

REPORT TO Cabinet
DATE: 23 July 2008
DEPARTMENT: Department of Resources
REPORTING OFFICER: Head of Financial Management
(*Val Hunter*)
SUBJECT: **MEDIUM TERM FINANCIAL STRATEGY
2009/2010 TO 2011/2012**
WARDS AFFECTED: All
FORWARD PLAN REF: N/A

1.0 PURPOSE OF REPORT

- 1.1 This report aims to help translate the Council's policy objectives into action. It does this by reconciling spending ambitions with resource projections over the medium term, and by providing for appropriate resource reallocation.
- 1.2 This report should be read in conjunction with the Council's Strategic Plan and Corporate Improvement Plan. A key issue is that in taking decisions, due consideration is given to the Council's agreed corporate priorities. These priorities have been determined through consultation with partners, local residents and other stakeholders.
- 1.3 The report emphasises the need for continued sound financial management in the face of difficult financial circumstances.
- 1.4 The report identifies 2009/2010 budget parameters and policy approaches for approval. It also identifies financial targets for the three-year period to reflect the overall policy stance.
- 1.5 All Departments and the Corporate Management Team have been consulted in the preparation of the report.

2.0 RECOMMENDATIONS

- 2.1 To agree the following proposal for the Medium Term Financial Strategy (MTFS):
 - (a) That revenue budget targets for 2009/2010 to 2011/2012 be agreed. (See **Appendix 2** for illustrative figures.)

(b) That 2009/2010 budget parameters be agreed:

Fees and charges increase	5% minimum (subject to service considerations and market forces)
Pay increases provision	2.5%
Other non demand-led expenditure budgets	0%
Efficiency savings illustrations (departmental targets)	2% cash

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

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

2.2 That Members consider what action is required to identify options for addressing the potential shortfall in 2009/2010 to enable this to be dealt with in detail as part of the budget process and to enable a balanced budget for 2009/2010 to be agreed.

2.3 That a decision is taken on whether 100% carry forward of underspends for Parks Bereavement Services & Markets should continue for a further year.

2.4 That consultation on 2009/2010 budget and council tax levels is undertaken, as set out in paragraph 12.3.

2.5 That a repeat of the 2004 SIMALTO consultation exercise is undertaken no later than Spring 2009.

2.6 That the Governance Panel of the Corporate Overview & Scrutiny Commission be allowed until 17 September 2008 to report on its deliberations on the MTFS 2009/2010 to 2011/2012.

3.0 RECOMMENDED REASON FOR DECISION

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

4.0 ALTERNATIVE OPTIONS CONSIDERED AND RECOMMENDED FOR REJECTION

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

5.0 BACKGROUND

- 5.1 The Council's 2009/2010 to 2011/2012 MTFFS is driven by the corporate planning process and plans. The outward-looking **Strategic Plan** sets out the overall direction, priorities and key improvement actions of the Council, while the inward-looking **Corporate Improvement Plan** looks at how the Council itself will improve as an organisation to deliver the vision, goal and priorities set out in the Strategic Plan. The key elements of the Strategic Plan and Corporate Improvement Plan are set out in **Appendix 1**.
- 5.2 In anticipation of the expiry of the Council's previous 3-year Strategic Plan and Corporate Improvement Plan covering the period 2005 to 2008, both plans were reviewed during 2007/2008 to ensure that they remained effective and relevant to the Council's improvement agenda and District challenges from 2008/2009 onwards. The revised plans, which were developed by Directors, Heads of Service and the Cabinet following consultation with partners, Members, staff and the local community and which cover the period 2008 to 2011 were formally adopted by the Council on 16 July 2008.
- 5.3 In addition to the Strategic Plan and Corporate Improvement Plan, the Council is currently developing a Corporate Resource Strategy. This strategy, which will be adopted by the end of 2008/2009, will set out how the Council will manage and co-ordinate the allocation of its resources and assets to achieve the objectives set out in the other two plans.
- 5.4 The MTFFS looks ahead three years at the Council's broad financial prospects. It, together with the Strategic Plan, incorporates the outcomes of stakeholder consultation, the results of risk assessments, projected developments in Council services and external initiatives such as the national efficiency agenda. Both documents also reflect the Council's ambitions to improve the organisation's capacity to deliver improved services through its People Management, Asset Management and IT strategies.

6.0 CURRENT FINANCIAL AND MANAGEMENT POSITION

- 6.1 The Council's overall financial position is in line with many other District Councils. Spending patterns over services and overall spending levels are broadly consistent with the national average position and reserves and balances are around average levels.
- 6.2 The main difference is that Harrogate's grant per head is £10 (13%) below the national average for shire districts and this is largely compensated by higher than average council tax levels.
- 6.3 The other main factors distinguishing Harrogate from other shire districts are that it directly operates a major conference and exhibition business and that Harrogate is one of the largest districts in terms of population and geographic area. There is a roughly equal spread of rural and urban population, which poses particular challenges for service provision and resource allocation.

- 6.4 While the pattern of spending across different services follows broadly national patterns, there are some differences. The main area of high spending is Recreation and Leisure at 70% to 80% per capita above family average, while low spending areas include Environmental Health, Street Cleansing and Corporate costs, which are 20%, 40% and 9% respectively below average.
- 6.5 Whilst the financial position of the Council is consistent with many similar councils, resources projected for the medium term are insufficient to meet spending needs, especially in those areas promoted or imposed by central government or over which the Council has little discretion. Examples include recycling, concessionary travel, the impact of single status/job evaluation and a variety of outstanding capital projects.
- 6.6 On the other hand, the Council's financial position has been greatly strengthened over the last 15 years through strong financial discipline. Spending across the Council has been kept within budgets, external loans have been reduced from £55m to £15m and other credit liabilities have been reduced by not leasing offices, vehicles or computers. The Council has been successful in securing a variety of external grants and increasing income levels.
- 6.7 The present projected level of working balance of £2.44m is within the medium-term target range and is supported by a risk assessment.
- 6.8 For the medium term, revenue resources will be restricted due to low increases in government grant and effective capping of increases in Council Tax to below 5%. The Council has been successful at generating efficiency savings, but this is becoming increasingly difficult to achieve.
- 6.9 By contrast, **revenue-spending demands** are increasing at a rapid rate. A key purpose of this strategy is to reconcile these factors. The sources of pressures for growth in revenue spending are:

External – mostly Government priorities

- ◆ Waste Management
- ◆ Concessionary Travel
- ◆ Single Status
- ◆ Pensions

Internal

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

7.0 CAPITAL

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

- 7.2 Under the Prudential Code, councils now have freedom to determine their own borrowing limits but may only do so if the borrowing is 'affordable' ie taking account of debt charges and any running costs, set against 3 year projections of other revenue account pressures and Council Tax effects. For Harrogate this means that the opportunities for borrowing are likely to be limited, because Harrogate has debt charges (including HIC) above average by £1.5m per year and a Council Tax 33% above the shire district average.
- 7.3 The implication of the financial strategy set out in this paper is that for the immediate future, prudential borrowing to support capital spending will only be acceptable for corporate priorities and only in the following circumstances:
- a. The project is expected to be self funding and is backed by a robust business assessment
 - b. Specific revenue support is available within existing budgets
 - c. The project is related to a specifically agreed growth proposal, which also provides the agreed revenue support
 - d. An emergency situation (eg health and safety)
- 7.4 Phase 1 of the HIC Exhibition Hall redevelopment has been approved, in principle, subject to sufficient external grant funding being awarded, with the balance from prudential borrowing as the scheme falls under category a. above. The Council has also agreed to progress feasibility work on the remaining phases of the project, with a view to securing a satisfactory and affordable financial solution.
- 7.5 A proposal to develop a new swimming pool in Ripon has now been approved on the basis of the use of prudential borrowing to supplement a capital receipt from disposal of the existing site. The revenue consequences of this are dealt with in the strategy and are subject to its approval.
- 7.6 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.
- 7.7 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.
- 7.8 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.
- 7.9 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 and a forward strategy for

Starbeck and Ripon Pools. 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.

- 7.10 There are also proposals for new car parks in Ripon and Knaresborough, which are potentially fundable from on-street income over a number of years.
- 7.11 Capital spending demands for the Housing Investment Programme are mainly the achievement of the Decent Homes Standard. The recent Housing Options Appraisal has indicated that this can be met from the existing funding framework.

8.0 CENTRAL GOVERNMENT APPROACH

- 8.1 The results of the Government's second comprehensive spending review, CSR07 were announced in December 2007. This resulted in the first genuine three-year financial settlement covering Formula Grant and the Special Grant for concessionary travel.
- 8.2 Although the announcement of a three-year settlement provides certainty on funding levels and should, therefore, allow for much more effective financial planning, the level of the overall settlement for Local Government has been described as the worst for ten years and reflects severe overall pressure on national public finances. The provisional settlement for District Councils was particularly severe and disappointing with 40% of Districts receiving a 0.5% cash increase in 2009/2010.
- 8.3 In respect of efficiency savings, the requirement under CSR07 is for Councils to demonstrate 3% per annum 'cashable' savings. This represents a much more severe test than the previous "Gershon" requirement of 2% total efficiency savings of which only 1% was required to be 'cashable'.
- 8.4 In 2005 the Government introduced a financial incentive scheme (LABGI) to encourage economic growth by allowing Councils to retain a share of increased Non Domestic Rate. The initial scheme ended in 2007/2008. To date Harrogate has received a total of £1.26m (£270,000 re 2005/2006, £685,000 re 2006/2007 and £305,000 re 2007/2008). The Government has held back £100m from the total available funding pending the assessment of potential legal challenges. If this money is released the Council could potentially receive a further £125,000. The Council is free to spend LABGI income as it sees fit, whether this is on economic development or on any other services or simply to substitute for grant shortfall. To date £200,000 has been allocated as match funding for economic regeneration projects, £36,000 (£12,000 per annum) has been allocated to support the establishment of the Customer Services Unit and £200,000 per annum has been used to support the 2006/2007, 2007/2008 and 2008/2009 revenue budgets.
- 8.5 The Government are currently consulting on a replacement for the initial LABGI scheme although the earliest date for the introduction of any new scheme would be 2009/2010. Current indications are that the total funds available will be much lower than for the previous scheme with a proposal to change the funding split in favour of County Councils in two-tier areas.

- 8.6 The proposed council tax revaluation (the first since 1991) originally scheduled for 2007 was postponed by the Government in September 2005 pending the outcome of the Lyons inquiry into the functions and financing of local government. The revaluation, if it eventually happens, has the potential for widespread changes in bills across the country, possibly masked by a phasing-in scheme. This process could particularly affect Harrogate district taxpayers, and the Council will continue to lobby hard to protect their interests.
- 8.7 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, there is no legal requirement for Councils to pursue particular, often quite radical, initiatives promoted by the Government. However, they know that failure to follow Government signals can result in severe consequences, including loss of discretionary grants and freedoms, and also downgrading by the inspectors under the Comprehensive Performance Assessment process, which in the worst cases can bring replacement of management and direct Government intervention.

9.0 THE EFFICIENCY AGENDA

- 9.1 The Council needs to achieve efficiency savings to meet two separate agendas:
- ◆ Government imposed efficiency savings
 - ◆ The Council's own internal efficiency savings programme
- 9.2 For the three-year period covered by CSR07, the Government is requiring Council's to demonstrate 3% per annum 'cashable' efficiency savings. As well as cash savings, which result in a reduced budgetary requirement, this also includes cash releasing savings where the saving is reallocated to other corporate priorities.
- 9.3 Although no formal guidance has been issued on the calculation of efficiency targets, it is estimated that based on the earlier "Gershon" calculation a 3% savings target would require cashable savings of **£730,000** per annum. This represents a significant increase in the level of cashable savings, though this likely to be offset by savings already made in excess of targets.
- 9.4 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. The target for 2008/2009 was for each Department to produce cash efficiency savings totalling 1%. This was a uniform direction to all services, regardless of priorities, service performance or value for money. This approach has, over time, enabled the Council to achieve a balanced budget within the agreed tax strategy.
- 9.5 As part of the 2007/2008 budget process, an Annual Efficiency pro forma was introduced. The production of information in a consistent format makes it easier to validate submissions and has also facilitated the production of Annual Efficiency Statements.

- 9.6 As in previous years, the Council will need to determine the level of cash savings required in order to achieved a balanced budget and how these are to be achieved.
- 9.7 It is proposed that for 2009/2010 a 2% cash efficiency target is agreed to apply uniformly across all departments. It is acknowledged that this is an ambitious target. As part of this exercise, each service will be required to provide an individual efficiency and value for money assessment. Departments who are unable to identify 2% cash efficiency savings will be required to identify potential service cuts in order to meet their target.
- 9.8 In addition to the above, the Council is currently undertaking a crosscutting review of the provision of Financial Services. A target efficiency saving of £100,000 has been identified for this review, although this is unlikely to be fully achievable from Year 1. Any savings resulting from the Financial Services Review will be considered against savings made in individual departments.
- 9.9 The difference between the value of cash efficiency savings identified (net of any budget cash efficiencies that are not valid for “Gershon” purposes) and the overall target £730,000 will need to be identified as cashable savings. This will include any further savings identified as part of Phase 2 of the Cultural Services Resource Reallocation exercise, together with corporate savings identified as the result of more effective procurement (where these are not given up as cash savings).
- 9.10 The final Annual Efficiency Statement was submitted in July 2008. From 2008/2009 efficiency savings will be monitored through the new National Indicator (NI) 179 – ‘The total net value on ongoing cash-releasing value for money gains that have impacted since the start of the 2008/2009 financial year.’ Councils will be required to submit a figure twice a year – a forecast in October of the expected year-end position and a 31 March year-end actual in July each year. Unlike Gershon, there will be no specific organisational or workstream targets, but progress against NI 179 is likely to influence the CAA judgement.

10.0 FUTURE STRATEGY OPTIONS FOR THE COUNCIL

- 10.1 The Council's policy priorities are set out in the 2008 to 2011 Strategic Plan. Its improvement plans are explained in the 2008 to 2011 Corporate Improvement Plan. The MTFs sets out the financial planning framework for delivering the Council's policy priorities and planned improvements.
- 10.2 For 2008/2009 the Government set out a clear expectation that council tax increases in England should be substantially below 5% and that it would use its capping powers against any Council whose increase did not conform with this expectation. It can be expected to act similarly for 2009/2010. This would suggest, therefore, a maximum tax increase for 2009/2010 of 4.9%.
- 10.3 On the other hand, the Council needs to determine an equitable balance between spending on services and the resultant demands on local taxpayers. This would suggest as a starting point, a tax increase no higher than the 4.2% agreed for 2008/2009.

- 10.4 Following on from the Comprehensive Spending Review (CSR07) the Government announced provisional settlements for Formula Grant, specific grants and capital allocations for the three years 2008/2009, 2009/2010 and 2010/2011. This will result in provisional grant increases for 2009/2010 and 2010/2011 of 1.7% and 2.0% respectively. The allocation for the final year of the current review period 2011/2012 will form part of the next Comprehensive Spending Review. For strategy purposes a further increase of 2% has been assumed.
- 10.5 Based on the provisional grant settlement and tax-base growth in line with 2008/2009, this would result in a target budget for 2009/2010 of **£24.659m**. This represents an increase of £0.787m (3.3%) on the 2008/2009 budget of £23.872m. NB a council tax increase of 4.9% would result in an increase to the target budget of approximately £92,000 based on the same grant and tax-base assumptions.
- 10.6 For 2010/2011 and 2011/2012, it is suggested that the Council should plan for target expenditure increases of £0.844m and £0.883m respectively. This is based on provisional and anticipated grant levels and council tax increases in line with 2009/2010.
- 10.7 Within the target budget increases, there are a number of cost pressures and demands for revenue budget growth, which the Council will need to address in order to meet both its own and externally imposed priorities whilst at the same time achieving a balanced revenue budget for 2009/2010 and beyond.

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. The increased costs to General Fund (ie excluding HIC and the Housing Revenue Account) are set out in the following table. NB costs exclude the cost of any successful appeals.

	Annual Additional Cost	Cumulative Annual Cost
2007/2008	£275,000	£275,000
2008/2009	£345,000	£620,000
2009/2010	£325,000	£945,000
2010/2011	£135,000	£1,080,000
2011/2012	£20,000	£1,100,000

Funding for these increased costs is from a senior management restructure in 2005/2006 (£272,000) plus increased budget provision of £400,000 in 2007/2008 and £50,000 in 2008/2009. Planned further increases of **£100,000** in 2009/2010 and **£200,000** per annum in 2010/2011 and 2011/2012 are provided for. In addition the cost of salary and weekend/shift pay protection for 2009/2010 is estimated at £240,000. It is planned to meet this cost from the Single Status Reserve.

Appeals against the results of the pay and grading review are currently being heard and in addition to the base provision increases set out above, a further **£50,000** in 2009/2010 and **£100,000** in 2010/2011 have been provided towards the cost of successful appeals.

The one remaining significant outstanding issue relates to possible equal pay claims. No specific budgetary provision has been made for these at this stage (see risk assessment in paragraph 14). Any such costs would be one-off and, as such, would be met from reserves or the working balance.

Pensions. The North Yorkshire Pension Fund, like many other funds is in substantial deficit, although the last triennial valuation in 2007 showed a funding level of 67.2% for the fund as a whole, an improvement of 7.8% on the 2004 valuation of 59.4%. The funding position on Harrogate's element of the fund was 70.2% (better than the fund overall) resulting from the Council's decision to voluntarily increase its contribution levels by 1.1% per annum from 2005/2006. The 2007 valuation results recommended a target increase for Harrogate over the three years commencing 2008/2009 of 2.5%. This was based on maintaining the recovery period (to 100% funding) at 20 years from 2004. This recovery period is shorter than all of the other North Yorkshire districts and the County Council, most of who have a recovery period of 30 years from 2004. Due to the financial pressures facing the Council, it was agreed to limit the contribution increase for the period 2008 to 2011 to 1.5% (0.5% in 2009/2010 and 1% in 2010/2011). The additional cost of a 0.5% increase in employers pension contribution (net of contributions from HIC and the Housing Revenue Account) is **£100,000** per annum. This will result in an extension to the remaining recovery period from 17 to 18.7 years. Contribution rates for 2011/2012 will be dependent upon the next triennial valuation in 2010 but for strategy purposes a further increase of 1% has been assumed.

Concessionary Fares. Provision was made in the 2008/2009 revenue budget for the estimated cost of the new national concessionary travel scheme, which came into effect on 1 April 2008. The total budget for payments to bus operators is £2.5m, which included 5% for inflationary cost increases and growth of 10%. It is not yet possible to determine whether the 2008/2009 budget provision will be adequate to meet the costs of the new scheme although very early indications are that (excluding the possibility of additional cost claims) it should be. For 2009/2010 onwards it is estimated that further budget growth of 10% per annum is required to account for both growth in usage and the effect of above inflation fare increases resulting from the increased cost of oil. This increased cost is partially offset by a 2.5% per annum increase in the Government Special Grant for concessionary travel resulting in a net increase of **£235,000** in 2009/2010, **£260,000** in 2010/2011 and **£285,000** in 2011/2012. In addition to these cost increases, there is a significant risk that increased usage will result in additional cost claims from bus operators as a result of them needing to provide for additional buses on certain routes. The ongoing cost of an additional cost claim is approximately £150,000. For strategy purposes it has been assumed that provision is required for the cost of two additional cost claims totalling **£300,000** in 2009/2010.

In addition to the statutory minimum scheme, the Harrogate scheme includes a number of discretionary elements. The cost of these, over and above the statutory minimum scheme, is £102,000 consisting of Community Transport £67,000, travel tokens £27,000 and half price rail travel £8,000.

Recycling and Waste Collection. Cabinet agreed an interim Waste Management Action Plan in December 2006. The purpose of this was to increase recycling levels by expanding green garden waste collection and by expanding dry recycling to rural areas and accessible urban gaps. This strategy will require further budgetary growth of **£123,000** in 2009/2010 to continue to expand the existing green garden waste service by implementing two additional schemes in July and September 2009.

A further report is due to be submitted to Cabinet setting out the longer-term implications of implementing the agreed 'Option 4' of the Waste Collection Options Appraisal. This includes the implementation of alternate weekly collections for co-mingled recyclables and residual waste through wheeled bins and the introduction of a separate weekly food waste collection. The ongoing revenue cost of these developments (if agreed) is estimated at **£384,000** from 2010/2011 onwards.

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

Treasury Management. The repayment of high-interest PWLB loans that are due to mature in 2009/2010 and 2010/2011 will result in reduced interest payments of **£170,000** in 2009/2010 and a further **£170,000** in 2010/2011. At the same time, bank base rates are predicted to fall to an average of 5% in 2009/2010 and to an average of 4.75% in 2010/2011 resulting in reduced interest on temporary lending of **£120,000** in 2009/2010 and **£160,000** in 2010/2011.

The cost of prudential borrowing in relation to the new Ripon Pool is estimated at **£80,000** in 2009/2010 with a further **£190,000** in 2010/2011 and a further **£60,000** in 2011/2012. This cost is partially offset by estimated efficiency savings in relation to the new facility of **£100,000** per annum with effect from 2010/2011. The 2011/2012 cost also provides for an annual contribution of **£100,000** into a sinking fund towards the ultimate replacement cost of the facility. Further prudential borrowing is planned in relation to Phase 1 of the Exhibition Halls redevelopment. At this stage it is anticipated that Harrogate International Centre will reimburse this cost fully to the General Fund.

Loss of LABGI income. As stated in paragraph 8.4, the Council is currently providing £212,000 per annum from LABGI income in support of the General Fund revenue budget. Based on income received to date, together with additional income anticipated, it is estimated that there will be sufficient funds in reserves to continue to draw down £212,000 per annum in 2009/2010 and 2010/2011 but that a shortfall of up to **£90,000** could occur in 2011/2012.

Oil Prices. Increased oil prices impact on the Council's costs in a number of areas. Whilst there have been considerable fluctuations in oil prices over a number of years, the general trend would appear to be an upward movement with no immediate prospect of this reversing.

In the case of utilities 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, the contract for smaller buildings (26% of the total budget) has recently been renewed for the period October 2008 to April 2011 at an increased cost of **£25,000** per annum. The three-year fixed contract for the larger buildings (74% of the total budget) is due to expire in March 2009. Current market conditions suggest that tariffs could increase by as much as 60%. The effect of this would be an increase of **£130,000** on current budgets for non-HIC buildings in 2009/2010. The Council's gas contract was renewed in October 2006 at a fixed tariff for five years expiring in September 2011. Although this contract is due to end during the final year of the current strategy period, it is too early to assess the impact of this at this stage.

The other significant impact of oil prices on costs relates to the purchase of fuel for Council vehicles. Since the 2008/2009 estimates were prepared in October 2007, fuel prices have increased significantly. Although future rises remain difficult to predict it has been assumed for strategy purposes that prices will continue to rise by 10% per annum resulting in increased costs of **£50,000** in per annum.

Highways Agency. North Yorkshire County Council has given notice to terminate the Highways Agency with effect from 31 March 2011. The main risk that this represents to the Council is in the potential loss of on-street parking income, which provides support to the General Fund in a number of areas but principally in relation to concessionary fares. Negotiations are ongoing with the County Council on this issue. At the same time there remains uncertainty over whether responsibility for concessionary travel will in any event be transferred from District to County Councils in two-tier areas.

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.

- 10.8 Whilst the above paragraphs set out the major cost pressures that the Council will face in 2009/2010 and beyond, the list is not exhaustive. Other examples of spending pressures include the need to deal with specific areas of recruitment difficulty, to respond to demands for increasing financial assistance to the voluntary sector and to respond to a range of other local and Member priorities. Some of the smaller items can be considered for 2009/2010 as part of the normal budgeting process later in the year, but this is likely to be against the backcloth of a very difficult budgetary situation.
- 10.9 **Appendix 2** sets out revenue budget illustrations based on the target budget levels as set out in this strategy. This shows that for 2009/2010, even with another successful efficiency savings exercise, there is a potential budget shortfall, before consideration of growth of **£240,000**. Given the potential shortfall, it is unlikely that it will be possible to achieve a balanced budget

without the need for service cuts and/or above inflation charge increases. Members are asked to consider what action is required to identify options for balancing the 2009/2010 budget.

- 10.10 For 2010/2011 and 2011/2012 the position is less difficult, although there remains little scope to respond to demands for budgetary growth in key areas such as recycling.
- 10.11 It is important and long-standing Council policy in terms of the medium term financial strategy that annual budgets should be closely in balance so the working balance is not depleted below the shire district average. **For this reason it is essential that resources and spending demands are properly reconciled.**
- 10.12 This section of the report has shown that financial prospects facing the Council, once again, appear to be a combination of external pressures which challenge the Council's available resources, including taking into account the Council's continued efficiency savings measures and its underfunding of inflation in service budgets. If existing services and standards are to be maintained, bearing in mind the requirement for continuous improvement in all services, this can only be achieved if tax rises well ahead of inflation can be delivered. If the Council were to decide on this course of action, it would need to demonstrate this analysis to the community by way of local consultation. The aim would be to enhance public knowledge on the reasons for increase and to enable a careful assessment of the extent to which there would be public support (crucial in the case of any Government review under capping powers).

11.0 ANNUAL BUDGET 2009/2010

- 11.1 This review of financial strategy needs to produce the guidance and parameters for officers on preparing the Revenue Budget for 2009/2010. The following is proposed:
- (a) A target budget of £24.660m for 2009/2010 (an increase of 3.3% on the 2008/2009 approved budget of £23.870m);
 - (b) Target budgets for the next two years 2010/2011 and 2011/2012 increasing by £0.84m (3.4%) and £0.89m (3.5%) respectively;
 - (c) Increases in fees and charges – minimum of 5% subject to service considerations and market forces (an increase of 1% on the current year). This is higher than the current forecast for general RPI next year, but is recommended based on an assessment of the Council's own costs, which are rising faster than the index, particularly due to the impact of single status. 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 2.5%;
 - (e) Presumption of no increase in other non demand-led budgets;
 - (f) Cash efficiency savings targets of 2% for Departments;

- (g) Working balance target remaining at £2m to £2.75m, as for previous years.
- 11.2 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.
- 11.3 Financial Management for Harrogate International Centre is conducted somewhat differently from other services because of the predominantly trading nature of the business. HIC is given a bottom-line budget target to meet. This arrangement is well established and effective. In the case of efficiency savings, HIC is required to identify savings equal to 2% of controllable expenditure. Under current arrangements, HIC is required to contribute 30% of efficiency savings to the General Fund with the balance retained within HIC for reinvestment. It is proposed that the above arrangements should continue. HIC is, like the Council, facing significant financial pressures, particularly in relation to rising utility costs and the general economic position. These issues will be dealt with in separate reports to the HIC Board and Council.
- 11.4 For many years the former Department of Leisure & Amenity Services (DLAS) also operated within a bottom-line budget. In July 2007 the Director of Community Services submitted a report to CMT proposing the discontinuance of the cultural services bottom-line budget with effect from the 2008/2009 budget, subject to agreement to the continuation of 100% carry forward of underspends. The proposal was agreed, subject to a requirement that continued 100% carry forward of underspends should be reviewed annually for Parks, Bereavement Services & Markets and every three years for Leisure, Museums & Arts.

12.0 STAKEHOLDER CONSULTATION

- 12.1 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.
- 12.2 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. Since this issue has been resolved further slippage has occurred due to the departure of the former Director, Corporate Policy & Improvement, but planning has now recommenced with a view to repeating the SIMALTO consultation no later than Spring 2009.
- 12.3 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 2007 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 2008 with relevant issues reported back to Cabinet as part of the 2009/2010 budget process in January 2009.

- 12.4 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.

13.0 PARTNERSHIPS

- 13.1 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.

- 13.2 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.

- 13.3 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 12 above.

14.0 RESOURCE REALLOCATION

- 14.1 Coming out of the CPA in January 2004 was the need for a policy-led approach to financial planning and budgeting. The Council is continuing to move towards this.
- 14.2 The Council has, as part of its Strategic Plan, confirmed that it will aim to protect existing services at current levels, whilst continuing to link future investment into its agreed corporate priorities and strategic actions.
- 14.3 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.
- 14.4 A further element of the Resource Reallocation process is the treatment of year-end underspends. The Council has a history of underspending against budget. Although not significant in real terms (between 1 and 1.5% of gross

budget), these underspends provide a key source of funds that can be reallocated towards the Council's corporate priorities.

- 14.5 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 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.
- 14.6 In 2005/2006 the Council made use of underspends totalling £500,000 to set up an Environmental Initiatives Fund, which has been used to fund a number of projects in relation to the Council's top corporate priority of "Caring for the Environment".
- 14.7 In 2006/2007 £360,000 from underspends was transferred to the Capital Reserve in order to provide funding towards the one-off costs of the Council's planned recycling growth.
- 14.8 Use of 2007/2008 underspends includes provision of funding for the one-off costs of the ongoing review of financial services and the completion of the Payroll/HR system implementation. Both of these will result in more efficient work practices and ongoing savings.
- 14.9 A contribution of £300,000 from 2007/2008 underspends has also been made to the General Fund working balance. This is in line with the policy to increase the working balance progressively back towards the upper end of the Council's £2m to £2.75m target.
- 14.10 Stage 2 of the Cultural Services Resource Reallocation Review has now been completed. This identified potential for efficiency savings and increased income generation of £232,730 to address 10-year spending needs. The delivery of these additional resources is, in part, dependent on service demand holding up and cannot be taken as guaranteed. If achieved, however, and applied to spending on Cultural Services buildings, facilities and infrastructure this could have the effect of reducing the net 10-year spending need from £8.67m in 2003 to £1.4m at the end of the 10-year period.
- 14.11 The Council has also established a Corporate Improvement Fund to help fund improvements in the organisation itself as set out in the Corporate Improvement Plan.

15.0 RISK MANAGEMENT

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

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

15.3 The key risks to the financial strategy are as follows:

Job Evaluation/Single Status - Completion of existing project - mainly resolution of appeals and impact of equal pay issues.

Pay Awards – Proposed pay award provision may not be adequate, given current RPI increases.

Concessionary Travel - Cost increases are difficult to predict, increases in special grant are unlikely to be adequate to meet cost increases and use of on-street income in support of concessionary travel requires approval by NYCC.

Treasury Management – Economic downturn may result in reduced interest rates beyond what is currently forecast.

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

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

16.0 CONCLUSION

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

Background Papers: None.

OFFICER CONTACT: Please contact Val Hunter (Head of Financial Management) if you require any further information on the contents of this report. The officer can be contacted at the Department of Resources, Crescent Gardens Harrogate; by telephone on (01423) 556124 or by email val.hunter@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.

The Strategic Plan 2008-2011

The 10-Year Vision is:

To make the Harrogate District a better place to live, work and visit.

This will be achieved by:

- Conserving its heritage
- Enhancing its unique environment
- Delivering first-class public services
- Enabling everyone to share in its success
- Putting into place effective arrangements for better local government to meet the future needs of the District

The vision aims to achieve, by 2015, a Harrogate District that is:

Social

An inclusive community with equality and accessibility at its heart, providing affordable housing and ensuring that no parts of the District fall within the bottom bands nationally for levels of poverty, health or deprivation.

Economic

An economically-active and prosperous economy with high levels of employment, sustainable tourism, inward investment and business profitability.

Environment

A high quality natural and built environment with conservation and recycling central to protecting our heritage for this and future generations.

In looking to deliver its long-term vision, the Council has identified seven corporate priorities. These were developed from detailed consultation in 2007/2008.

The seven corporate priorities are:

- ❖ **Caring for the Environment** – enhance and protect the natural and built environment District-wide
- ❖ **Homes for Local People** – people have access to housing opportunities throughout the District.
- ❖ **Traffic and Transport** – a transport network that will provide access to public transport in all areas and provide integrated facilities including car parking.
- ❖ **Safer and Stronger Communities** – communities across the District are strong, safe and secure and people feel safer and part of their community.
- ❖ **Supporting our Local Economy** – a robust and diverse economy that benefits local people and creates employment opportunities, particularly in rural areas and the market towns across the District.

- ❖ **Delivering First Class Public Services** – services delivered throughout the District, which meet the needs of customers, are accessible and of a high quality.

These seven corporate priorities will be the framework for everything that the Council does over the next twelve months.

In undertaking the 2007/2008 review and in adopting its organisational goal, the Council has included a seventh corporate priority focusing on the organisation and its ability to deliver the above outward-looking priorities. The seventh corporate priority is:

- ❖ **Organisational Improvement** – being a good employer and improving our capacity to deliver first-class services and meet the needs of the local community.

Organisational Goal

The Council agreed an organisational goal in 2005 that underpins its drive to improve the organisation and its capacity to achieve its ambitions. The agreed Council organisational goal is:

“To be an EXCELLENT performing Council by 2010”

As part of this goal, the Council defines “excellent” as follows:

Excellent performing councils are able to show that, overall, they deliver high-quality local services, especially in areas of national priority, such as healthier and safer communities, transport, culture, housing and waste management. They have effective leadership and management arrangements and are strong in maintaining their performance. They are clear about their priorities, which are linked to local needs and aspirations. Council finances are well managed and are directed at agreed priorities. Excellent councils are often better at achieving more for their communities through the delivery of crosscutting projects, often in partnership with others.

Values and Principles

Underpinning the Council’s vision and goal is a set of key values and principles that permeate through all aspects of the organisation and through all the work of the Council. The Council has adopted the following values:

Respectful, Democratic, Responsive, Ethical, Fair and Equitable, Accountable

Alongside these values there are three underlying principles which the Council will seek to balance, namely:

- ◆ High performance
- ◆ Customer focus
- ◆ Value for money

These values and principles are central to everything we do and define the organisation as a whole.

Corporate Priority	Strategic Actions (Delivery: CMT)	Corporate Service Action Areas (Delivery: Relevant Head of Service)	Corporate Improvement Plan (CIP) (Delivery: Relevant Head of Service)
Caring for the Environment	(SA1) Community Planning/Partnerships (SA11) Managing our carbon footprint	<ul style="list-style-type: none"> • Reduce waste generated and increase recycling • Ensure new housing enhances the environment • Safeguard sensitive environments eg AONB • Community awareness re environment/sustainability • Reduce litter, graffiti and dog fouling • Public Spaces – parks, buildings, etc 	No actions
Homes for Local People		<ul style="list-style-type: none"> • Tackle the District's housing needs • Promote housing opportunities/decent homes for all • Reduce homelessness levels 	No actions
Traffic and Transport	(SA12) City Region	<ul style="list-style-type: none"> • Manage traffic flows in our towns effectively • Tackle availability and access to rural transport • Enhance access to/from national transport infrastructure • Improve car parking • Tackle low usage of public transport 	No actions
Safer and Stronger Communities	(SA1) Community Planning/Partnerships (SA10) Rural Community Investment	<ul style="list-style-type: none"> • Reduce anti-social behaviour • Encourage young people to engage in positive activity • Reduce the fear of crime • Provide opportunities for citizens to be involved in decisions affecting them • Work with others to address disadvantage 	No actions
Supporting our Local Economy	(SA3) Major investment in HIC (SA10) Rural Community Investment (SA12) City Region	<ul style="list-style-type: none"> • Meet market towns' renaissance needs • Create employment opportunities in rural areas/market towns • Provide an effective tourism, marketing and visitor management service • Capitalise on floral excellence reputation 	No actions
Delivering First-Class Public Services	(SA6) Customer-facing services	<ul style="list-style-type: none"> • Improve public access to services • Strengthen customer care • Respond effectively to civil contingencies • Provide VFM services valued by local people 	No actions
Organisational Improvement	(SA2) Corporate Resource Strategy (SA4) Effective Local Government (SA5) Corporate Efficiency Agenda (SA7) IT Investment (SA8) Workforce planning & development (SA9) Leadership, training & development (SA12) City Region	No actions	CIP actions on: <ul style="list-style-type: none"> - Direction and leadership - Managing performance and efficiency - Effective engagement - Developing capacity to deliver improvement

Revenue Budget Illustrations

	2009/2010	2010/2011	2011/2012
	£k	£k	£k
Base Budget	23,870	24,660	25,500
add Unavoidable Cost Increases			
Pay Awards & Inflation	820	820	820
Concessionary travel	535	260	285
Single Status (General Fund cost) (1)	150	300	200
Increased pension contributions	100	200	200
Oil price increases	205	50	50
Treasury Management – reduced interest receipts	120	160	0
Ripon Pool – cost of prudential borrowing (net)	80	90	160
DCS Business Support – reduced charge to HRA	90	0	0
Loss of LABGI income	0	0	90
less Budget Reductions/Additional Income			
Fees & Charges increases	-500	-500	-500
Efficiency Savings	-400	-400	-200
Treasury Management – reduced interest payments	-170	-170	0
add Potential Growth			
Recycling – Green Waste (2/3)	125	0	0
Estimated Spending Requirement	25,025	25,470	26,605
Target Budget	24,660	25,500	26,390
Budget Shortfall	365	-30	215

Notes:

- (1)** Amounts are over and above £0.72m already included in 2009/2010 base budget. Total cost of Single Status is estimated at **£1.1m**.
- (2)** Does not include provision for capital costs of recycling growth.
- (3)** Does not include provision for any further recycling growth including the additional cost of food waste collection (if agreed)
- (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.