

	REPORT TO CABINET TO BE HELD ON 17 FEBRUARY 2015	
	Key Decision	YES
	Forward Plan Ref No	
Corporate Priority: Meets all Corporate Priorities	Cabinet Portfolio Holder	Cllr Jane Kenyon

REPORT OF: DIRECTOR OF BUSINESS SUPPORT – 15/53

WARDS AFFECTED: ALL

**SUBJECT: DRAFT FINANCIAL AND PROPERTY ASSET
MANAGEMENT STRATEGY 2015 – 2025**

RECOMMENDATION (S):

That Cabinet note:

- (i) and endorse the Financial and Property Asset Management Strategy, which includes the budget proposals for 2015/16, in advance of it being presented to Full Council for approval on 27 February.
- (ii) the feedback from the budget consultation.
- (iii) that the Capital Development Reserve shows an overcommitted balance of £624k over the ten-year period which must be addressed, and the Council's available capital resources are insufficient in the short to medium term. The first call on any future capital receipts will be to address the following essential and aspirational capital schemes:-
 - Eskside Wharf infrastructure works
 - Futurist Redevelopment
 - Scarborough Spa asset management works
 - Town Hall Civic asset management works
- (iv) that all other reserve balances are within the optimum range.
- (v) that current projections estimate that the Council will be required to make further savings of approximately £2.4 million to balance the 2016/17 budget. An interim budget report for 2016/17 setting out the approach for

identifying these savings will be presented to Members in Summer 2015.

- (vi) That the Treasury Management Strategy raises the maximum investment limit that can be made with institutions from £5m to £7m.

That Cabinet Recommend to Council:

- (vii) that they approve the Financial Strategy, specifically:
- (viii) the Revenue Budget for 2015/16.
- (ix) that they consider two options for Council Tax (Options A and Option B).
 - Option A being a Council Tax freeze; which would result in the Council receiving a freeze grant equivalent to a 1% increase in Council Tax (£90k) in 2015/16. The government has indicated that this grant will be rolled into base settlement in future years.
 - Option B being a Council Tax increase of 1.94%; which would provide the Council with a certain ongoing source of income of £147k per annum and additional funding of £57k in the 2015/16 budget.
- (x) the Capital Budget and proposed new schemes for 2015/16.
- (xi) the optimum levels of reserves and use of reserves in 2015/16.
- (xii) the Treasury Management Strategy and Prudential Indicators.
- (xiii) the Council's Pay Policy Statement contained, as required under Section 38 (1) of the Localism Act 2011.
- (xiv) that any uncommitted 2014/15 budgetary underspend (as detailed in report reference 15/46) be earmarked to progress unfunded priority capital schemes; in order to reduce the impact of capital expenditure on future year revenue budgets.

REASON FOR RECOMMENDATION(S):

Full Council must approve the 2015/16 budget and associated Council Tax level, which are incorporated within the Financial Strategy, at its meeting on 27 February 2015. It is important that the Council has consulted with the public and key stakeholders on its budget prior to it being approved, and has taken any feedback received from this consultation into consideration.

HIGHLIGHTED RISKS:

That the Council does not set a robust budget in 2015/16 or over the medium to long term

1. INTRODUCTION

- 1.1 The Council's Financial Strategy comprises a 5-year revenue plan and a 10-year capital plan. These plans are reviewed annually and the Council's revised Strategy for 2015-2025 will be presented to Full Council for approval in February.

- The key proposals for the revenue budget were presented to Cabinet at its meeting on 17 December 2015. These included the proposed revenue budget, including investment in priority areas, efficiency and other savings proposals, and associated Council Tax increases.
- 1.3 Cabinet were asked to agree that officers entered into a period of consultation on the budget proposals, in advance of the Financial Strategy being presented to Full Council in February 2015.
- 1.4 The purpose of this report is to:
- Set out the draft Financial and Property Asset Management Strategy; which includes the proposed budget and Council Tax levels for 2015/16 as endorsed by Cabinet in December, the Property Asset Management Strategy, Treasury Management Strategy, Prudential Indicators and Pay Policy; and
 - Summarise the feedback received on the draft budget proposals in the period of consultation.

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

- 2.1 The proposals set out in this report impact on all the Council's Corporate Aims and Priorities.

3. BACKGROUND AND ISSUES

3.1 THE FINANCIAL STRATEGY

- 3.1.1 The draft Financial Strategy is attached at **Appendix C** to this report. **A completed, finalised version of this Strategy will be presented to Full Council for approval in February; however, the content in the final version will not change significantly.**
- 3.1.2 The Strategy incorporates the proposed revenue budget and Council Tax report, which were endorsed by Cabinet at its December meeting, along with the capital budget proposals, Treasury Management Policy, Reserves and Balances recommendations, Prudential Indicators and Pay Policy for 2015/16.

3.2 REVENUE BUDGET PROPOSALS

- 3.2.1 At the time of presenting the revenue budget report in December the savings target stood at £2.857 million and the savings identified totalled £2.633 million therefore £224k savings still needed to be identified to set a balanced budget.
- 3.2.2 The following changes are incorporated in the budget proposals attached to this report:

- Budgetary growth of £23k has been included to reflect additional staffing resources needed within the elections service;
- Additional funding of £150k has been incorporated into the budget (see section 3.3 of this report for details);
- Additional savings of £97k have been identified (see section 3.4 of this report for details).

3.2.3 The inclusion of the additional funding and savings will enable the Council to set a balanced revenue budget in 2015/16.

3.3 THE LOCAL GOVERNMENT FINANCE SETTLEMENT

3.3.1 The provisional Local Government Finance Settlement (LGFS) was announced to Parliament on 18 December 2014. The budget proposals reported to Cabinet in December reflected the illustrative 2015/16 Settlement figures announced in December 2013. The figures announced in the provisional settlement were roughly in line with expectation; however the Council was better off to the tune of £20k. Final figures were received on 4 February and were in line with the provisional figures.

3.3.2 The provisional allocations for the New Homes Bonus were received alongside the LGFS. The Council's allocation in 2015/16 will total £953k, which is £22k higher than the figure included within the budget report presented to Cabinet in December. This additional funding relates to the premium payable for increases in affordable housing and increases in the national Band D Council Tax charge.

3.3.3 The Government made a commitment in the Settlement to ensure that no council faces a loss of more than 6.4% in their spending power in 2015/16. Any Council whose spending power reduces by more than 6.4% will be paid an Efficiency Support Grant. Spending power primarily comprises Settlement grant income, indicative Council Tax income and New Homes Bonus funding. The Council's indicative spending power reduces by 6.82% in 2015/16 therefore it will be one of only 19 authorities that will be eligible to receive an Efficiency Support Grant in that year (the headline Settlement figures suggest that a grant of £78k will be received). This amount was not anticipated in the Council's financial projections. It is uncertain at this stage whether any conditions will be attached to this funding or whether the grant will be a one-off or long term source of funding.

3.3.4 The government provided billing authorities with one off funding in 2014/15 and 2015/16 to cover the additional costs associated with the introduction of the Localised Support for Council Tax scheme. It was envisaged that this funding would cease in 2015/16, however a sum of £30k was announced in the Settlement.

3.3.5 Following the LGFS announcements the above sources of additional funding are now included in the budget proposals. The table below summarises the additional funding:

Additional Settlement Grant	£20k
Additional New Homes Bonus funding	£22k
Efficiency Support Grant	£78k
New Burdens funding for the Localised Support for Council Tax	£30k
Additional Funding announced in the provisional 2015/16 Settlement	£150k

3.4 ADDITIONAL SAVINGS IDENTIFIED

3.4.1 The following additional savings are now included within the revenue budget proposals:

Apply a 1.5% surcharge to payments made by credit cards to cover the third party transaction costs incurred by the Council.	£20k
Reduce the Stephen Joseph Theatre Trust grant in line with the LGFS funding cuts. This will reduce the annual grant to approximately £116k per annum	£22k
Review of village caretakers	£10k
Additional efficiency savings from a team leader post following the transfer of cash collection function from Customer Services to Car Parking and Finance.	£13k
Reductions in additional hours staffing budgets in the Housing Benefits service	£10k
Savings in administration and mayoral staffing budgets	£11k
Reduce grants to voluntary organisations. Detailed proposals still to be developed.	£11k
TOTAL	£97k

3.5 LOCALISED BUSINESS RATE INCOME

3.5.1 The Business rate retention scheme came into effect on 1 April 2013. Under the localised scheme the Council is set a baseline income level for rates collection in a year. The income collected against this baseline is distributed between Central Government, North Yorkshire County Council and North Yorkshire Fire and Rescue Service in predetermined levels.

3.5.2 If the Council's share of business rate income is less than the baseline set for the Council the shortfall must be funded from Council resources; however the Council retains a proportional benefit of any surplus income generated above the baseline.

3.5.3 The Financial Strategy contains details on the levels of business rates income that the Council expects to generate in the 2015/16 year, and this is summarised in the table below. These figures were not available when the draft budget proposals were presented to Cabinet in December.

	£
Projected Net Yield from Business Rates in 2015/16	32,546,442
Central Government Share (50%)	(16,273,221)
North Yorkshire County Council Share (9%)	(2,929,180)
North Yorkshire Fire & Rescue Share (1%)	(325,464)
Scarborough Borough Council Share (40%)	13,018,577
Anticipated grant to cover the Borough Council's share of the cost of government initiatives	1,638,225
Borough Council Tariff (payable to Central Government)	(9,093,070)
Retained Business Rates	5,563,732
Business Rate Baseline (per the Local Gov't Finance Settlement)	(3,890,121)
Surplus Business Rates	1,673,611
50% levy	(836,810)
Anticipated Retained Business Rates Income	836,801

- 3.5.4 The Table shows that the Council's share of retained business rates is projected to exceed the business rates baseline by £1.673 million in 2015/16. The Borough Council has opted to form a business rate pool with a number of other North Yorkshire local authorities. If the Council had not opted to join the pool a central government levy of 50% would be applied to the business rate surplus shown below and the Council would expect to retain £837k; however the major advantage of creating the pool is that the pool levy rate is reduced to nil when each of the authorities are treated collectively as a single authority. The levies saved through pooling are then distributed back to pool members through a pool dividend.
- 3.5.5 Assuming that each authority within the pool hit or exceed their business rates baselines and that the Council's NNDR income for 2015/16 is in line with expectation the Council will retain the £836k surplus detailed above (being the surplus that would have been retained if the pool didn't exist) as well as receive a share of any pool dividend. Based on the indicative income projections provided by pool authorities during 2014 the Council's share of the pool dividend would equate to £406k, however these estimates need to be updated to reflect each Authority's final NNDR projections for 2015/16.
- 3.5.6 The Council's share of retained business rates income would therefore exceed the baseline set out in the Local Government Finance Settlement by £1.242 million. The 2015/16 budget proposals take £700k of this surplus into the base revenue budget, which leaves a residual anticipated surplus of £542k. £212k of these monies has been earmarked to part fund the NNDR Collection Fund Deficit (see below) and the remaining £330k has been earmarked for the IMP.
- 3.5.7 In the first 3 years of the localised business rates scheme the Council is projected to achieve surpluses (net of levies and the funding of Collection Fund deficits) of £2.251 million against the LGFS baselines. £700k of these surpluses have been utilised to support the 2015/16 revenue budget and the remainder has been committed to the IMP.

3.6 NNDR COLLECTION FUND DEFICIT

- 3.6.1 At the end of 2013/14 the Council's share of the NNDR Collection Fund deficit stood at £914k. It is anticipated that this position will worsen by a further £377k in 2014/15 taking the total expected deficit as at 31 March 2015 to £1.291 million. This deficit reflects that the cost of settled and outstanding appeals is / will be much higher than originally expected in both years. The Council must provide funding to cover this deficit during 2015/16.
- 3.6.2 This deficit will be funded by £950k earmarked reserves, which were set aside specifically for this purpose in 2013/14, and £341k from surplus business rates income generated over and above the amounts included in the Council's base budget for 2014/15 and 2015/16.

3.7 2016/17 BUDGET

- 3.7.1 Provisional settlement figures have not yet been provided for the 2016/17 year however forecasts now anticipate a budget shortfall of at least £2.39million in that year.
- 3.7.2 The extent of the budget shortfall each year is not only dependent on cuts in funding, but also by the level of growth included in the revenue budget. In recent years the level of savings needed to balance the budget has been exacerbated by the inclusion of significant amounts of budgetary growth and this continues to be the case in 2015/16 with only £1.3million (46%) of the £2.8million funding gap being attributable to cuts in funding. As the Council's funding sources reduce, and budgets get tighter, it will become increasingly important to restrict growth in budgets and be mindful that any growth allowed in budget will need to be funded from corresponding cuts in other service areas.
- 3.7.3 Although Local Authority funding cuts have been extensive over the last five years the latest pronouncements indicate that it is not likely to be any better over the next five, with recent forecasts showing that Authorities are likely to have to find at least the same amount in savings as has already be made. It is clear that strong long term financial planning will become increasingly important as funding reduces and resources become scarcer.
- 3.7.4 The financial forecasts and continuation of the funding cuts into the medium and long term show that Members will be asked to make difficult decisions in the coming years to prioritise services in order to balance the budgetary position and maintain the Council's financial sustainability.
- 3.7.5 An interim budget report for the 2016/17 year will be presented to Members in Summer 2015.

3.8 CAPITAL BUDGET

- 3.8.1 The Financial Strategy incorporates the Council's Capital Strategy and specific proposals for the capital budget in the 2015/16 year. The Council's Capital Strategy is underpinned by the Capital Development Reserve and the Investment Management Plan.

- 3.8.3 The Capital Development Reserve identifies the capital funding available to the Council to progress planned vehicle and equipment replacements, planned infrastructure works and replacements, asset management works and statutory requirements (such as the provision of disabled facility grant funding). The reserve aims to match available capital resources to scheduled investment over a 10 year period to ensure that capital resources are not over committed.
- 3.8.4 The Investment Management Plan aims to complement the Capital Development Reserve by providing a structured approach to support the delivery of major investment and regeneration schemes over the medium term. The key aim of the IMP is to focus on making continuous well balanced, affordable investments in order to improve and change the face of the Borough; with a clear focus upon economic regeneration, employment and new homes. The IMP projections show an uncommitted balance of £735k in the reserve in 2015/16.
- 3.8.5 The Capital Development Reserve projections show that the balance of the reserve is overdrawn by £674k over the 10 year period to 2025. This over-commitment is not deemed to be an issue in the short term as it will likely be addressed through slippage in capital expenditure, however it must be addressed and there is an aim to reduce the overdrawn balance to at least £500k by 31 December 2015. A bigger concern at present is that the projections make no allowance for any essential asset management and infrastructure works therefore this must be addressed as part of the Council's longer term budget strategy.
- 3.8.6 The Capital Development Reserve incorporates the following additions to the capital programme, which are proposed for inclusion in the 2015/16 budget:-
- **Vehicle and Equipment Replacement** (£1.106 million vehicle replacement; £152k equipment replacement; £140k IT equipment replacement)
 - **Planned Infrastructure Works** (£100k replacement lighting columns)
 - **Statutory Requirements** (£685k Disabled Facilities Grants)
 - **Other** (£2.8 million earmarked for priority schemes (funded from borrowing); £412k Eastside Action Plan)
- 3.8.8 As part of this year's budget process officers have undertaken an exercise to identify any priority and essential requirements in respect of asset management and infrastructure works. This exercise has identified £7.677m of unfunded asset management works and £9.991m unfunded infrastructure works for the five year period to 2020. A large proportion of the unfunded asset management works will however be addressed through imminent and future redevelopment proposals (e.g. the Leisure Village and Futurist).
- 3.8.9 Capital receipts provide a key source of funding for capital investment purposes. From 2018/19 onwards the only capital receipts factored into the capital programme relate to the disposal of replaced fleet vehicles. This reflects that the Council's surplus asset holdings are reducing and capital

receipts are becoming harder to achieve. The Council is currently negotiating the sale of some plots of land which will generate significant capital receipts in the short to medium term (e.g. Middle Deepdale, Depots, Seamer Road frontage). These receipts are not yet reflected in the Council's capital projections to ensure that resources are not over-committed; however they will be made available to fund priority capital expenditure once they are achieved.

3.8.10 The essential and desirable capital requirements have been prioritised and the first call on available capital resources and future capital receipts will be to progress the following schemes (in order of priority):

1. Eskside Wharf infrastructure works
2. Futurist Redevelopment
3. Scarborough Spa asset management works
4. Town Hall Civic asset management works

3.8.11 The only way the Council can increase its capital resources is to generate capital receipts or increase its levels of unsupported borrowing. Any additional borrowing will result in increased costs in future year revenue budgets. The 2015/16 revenue budget proposals make provision of £140k per annum to fund the costs of unsupported borrowing. Based on interest rates of 2.5%, and making provision to repay the borrowing over 40 years, this will fund £2.8 million capital expenditure. This funding is included within the 2015/16 capital budget and will be available to part fund the priority schemes listed above.

3.8.12 In addition to the priority schemes detailed in paragraph 3.8.11, up to £5 million will be required to fund Coast Protection schemes at Scarborough Spa and Whitby Piers in future years. It is clear that capital resources will not cover the required levels of expenditure needed in the short to medium term therefore the Council's Medium Term Revenue Plan makes provision of £100k per annum for the period from 2016/17 to 2019/20 to accommodate additional unsupported borrowing.

3.8.13 The costs of borrowing impact on the Council's revenue budgets, which are already under pressure due to the ongoing funding cuts. Additional borrowing will only be utilised if the expenditure is deemed to be essential and there are insufficient capital resources available to fund the expenditure. The first call on any future capital receipts should be to fund outstanding infrastructure and asset management works in order to reduce borrowing requirements and to minimise the impact on future budgets. In addition, Members are recommended to approve that any uncommitted year end underspend achieved in the 2014/15 year be earmarked to part fund the priority schemes listed in section 3.8.10.

3.9 CONSULTATION FEEDBACK

3.9.1 In December Cabinet agreed that Officers should enter into a period of consultation on the draft revenue budget proposals. The consultation methods adopted for the budget have been as follows:

- All Members were invited to attend Members Forums, which set out the detailed budget proposals.
- A web based consultation page was established to allow people to provide feedback and details of the consultation.
- The Council's residents panel have been informed of the Council's budget proposals, giving them the opportunity to provide feedback.
- Details of the budget consultation were circulated to Council employees.
- A presentation was given to the Council's Resources Overview and Strategy Committee

3.9.2 There were 126 responses submitted via the web based budget consultation page.

3.9.3 The key opinions and queries noted from the feedback are attached at Appendix A.

3.9.4 In addition Members have raised concerns that the budget does not make funding provision of £80k to support Create Arts Development in the 2015/16 and 2016/17 year following reductions in their core funding from the Arts Council. Filey Town Council have also provided written representation to say that they disagree with the proposals to abolish Local Support for Council Tax grant funding for parish and town councils.

3.10 COUNCIL TAX LEVELS

3.10.1 Despite Members seeing the obvious merits of the proposal to freeze Council Tax levels in 2015/16, various Members have raised concerns that this may be a short term solution and is not in the Council's longer term financial interest.

3.10.2 To address these concerns the draft budget report set out that a decision had yet to be made on the level of Council Tax for 2015/16, and contained the following options for consideration:

- Option A - The acceptance of a Council Tax Freeze (i.e. a 0% increase); or
- Option B - A Council Tax increase of up to 1.94%.

3.10.3 The impact on Council Tax bills for both options is set out in the table below:

Band	2014/15		Council Tax Freeze Grant		1.94% Increase
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	£	2015/16 £	Increase £	2015/16 £	Increase £
A	140.87	140.87	-	143.61	2.74
B	164.35	164.35	-	167.54	3.19
C	187.83	187.83	-	191.48	3.65
D	211.31	211.31	-	215.41	4.10
E	258.27	258.27	-	263.28	5.01
F	305.23	305.23	-	311.15	5.92
G	352.18	352.18	-	359.02	6.84
H	422.62	422.62	-	430.82	8.20

OPTION A – COUNCIL TAX FREEZE

- 3.10.4 At the time of presenting the draft budget report in January the Council had not received formal notification of the government's proposed freeze grant; however the settlement figures and government announcements suggested that a freeze grant equivalent to a 1% increase in Council Tax would be paid to those authorities that chose to freeze their Council Tax levels in 2015/16.
- 3.10.5 The Council has now received formal notification that a 1% freeze grant will be awarded. The government has also clarified that it *"intends that Council Tax freeze funding for 2015-16 should be built into the baseline for subsequent years. This provides the maximum possible certainty for councils that the extra funding for freezing council tax will remain available. The 2011-12, 2013-14 and 2014-15 freeze grants are already in the local government settlement total for future years"*.
- 3.10.6 Although this could be perceived to be positive news there is a high risk that this source of funding will be subject to future funding cuts, or be abolished in its entirety, therefore the income generated from it is not as certain as the baseline income that could have been generated through Council Tax increases. Assuming that a freeze grant is approved for 2015/16 the Council's funding baseline will include £487k specifically relating to freeze grant funding.
- 3.10.7 The Council's revenue projections currently assume that the Council will freeze Council Tax levels in 2015/16 and that the freeze grant will be included in future year spending review baselines. If this is not subsequently agreed by ministers, and the Council accepts the freeze grant in 2015/16, the Council's funding gap from 2016/17 onwards will increase by £90k per annum.
- 3.10.8 If a freeze grant is accepted in 2015/16, this will be the fifth consecutive year of Council Tax freezes for this Council.

OPTION B – COUNCIL TAX INCREASE

- 3.10.9 The Localism Act includes the powers to allow local residents to veto excessive Council Tax rises and in 2012/13 the Government introduced

arrangements for Council Tax referendums where an authority sets a Council Tax which exceeds principles endorsed by Parliament (i.e. is “excessive”).

- 3.10.10 The provisional Local Government Finance Settlement set out that the referendum threshold for 2015/16 will be set at 2% (2% in 2014/15)
- 3.10.11 A 1% increase in Council Tax generates £76k per annum (the figure differs from the £90k receivable for the 1% Council Tax freeze grant as the freeze grant calculations are based on a higher tax base which does not take into account the cost of the discount for the Localised Support for Council Tax), therefore the Council would generate an income of £147k per annum by increasing Council Tax by 1.94%. If Council Tax levels are increased the Council will not be eligible to receive the freeze grant of £90k therefore the decision to increase Council Tax by 1.94% would generate an additional £57k in 2015/16. The full £147k would however become a long term and sustainable source of funding for the Council in future years.
- 3.10.12 53.5% of respondents to the budget consultation agreed with the option to freeze Council Tax levels, however 46.5% of respondents felt that Council Tax levels should be increased.

3.11 RESERVES

- 3.11.1 Appendix F of the Financial Strategy sets out the Council’s proposed optimum ranges for its levels of reserves and balances. These ranges have been maintained at 2014 levels
- 3.11.2 Paragraph 3.8.5 sets out that the Capital Development Reserve is overcommitted over the ten year period to 2025, however this is not considered to be an issue in the short term. All other reserve balances are within their optimum ranges.
- 3.11.3 The Insurance Reserve covers risks which are by their nature difficult to insure. The fund also meets the cost of some insurance excesses. The uncommitted balance of the reserve currently stands at £1.683 million. The Financial Strategy includes the proposal to earmark £405k of this balance to resurface a number of footways across the Borough. Funding for this work is not available from existing resources but the works are required to ensure that the Council is not exposed to increased numbers of insurance claims as a result of poor quality infrastructure. These works will be carried out over a five year period as the assets reach the end of their lives.

3.12 PAY POLICY STATEMENT 2015/16

- 3.12.1 Local Authorities are required under Section 38(1) of the Localism Act 2011 to prepare and publish a Pay Policy Statement. The Statement must articulate the Council’s policy towards the pay of the workforce, particularly those regarded on high pay and the lowest paid employees.

- 3.12.2 Each Local Authority is an individual employer in its own right and has the autonomy to make decisions on pay that are appropriate to local circumstances and which deliver value for money for local taxpayers. The provisions of the Act do not seek to change this or to determine what decisions on pay should be taken, but they do require individual employing Authorities to be more open and transparent about their policies in relation to pay and how decisions are made in this regard.
- 3.12.3 Section 40 of the Act requires Authorities, in developing their Pay Policy Statement, to have regard to any guidance published by the Secretary of State. This includes the Communities and Local Government Guidance on Openness and Accountability in Local Pay and the Code of Recommended Practice for Local Authorities on Data Transparency. The requirement to establish and publish a policy covering pay arises from the Hutton Review of Fair Pay published in March 2011, which made recommendations for promoting pay fairness in the public sector by tackling disparities between the highest and lowest paid in the public sector.
- 3.12.4 The Act requires that Pay Policy Statements are produced annually and are considered by Full Council. Any subsequent amendments referred to in the Policy should also be considered by Full Council. The Pay Policy Statement contained within the Financial Strategy in many ways reflects the Council's current policies and practices governing workforce pay issues, which have been brought together in this Pay Policy Statement and will be kept under constant review.

3.13 Treasury Management

- 3.13.1 The Council has an Investment Strategy which has been implemented over many years to maximise the return on the investment of funds whilst having regard to the security of investment; thus achieving optimum performance commensurate with the level of risk. It is stressed that whilst maximising income is the aim, the first priority is the preservation of the capital value invested.
- 3.13.2 To minimise the counterparty risk that exists a spread of investments is required together with a maximum investment limit at any one time with any one of the Institutions on the Council's counterparty list. The Council receives significant funds on a short term basis as part of the NNDR pooling arrangement, plus with planned new external borrowing, greater flexibility is required to ensure that funds can be suitably invested.
- 3.13.3 Consideration has been given to reducing the minimum lending criteria, however it was considered more prudent to increase the maximum limit with the Authorised Institutions and Government guaranteed institutions that meet the existing minimum criteria. **The maximum investment limit with these institutions has been raised from £5m to £7m.**
- 3.13.4 The ownership of financial institutions is complex and so that the Council is not over-exposed to 'ownership risk' the increased investment limit will apply

to each group rather than merely per institution. This provides an extra layer of security to minimise the investment exposure.

4. CONSULTATION

4.1 See section 3.9

5. ASSESSMENT

5.1 The headline proposals set out in the Financial Strategy remain largely unchanged, apart from the amendments set out in this report. The draft proposals are as follows:

Revenue

- A Council Tax requirement for 2014/15 of **£7,654,826** (assuming a Council Tax Freeze)
- The revenue budget projections assume that Council Tax levels will be frozen for the Borough Council element and that the Council will accept the government's offer of a Council Tax freeze grant. There is also an option available to Members to increase Council Tax levels by 1.94%.
- Proposed efficiencies/savings totalling **£2,860,494**
- A balanced budget position with no reliance on contributions from the General Fund Reserve.
- Additional mainstream budget provision for the following priority areas: **£200k** car parking income earmarked for the Sands Development, **£278k** to fund Leisure Village borrowing costs, **£40k** to fund income losses associated with the Futurist redevelopment, **£50k** additional contributions to the capital programme and **£140k** to fund borrowing costs on essential and aspirational capital, infrastructure and asset management schemes.
- Additional one off funding of **£40k** in 2015/16 to provide 2 years funding for the Choices4Energy Programme, **£15k** for contributions to the Local Enterprise Partnership, **£18k** to provide funding for one-off events across the Borough, and **£40k** to extend the Area Committee grant funding for one year.
- That any business rates surpluses over and above those already included within base revenue budget (currently estimated at £330k) be earmarked to fund schemes within the Council's Investment Management Plan.

Capital

- Proposed capital expenditure in 2015/16 as follows :-
 - **Vehicle and Equipment Replacement** (£1.106 million vehicle replacement; £152k equipment replacement; £140k IT equipment replacement)
 - **Planned Infrastructure Works** (£100k replacement lighting columns)
 - **Statutory Requirements** (£685k Disabled Facilities Grants)

- **Other** (£2.8 million earmarked for priority schemes (funded from borrowing); £412k Eastside Action Plan)
- The Capital Development Reserve shows an overdrawn balance of £674k over the 10 year period to 2025. There is an aim to reduce this overdrawn balance to at least £500k by 31 December 2015.
- The capital projections do not make any provision for capital receipts or for essential asset management or infrastructure works. Current estimates show unfunded asset management works totalling £7.677m and unfunded infrastructure works of £9.991m for the 5 year period to 2020.
- The first call on available capital resources and future capital receipts will be the following priority schemes (in order of priority):
 1. Eskside Wharf infrastructure works
 2. Futurist Redevelopment
 3. Scarborough Spa asset management works
 4. Town Hall Civic asset management works
- The following sources of funding are available to fund these schemes
 - £735k in the Council's Investment Management Plan
 - £2.8 million unallocated capital schemes funded from borrowing in 2015/16 (detailed above)
 - £261k monies previously earmarked to progress Eskside Wharf
 - Future capital receipts
 - Uncommitted 2014/15 year end underspend
- In addition to the above priority schemes, up to £5 million will be required to fund Coast Protection schemes at Scarborough Spa and Whitby Piers in future years. Capital resources will not cover the required levels of expenditure needed in future years therefore the Council's Medium Term Revenue Plan makes provision for growth of £100k per annum for the period from 2016/17 to 2019/20 to provide funding for additional unsupported borrowing.

Reserves

- Apart from the overdrawn balance on the Capital Development Reserve all other reserve ranges are deemed to be adequate
- Expenditure of £405k will be funded from the insurance reserve to fund essential hard standing repairs to car parks, pavements and un-adopted roads across the Borough.

Policies

- Treasury Management Policy Statement
- Prudential Indicators and Minimum Revenue Provision Policy

- The Chief Finance Officers Statutory Statement, which Council are asked to note and endorse the comments contained within.
- The Council's Pay Policy Statement.

6. IMPLICATIONS

6.1 Policy

There are no policy implications arising from this report. An equalities impact assessment will be undertaken on all savings proposals included within the Financial Strategy.

6.2 Legal

There are no legal issues arising from this report.

6.3 Financial

The financial implications are set out in detail throughout the report and appendices to this report.

6.4 Staffing Implications

Although details for some of the savings options set out in the report are still being finalised current projections show that post numbers will reduce by approximately 8.24, although a number of these posts are already be vacant.

6.5 Planning Implications, Crime and Disorder Implications, Health and Safety implications, Environmental implications

I have considered whether implications arise from this report and am satisfied that there is no identified implication that will arise from this decision for this Council.

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FEEDBACK RECEIVED FROM THE CONSULTATION PROCESS

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	February 2015	That the Council does not set a robust budget in 2015/16	Potential overspends and unforeseen draws from reserves in 2015/16.	<ul style="list-style-type: none"> ▪ Review of savings proposals to ensure that they are achievable. ▪ Regular programme of budget monitoring. ▪ Budget holders taking responsibility and ownership of their budgets and signing off procedures 	B4	B4	HFAM / CFM	None
2	February 2015	That the decisions made in 2015/16 negatively impact future years revenue budgets.	<ul style="list-style-type: none"> ▪ Unsustainable revenue budgets in future years. ▪ Unplanned draws from reserves ▪ Cuts in service 	Financial Strategy and long term budget planning	B3	B3	HFAM / CFM	
3	February 2015	That the Council's capital resources are insufficient to fund essential and desirable capital works	<ul style="list-style-type: none"> ▪ Health and Safety issues. ▪ Increases in the cost of responsive repairs ▪ Increases in unsupported borrowing ▪ Pressure on future 	<ul style="list-style-type: none"> ▪ Priority schemes identified ▪ Future capital receipts earmarked for priority schemes ▪ Unsupported borrowing of £2.8 million factored into 15/16 budget to 	D4	B4	HFAM / CFM	Obtain accurate costings for all priority schemes and factor into long term budget

APPENDIX B

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
			year revenue budgets	progress priority schemes ▪ Budget growth factored into future year revenue budget plan to fund further increases in unsupported borrowing				plans
4	February 2015	That the Council has insufficient resources in future years to fund current service levels	<ul style="list-style-type: none"> ▪ Cuts in front facing services ▪ Staffing reductions ▪ Increased budget risk ▪ Draws from reserves 	<ul style="list-style-type: none"> ▪ Financial Strategy and long term budget plan ▪ Early identification of savings requirements ▪ Prioritisation of services 	E4	E2	DT / HFAM	Prioritisation of services and medium to long term strategy for budget reductions.