012 and later years. To the extent that savings can be generated through the Business Transformation Programme, this will reduce the level of across-the-Board departmental savings. However, it is acknowledged that many of the [Innovate@Harrogate](#) projects are longer term and may not generate significant savings until 2012/2013 or later.

- 7.7 In late 2009/early 2010, as a precursor to the development of the current strategy, Heads of Service were asked to produce high-level scenario plans illustrating how 10% budget cuts might be achieved. It is proposed that further work should now be undertaken on these plans with a view to producing by early September 10% savings illustrations over a three-year period as follows:
- 2011/2012 – 4%
 2012/2013 – 3%
 2013/2014 – 3%
- 7.8 As in previous years, it is recommended that increased income beyond the agreed target can be counted towards efficiency targets. Departments who are unable to identify 4% 'cash efficiency savings' will be required to identify potential service cuts in order to meet their target.
- 7.9 To be counted towards the Government imposed efficiency target, efficiencies must not have a detrimental effect on service standards and levels of delivery. Any potential service cuts or increased income identified as part of the exercise proposed in paragraph 7.7 cannot be counted towards the 4% cash releasing efficiency target.
- 7.10 The difference between the total cash savings identified during this exercise that are genuine efficiencies (not service cuts or increased income) and the 4% target will need to come from other sources, including:
- ◆ Any further savings identified as part of Phase 2 of the Cultural Services Resource Reallocation exercise;
 - ◆ Savings identified as the result of more effective procurement (where these are not given up as cash savings);
 - ◆ A Value for Money project, as part of the Better Use of Resources theme of the Business Transformation Programme.
- 7.11 The Council must take an informed view on how much of the total savings realised is taken to balance the budget, how much is reinvested in front-line services and how much is invested to generate further efficiencies.
- 8.0 ANNUAL BUDGET 2011/2012**
- 8.1 This review of financial strategy needs to produce the guidance and parameters for officers on preparing the Revenue Budget for 2011/2012. The following is proposed:
- (a) A target budget of £22.273m for 2011/2012 (a reduction of 10.4% on the 2010/2011 approved budget of £24.872m);
 - (b) Target budgets for the next two years 2012/2013 and 2013/2014 of £22.062m and £22.073m respectively (**NB assumes a 4% per annum grant reduction**);
 - (c) Increases in fees and charges – minimum of 3% subject to service considerations and market forces (the same as the current year). In view of the overall budget position, Members are asked to consider

carefully those areas where higher increases are achievable.

- (d) Provision for pay increases of £250 per person for those staff earning up to £21,000 per annum, in line with the recent guidance on public sector pay;
- (e) Presumption of no increase in other non demand-led budgets;
- (f) Cash efficiency savings illustrations of 4% for Departments;
- (g) Working balance target increasing to £2.5m to £3m in line with the latest risk assessment.

8.2 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.

8.3 Financial Management for Harrogate International Centre is conducted 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 cash savings in line with other Council departments of which it is required to contribute 30% to the General Fund with the balance retained within HIC for reinvestment. It is proposed that the above arrangements should continue. HIC, like the Council, continues to face significant financial pressures in relation to the general economic climate. These issues are dealt with through regular reports to the HIC Board.

9.0 STAKEHOLDER CONSULTATION

9.1 Harrogate undertook a SIMALTO exercise in 2004. This consultation methodology is used to test the public's preferences for different combinations of outcomes/services taking account of the effect on Council Tax ie what services people value most and how much they are prepared to pay for them. The results suggest which service improvements the public would most like to see, and which reductions would be the least acceptable. From the results, models predict for a particular level of council tax the combination of services that would give the most public satisfaction. The results also test whether the public is willing to pay more in council tax for the options giving more satisfaction.

9.2 In recommending the Medium Term Financial Strategy 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.

9.3 This consultation was initially planned for Spring 2007 in order that it could inform the 2008/2009 to 2010/2011 strategy but was deferred due to uncertainty over the Council's future resulting from the North Yorkshire County Unitary bid. Following the appointment of a new Assistant Chief in 2009, it was proposed that it should be carried out in 2009/2010. However,

at its meeting on 29 July, the Cabinet agreed to recommend that the Council should not proceed with the SIMALTO consultation at this stage. Given that the Council may be faced in the medium term with difficult decisions over potential service reductions, Cabinet is requested to consider whether it would now be appropriate to go ahead with the SIMALTO consultation exercise. The cost of this is estimated at £20,000, which would need to be found from in-year corporate underspends.

- 9.4 Notwithstanding the intentions in relation to SIMALTO, the Council has continued to consult each autumn with a wide range of stakeholders in relation to budget and council tax levels for the following year. Consultees in 2009 included the District Panel, the voluntary sector, local businesses, the Local Strategic Partnership, Parish Councillors and Harrogate Borough Councillors. A copy of the questionnaire was also placed on the Council's website. Subject to any further views from Cabinet, it is proposed that this consultation should be repeated during Autumn 2010 with relevant issues reported back to Cabinet as part of the 2011/2012 budget process in January 2011.
- 9.5 In addition to the formal consultation outlined above, the Council will continue to continue to consult informally on both the Medium Term Financial Strategy and budget issues through briefing meetings with the Chambers of Trade, major employers and parish consultation meetings.

10.0 PARTNERSHIPS

- 10.1 The Council has been engaged over many years in delivering its ambitions and vision through a number of partnerships at both strategic and operational levels. These vary from short-term alliances with one organisation to deliver a specific objective to complex longer-term arrangements with a variety of other bodies.
- 10.2 The Council welcomes the opportunity to work with partner organisations to deliver community priorities, but will always seeks to ensure that:
- ◆ Financial viability of partners is assured before committing to an agreement;
 - ◆ Responsibilities and liabilities of each of the partners is clearly understood by parties to an agreement;
 - ◆ Accounting arrangements are established before any payments are made; and
 - ◆ Implications of the terms and conditions of any funding arrangements are considered before any money is accepted.
- 10.3 Where partnerships are considered significant, the Council will seek to ensure that partners' views on the Council's budget and financial strategy are sought, in line with the arrangements set out in paragraph 9 above.

11.0 RESOURCE REALLOCATION AND PERFORMANCE MANAGEMENT

- 11.1 Since 2004, the Council's approach to financial planning and budgeting has been policy-led.
- 11.2 The Council has, as part of its Corporate 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.
- 11.3 In line with this, all requests for budgetary growth that are submitted as part of the annual budget process require completion of Resource Reallocation Pro Forma, which sets out how the request will help the Council to deliver its corporate objectives.
- 11.4 A further element of the Resource Reallocation process is the treatment of year-end savings. The Council has a history of realisation of in-year savings against budget. Although not significant in real terms (between 1 and 1.5% of gross budget), these savings provide a key source of funds that can be reallocated towards the Council's corporate priorities.
- 11.5 The requirement to deliver services within approved resources represents a fundamental principle of the Business Unit approach to devolved financial management. Business Unit Managers are encouraged to be prudent in the knowledge that underspend of up to 1% of turnover will be made available for reinvestment in their business. Spending from Business Unit reserves is, however, subject to agreed approval limits including Cabinet Member approval for expenditure above £25,000. An overall review of planned uses of Business Unit Reserves is also undertaken annually by Members to ensure that spending is in line with corporate priorities.
- 11.6 In 2008/2009 the Council completed the planned Environmental Initiatives Fund projects in support of the Council's top corporate priority of "Caring for the Environment". The outcome included water conservation schemes at the Council's swimming pools and at its Parks Depot to reduce the Council's use of this natural resource, energy efficiency improvements to rural housing and grants towards the cost of cavity wall and loft insulation.
- 11.7 Use of 2008/2009 savings included the provision of £50,000 towards the start-up costs in relation to the Business Transformation Programme and £40,000 to fund additional design fees in respect of the HIC Exhibition Hall Redevelopment Phase 1.
- 11.8 In 2009/2010, £400,000 from savings was transferred to the Capital Reserve in order to provide funding towards the one-off costs of the Council's planned recycling growth.
- 11.9 Other uses of 2009/2010 savings included the ring-fencing of £80,000 from savings on bed and breakfast and private sector leasing was ring-fenced to fund homelessness prevention initiatives and the contribution of a further £30,000 to the Council's Community Chest.

- 11.10 A contribution of £77,000 from 2009/2010 savings has also been made to the General Fund working balance. This is in line with the policy to increase the working balance based on the latest risk assessment.
- 11.11 The measures approved in April 2008 in respect of Stage 2 of the Cultural Services Resource Reallocation Review are resulting in the appropriation of savings and additional income from within the Leisure, Museums & Arts (LMA) and Parks budgets to the Cultural Services Reserve. Cabinet approved 10-year spending programmes, funded from the reserve, in July 2009. These programmes are subject to annual review in terms of the extent to which the Cultural Services Reserve is resourced to deliver them. In respect of LMA, in particular, the spending programme is considered essential to maintaining trading income.
- 11.12 Following the discontinuation of the Cultural Services bottom-line budget in 2008/2009, it was agreed to allow 100% carry forward of LMA underspends for a period of three years. In agreeing the Medium Term Financial Strategy 2010/2011 to 2012/2013, Cabinet agreed that subject to annual review in conjunction with the MTFs update, the 100% carry forward of LMA underspends should be extended for a further two year period. Continuation of the current arrangements is considered essential to delivering the 10-year programme. So far as Parks is concerned, 100% carry forward of underspends was extended for the same period as Leisure, Museums & Arts (again subject to review). A funding gap of £1.4m over 10 years was identified in April 2008. The Director of Community Services' view is that continuing to allow 100% carry forward provides staff with an incentive to maintain tight budget management and helps to maintain the quality of the district's parks and open spaces, which is important to supporting the key corporate objectives relating to the environment and the economy, but this needs to be considered in the context of the Council's overall financial position.

12.0 RISK MANAGEMENT

- 12.1 In the Annual Audit Letter 2008/2009 (published November 2009), the Audit Commission noted that the Council continues to demonstrate good risk management and recognised an improvement to the reports presented to senior management and members, which assured that information was sufficient to enable officers and members to discharged their responsibilities.
- 12.2 The Strategic Risk Register outlines the risks arising to the Council's financial position during the economic downturn. Current risk factors include:
- ◆ External limitations including Government imposed efficiency targets, the grant formula and Council Tax pressures including capping;
 - ◆ Reduced income from fees and charges, which the Council is dependent upon to help balance its revenue budget;
 - ◆ Budget pressures created by change in demand – decrease/increase in demand for existing services or demand for new services and increased customer expectations.

- 12.3 The Council is addressing these risks by ongoing sound financial management and a renewed emphasis, as part of the Transformation Programme, on value for money, efficiency planning and invest to save initiatives.
- 12.4 HIC's trading position, in particular, represents a major risk to the Council in the current economic uncertainties. Cautious budget assumptions have been made and HIC are exercising very tight control over all spending.
- 12.5 Each year the Council reviews and publishes a risk assessment of the level of reserves and working balance it should maintain.

**CORPORATE PLAN
2009 - 2012**

Our Vision, Aim, Priorities and Goals

Our Vision for the Harrogate District:

The best place to live, work and visit – by miles.

Our Aim as a Council:

- ◆ Providing high quality, value for money services
- ◆ Looking after our heritage and place – taking pride in what makes Harrogate District special
- ◆ Listening to, learning from and responding to our customers
- ◆ Being innovative and creative – working with and learning from other to achieve more

As well as the day-to-day delivery of Council services, we will deliver, on our own or in partnership with others, additional outcomes in the community through the following corporate priorities, goals and actions in 2010/2011 and beyond:

- 1 **Caring for the Environment:** enhance and protect the District's natural and built environment. This is the Council's top priority
- 2 **Homes for Local People:** people have access to housing opportunities throughout the District.
- 3 **A Connected District:** good travel, transport and electronic links to and from the District, with the rest of the Leeds City Region, the North Yorkshire sub-region and nationally.
- 4 **Stronger and Safer Communities:** vibrant and inclusive communities where people are safe, feel safe and feel part of their local community.
- 5 **A Strong Local Economy:** a robust and diverse economy that benefits all local people and creates employment opportunities, particularly in rural areas and the market towns across the District
- 6 **Shaping the Council towards excellence:** through our five-year Business Transformation Agenda, Innovate@Harrogate, driving continuous improvements and efficiencies in the following areas of our work:

Collaboration: identify ways in which we can improve how we work together, share information and best practice both within the Council and with our partners.

Improving the Customer Experience: looking at the standard of customer service we provide and how we ask them what standard of service they would like so that we can improve their experience when they contact the Council or use a Council service.

Better Use of Resources: reviewing our office buildings, use of energy, use of information and documents, printing and procurement to ensure that they are efficient, effective and good value for money.

New ways of working: improving our efficiency and effectiveness through flexible working, mobile working and better use of existing Council systems.

Organisational development and cultural change: making sure that our vision, values and behaviours support our ambition to deliver improvements, efficiencies and manage change effectively.

Revenue Budget Illustrations – Scenario 1 (prudent)

	2011/2012	2012/2013	2013/2014
	£k	£k	£k
Base Budget	24,872	22,273	22,062
Add Unavoidable Cost Increases			
Pay Awards & Inflation	277	406	1,185
Single Status (General Fund cost)	100	0	0
Increased NI contributions	70	0	0
Increased pension contributions	381	401	421
Treasury Management – reduced interest receipts (net)	61		
HIC – cost of prudential borrowing (net)	-43	71	-64
Utility charges	50	50	50
Loss of LABGI income	12	200	94
Loss of HPDG income	0	0	90
LDF public enquiry	0	85	0
Less Budget Reductions/Additional Income			
Treasury Management – increased interest receipts (net)	0	-651	-310
Concessionary travel – transfer to NYCC	-1,816	0	0
Fees & Charges increases	-275	-275	-365
Efficiency savings	-860	-860	-860
Estimated Spending Requirement	22,943	22,350	22,326
Target Budget (1)	22,273 (2)	22,062 (3)	22,073
Budget Shortfall/(Surplus)	556	(362)	230

Notes:

- (1) Target budget represents the total resources available from Formula Grant and Council Tax
- (2) Target budget for 2011/2012 based on loss of £2.238m formula grant re concessionary travel, 4% general grant reduction and council tax freeze
- (3) Target budget for 2012/2013 based on 4% general grant reduction and 1% council tax increase
- (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, particularly in relation to the economic climate, where the potential impact is less certain.

Revenue Budget Illustrations – Scenario 2 (best case)

	2011/2012	2012/2013	2013/2014
	£k	£k	£k
Base Budget	24,872	23,200	23,348
add Unavoidable Cost Increases			
Pay Awards & Inflation	-49	342	782
Single Status (General Fund cost)	100	0	0
Increased NI contributions	70	0	0
Increased pension contributions	283	293	303
HIC – cost of prudential borrowing (net)	4	36	-88
Utility charges	50	50	50
Loss of LABGI income	12	200	44
less Budget Reductions/Additional Income			
Treasury Management – increased interest receipts (net)	-219	-680	-333
Concessionary travel – transfer to NYCC	-1,950	0	0
Fees & Charges increases	-275	-365	-460
Efficiency savings	-860	-860	-860
Estimated Spending Requirement	22,038	22,216	22,786
Target Budget (1)	23,200 (2)	23,348 (3)	23,509
Budget Surplus	(1,162)	(1,132)	(723)

Notes:

- (1) Target budget represents the total resources available from Formula Grant and Council Tax
- (2) Target budget for 2011/2012 based on loss of £1.476m formula grant re concessionary travel, 2% general grant reduction and council tax freeze
- (3) Target budget for 2012/2013 based on 2% general grant reduction and 2.5% council tax increase
- (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, particularly in relation to the economic climate, where the potential impact is less certain.