

	REPORT TO CABINET TO BE HELD ON 19 JANUARY 2017	
	Key Decision	YES
	Forward Plan Ref No	
Corporate Priority: Meets all Corporate Priorities	Cabinet Portfolio Holder	Cllr Helen Mallory

REPORT OF: DIRECTOR (NE) – 17/19

WARDS AFFECTED: ALL

SUBJECT: DRAFT REVENUE AND CAPITAL BUDGET 2017/18
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RECOMMENDATION (S):

It is recommended that Cabinet approve:

- (i) the Council Tax Base for 2017/18 as 37,623.69 Band D equivalent properties;
- (ii) that a surplus of £1.960 million be declared on the Council Tax Collection Fund. This surplus will be distributed in proportion to the share of Council Tax attributable to each precepting authority and the Borough Council's share of the surplus will equate to a one-off sum of £258,031;
- (iii) that authority to approve the NNDR1 Return be delegated to the Director (Nick Edwards);

It is recommended that Cabinet:

- (iv) endorse the draft budget proposals set out in the appendices to this report prior to them being re-presented to Cabinet and Full Council for approval in February; with particular attention being given to the proposed £5 Council Tax increase for a Band D property and the savings proposals listed at Appendix A3. If the Council Tax increase or any savings proposals listed are deemed by Members to be unacceptable alternative savings of an equivalent value must be identified;
- (v) note the outcome and details of the provisional Local Government Finance Settlement for 2017/18 and the indicative figures for the following two years to 2019/20; along with the resulting funding gaps of £2.492m in 17/18, £2.180million in 18/19, £1.295million in 19/20;

- (vi) note that the savings identified to date for 2017/18 total £1.789 million and a £0.5m draw from reserves is proposed, therefore **savings of £203k still need to be identified in order to set a balanced budget**;
- (vii) subject to the approval of recommendation (v) agree that officers enter into a period of consultation on the proposals contained within this report;
- (viii) recommend that Council approve the 2017/18 Council Tax discount and premiums set out in Section 3.3 of this report, which remain unchanged from those approved for 2016/17;

REASON FOR RECOMMENDATION (S):

All preceptors use the Council Tax Base figure as the denominator for calculating their Council Tax. It is a statutory requirement for the Council to notify the major Precepting Authorities of the approved Tax Base and any surplus or deficit on the Collection Fund by the 31 January of each year.

It is a statutory requirement to submit the NNDR1 form to the Department for Communities and Local Government and notify North Yorkshire County Council and North Yorkshire Fire & Rescue Service of their respective shares by the 31 January of each year.

Full Council must approve the 2017/18 budget, and associated Council Tax level at its meeting on 3 March 2017. It is important that the Council consults with the public on its budget prior to it being approved, and that the areas identified in the consultation process are taken into consideration in the budget setting process.

HIGHLIGHTED RISKS:

- That the Council does not set a robust or balanced budget in 2017/18.
- That the Council overcommits its capital resources

1. INTRODUCTION

- 1.1 The purpose of this report is to set out the Council's Tax Base, draft revenue and capital budget proposals and Council Tax levels for 2017/18.
- 1.2 The Council is required to calculate its Council Tax Base and Council Tax Collection Fund surplus or deficit by the 31 January each year. Both Billing and Precepting Authorities use the Council Tax Base in calculating their Council Tax. Accordingly, the figures will be formally advised to the North Yorkshire County Council, Police and Crime Commissioner North Yorkshire and the North Yorkshire Fire and Rescue Service in order to enable them to determine their precepting requirements.
- 1.3 The Council is required to set a baseline income level for business rates collection during the year along with an estimate of the surplus or deficit on the Business Rates Collection Fund. These figures must be formally advised to Central Government, North Yorkshire County Council and North Yorkshire

Fire and Rescue Authority through the submission of an NNDR 1 form by 31 January.

- 1.4 Full Council must approve the 2017/18 budget, and associated Council Tax level at its meeting on 3 March 2017. It is important that the Council consults with the public on its budget prior to it being approved.

2. CORPORATE AIMS/PRIORITIES AND THE COMMUNITY PLAN

- 2.1 The proposals set out in this report impact on all Council corporate aims and priorities.

3. BACKGROUND AND ISSUES

3.1 Revenue and Capital Budget

- 3.1.1 The Council's Financial Strategy comprises a five-year revenue plan and ten-year capital plan, which is reviewed annually. The Council's revised Strategy for 2017-2027 will be presented to Full Council for approval in February. This report sets out the draft proposals for the revenue and capital budget, which form part of the overall Financial Strategy.

3.2 Council Tax Base Setting

- 3.2.1 The tax base is calculated for the whole area of the Scarborough Borough and is split across each parished and unparished area.
- 3.2.2 The tax base is the estimated full year equivalent number of chargeable dwellings in each parish, expressed as the equivalent number of discounted Band D Dwellings. The localised support for council tax scheme is treated as a council tax discount therefore affects the tax base. The Band D equivalent figure stated in this report includes a local discount of 87.5%; which remains unchanged from 2016/17. This level of discount has been recommended for approval by Cabinet and will be considered by Full Council on 9 January. If the agreed local discount differs from the 87.5% currently included within the calculation the tax base would need to be adjusted accordingly.
- 3.2.3 It is proposed that the Council Tax Base for tax setting purposes be set at 37,623.69 for 2017/18; with an estimated collection rate of 98.06%. The tax base by Parish is set out at Appendix C.

3.3 Council Tax Discounts and Exemptions

- 3.3.1 The Local Government Finance Act 2012 provided opportunities for Local Authorities to raise additional revenue from Council Tax by amending discounts on second homes and empty properties. The Borough Council opted to utilise this new legislation to reduce a number of Council Tax discounts in 2013/14 in order to raise additional Council Tax revenue. These

changes came into effect on 1 April 2013 and were further reviewed for 2014/15 and 2015/16. The proposed position for 2017/18 is summarised below:

- The Council Tax Discount on second homes is set at 0% for 2017/18, which is in line with the 0% discount applied since 2013/14.
- The Council Tax discount on second homes which have planning restrictions on occupancy is set at 10% for 2017/18 in line with the level applied in 2016/17.
- The Council Tax Discount for properties undergoing major repair or structural alteration is set at 0% for 2017/18, which is in line with the 0% discount applied since 2013/14.
- The Council Tax Discount for properties which are empty and unfurnished (Class C) is set at 100% discount for the first 28 days a property becomes empty and unfurnished followed by a 0% discount, which is in line with the discount applied in 2015/16.
- The Council Tax Premium for properties which have been empty & unfurnished for more than 2 years is set at an additional 50%, which is in line with the 50% premium applied since 2013/14.

3.4 Business Rates Retention Scheme (NNDR 1 form)

- 3.4.1 The localised 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.
- 3.4.2 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.
- 3.4.3 The Council submitted an application to create a business rate pool with North Yorkshire County Council, Ryedale District Council, Craven District Council, Hambleton District Council and Richmondshire District Council and has continued with the arrangement since 2014/15. All authorities within the pool have elected to extend this pooling arrangement into 2017/18.
- 3.4.4 Under the pooling regime authorities included within a pool are treated as a single authority for the localised business rate scheme. This has the benefit that any deficit relating to the Council's share of business rates could be offset by surpluses achieved by other pool members rather than from the Council's own resources; however if the Council makes a surplus on its own scheme this could be more than offset by deficits arising on other pool members schemes. The Council currently pays a levy of 50% on its share of surplus business rate

income generated. The major advantage of creating a pool is that this levy rate is reduced to nil when the authorities in the pool are treated as a single authority.

- 3.4.5 Under the localised business rate scheme the Council must approve its NNDR1 Return and submit it to the Department of Communities and Local Government by the end of January 2017. It must also notify North Yorkshire County Council and North Yorkshire Fire & Rescue Service of their respective shares of anticipated business rate income by the same date. It is proposed that the approval of the NNDR1 Return be delegated to the Director (NE).
- 3.4.6 The NNDR 1 form will include details of the anticipated surplus or deficit on the 2016/17 localised business rate scheme as well as the projections for 2017/18. Due to uncertainties relating to the likely outcome of prior year's appeals it is not yet possible to calculate the value of the surplus or deficit at this stage. Details will however be reported in the final budget report.
- 3.4.7 In the 2016/17 budget setting process the Council assumed that the Council's baseline income level for business rates would be exceeded by £700k and this was factored into the base revenue budget to reduce the level of cost savings that needed to be identified. A revaluation of ratable values will come into effect on 1 April 2017 and could affect the Council's level of retained business rates and appeals from 2017/18 onwards. The outcome of the revaluation exercise will not be known until later in the year therefore is a financial risk for the Council. Surpluses in excess of the £700k will be used to fund one-off priority expenditure, should they arise.

4. CONSULTATION

- 4.1 It is important that the Council considers the views of its stakeholders in the budget setting process.
- 4.2 All Members have been invited to attend seminars to go through the budget proposals in detail and will be asked to provide feedback at these sessions. A link will also be added to the Council's website to allow all stakeholders and interested party's feedback to be submitted via the web.

5. ASSESSMENT

- 5.1 The following appendices are attached to this report:

Appendix A - Revenue Budget and Council Tax 2017/18

This appendix sets out the details of the revenue budget, including ongoing investment in priority areas, efficiency and other savings proposals, staffing implications, and proposed Council Tax levels.

Appendix B – Capital Budgets and proposals 2017/18

This appendix sets out the details of the capital resources and expenditure proposals for 2017/18.

Appendix C - Council Tax Base by Parish

This appendix sets out the Council Tax Base split by Parish area.

5.2 The headlines set out in the draft budget proposals are as follows:

5.2.1 LOCAL GOVERNMENT FINANCE SETTLEMENT

On 17 December 2015 the Government announced the provisional finance settlement for 2016/17 alongside figures for the following 3 years up to 2019/20. The indicative figures for the 2017/18 year were confirmed in the 2017/18 provisional finance settlement announcements, which were made on 15 December 2016 and the outcome for the year was a cut in grant funding of 13.5% (£819k). In addition the Council was faced with cuts of £176k in respect of New Homes Bonus allocations.

Although the principle of a fixed settlement up to the year 2020 is welcomed and will aid the Council's longer term financial planning the implications and extent of the proposed funding cuts over the period mean that the Council will need to fundamentally review how it delivers services in future.

5.2.2 BUDGET SAVINGS

In order to set a balanced budget in 2017/18 there is a requirement to identify £2.492m in savings or additional income. The budget proposes a draw of £500k from reserves and the savings currently identified and proposed for inclusion in the budget (per Appendix A3) total £1.789m, therefore **savings of £203k still need to be identified.**

Further savings will be identified to balance this shortfall before the final budget report is presented to members in February.

The Council's Medium Term Financial Plan shows that there will be a requirement to identify further savings of at least £2.18m in 2018/19 and £1.3m in 2019/20 therefore it is considered essential that a balanced budget is set in 2017/18. If any of the savings included within the proposals detailed in Appendix A3 are not approved savings or cuts with an equivalent value will need to be identified.

5.2.3 COUNCIL TAX

Appendix A sets out the draft revenue budget proposals. At present the figures in the appendix assume that the Council will increase its proportion of the 2017/18 Council Tax charge by £5 for a Band D property. This will raise additional revenue of £185k per annum to reduce the 2017/18 and future year funding gaps and help protect services from further cuts.

In addition a £250k one-off contribution has been made to the capital programme to progress priority and essential schemes in 2017/18.

The 2016 Financial Strategy established an Investment Fund to provide one-off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond. The authority to approve expenditure from the Investment Fund is delegated to the Director's Team in consultation with the portfolio holder for Finance, Legal and ICT. The following indicative funding bids have been, or will likely be, funded from the reserve over the 2016/17 and 2017/18 financial years:

- £93k Phase 1 – new Whitby kiosks
- £88k Restructure of TIC provision across the Borough
- £30k Transformational training / equipment and resources
- £250k Public Conveniences review
- £80k MOT facilities at Dean Road depot garage
- £55k In Cab devices for refuse freighters
- £105k Fleet Management system and implementation
- £25k External support for the review of Dean Road / Manor Road depot facilities
- £17k Essential works at the Crematorium

Future expenditure from the Investment Fund will be driven by the Council's transformation and savings programme.

5.2.6 CAPITAL PROPOSALS

Appendix B sets out the capital proposals and recommends that the following expenditure be incorporated in the capital programme for 2017/18:

	SBC Contribution £'000
Town Centre Resurfacing	26
South Cliff Gardens	90
Peasholm de-silting	251
Khyber Pass toilets	70
Royal Albert Drive demolition	30
Peasholm essential works	20
Business Park road adoption costs	50
TOTAL EXPENDITURE	537

In addition the Council will continue to fund the cost of scheduled vehicle and equipment renewals and lighting column replacements from the Capital Development Reserve.

Further details on all of the above schemes are provided in Appendix B1.

UNFUNDED PRIORITY SCHEMES

It is becoming apparent that the funding available to progress one-off priorities and capital schemes is diminishing and demand for resources significantly outweighs the funding available. Given the pressures on the revenue budget it is essential that the Council does not over commit its capital resources and there is currently insufficient funding to progress the following schemes:

1. Essential works at Peasholm (required to maintain income streams)
2. Priority works at the Crematorium (required to maintain income streams)
3. Additional contributions to Coast Protection works
4. Cemetery provision
5. Town Hall Civic asset management works

Appendix B provides further details on the above schemes as well as some potential funding sources that may become available in the coming months. At present the funding sources are uncertain or cannot be quantified therefore cannot be committed, however it is proposed that a mid-year budget report be prepared as and when the amounts can be confirmed.

Any available monies, along with future surplus capital receipts, will be allocated to progress the schemes in the above order of priority (with 1 being classed the highest priority).

6. IMPLICATIONS

6.1 Policy

There are no policy implications arising from this report

6.2 Legal

There are no legal issues arising from this report. An Equality and Impact Assessment on the proposals will be completed prior to the final budget report being presented in February.

6.3 Financial

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

6.4 Staffing Implications

Appendix A3 to this report sets out the savings proposals for consideration in the 2017/18 budget. The appendix shows that, subject to the savings being

approved, it will result in staffing reductions although a number of those posts proposed for deletion are already vacant.

This process will be closely managed and consultation will take place with Trade Unions. The Council has a strong commitment to try and minimise the impact on staff and number of compulsory redundancies by utilising natural wastage and providing some training for staff to support this.

All employees that could be directly affected by the changes will be notified of the proposals as soon as is reasonably practicable.

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.

Nicholas Edwards

Nicholas Edwards
Director

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Background Papers:

None

REVENUE BUDGET AND COUNCIL TAX 2017/18

1 INTRODUCTION

This appendix sets out the detailed movements in the revenue budget between 2016/17 and 2017/18, and recommends the proposed budget for 2017/18 along with the associated levels of Council Tax.

It provides details of:

- Areas of Budget Pressure and Unavoidable Cost Pressure
- The level of revenue resources available to the Council
- Areas of additional investment
- Efficiency and other savings proposals put forward

2 BUILD UP OF THE 2017/18 REVENUE BUDGET

A base revenue budget requirement of £16.390m was approved for the 2017/18 financial year, which forms the starting point for the 2017/18 budget.

Although the Council has made a concerted effort to minimise budgetary growth a number of unavoidable cost increases and budgetary pressures have arisen during the year, as summarised in the following table:

Table 1 – Unavoidable Costs

	£'000
Pay and Price Inflation	552
Other Budget Pressures	514
Total Unavoidable Costs	1,066

2.1 Pay and Price Inflation

This increase reflects the inflationary allowances across budget heads along with salary increments and variations. All income and expenditure budget heads have been fixed at 2016/17 levels and any cost increases will therefore need to be absorbed within individual service area budgets. A contingency of £200k has been retained to cover unavoidable or corporate inflationary cost increases and this will be allocated to budget heads throughout the 2017/18 year as areas of growth are identified. The budget makes provision for a 1% pay award.

As in previous years the 2017/18 budget does not include a corporate provision for salary savings. This reflects that staffing savings are not expected to accrue due to a slowdown in staff turnover. The Council does not budget for recruitment costs therefore it is also assumed that any short term staffing savings will be required to fund associated recruitment and advertising costs.

2.2 Other Budget Pressures

A breakdown and further details of these costs are included within Appendix A1 to this report.

3 RESOURCES

3.1 Provisional Finance Settlement

3.1.1 Multi Year Settlement Offer

On 17 December 2015 the Government announced the provisional finance settlement for 2016/17 alongside figures for the following 3 years up to 2019/20. The consultation document circulated alongside the provisional settlement set out that the indicative figures announced for the periods up to 2020 would be fixed for those authorities that: (a) chose to accept them and (b) published an efficiency plan.

The funding streams covered by the multi-year settlement offer comprise Revenue Support Grant (RSG), Rural Services Delivery Grant (RSDG) and Transitional Grant. The table below sets out the projected levels of these funding streams over the multi-year offer period.

Table 2 – Multi-Year Settlement Offer Funding Streams

	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000
Revenue Support Grant	2,129	1,231	672	49
RSDG / Transitional Grant	23	18	13	16
TOTAL FUNDING	2,152	1,249	685	65
In year reduction		903	564	620
Total reduction				2,087

The table shows that these sources of funding will reduce by £2.087 million over the period to 2020 (£903k in 2017/18, £564k in 2018/19 and £620k in 2019/20). The government stated that the figures contained within the multi-year offer would be guaranteed for those authorities that chose to accept them, but may change for those authorities that didn't. On that basis the Council opted to accept the offer.

3.1.2 Retained Business Rates

In addition to the funding streams contained within the multi-year offer the Council retains a share of business rates income. The baseline amount of business rates retained by the Council is determined within the Local Government Finance Settlement and increases by RPI each year. The provisional settlement figures show that, assuming the target level of business rates income is collected, the Council's net baseline business rates income level will increase by £79k in 2017/18.

The table below sets out the reductions in the Council's core grant funding over the period from 2010/11 to 2015/16 (2010 Spending Review Period) and the provisional figures to 2019/20 (2015 Spending Review Period).

Table 3 – Reductions in Local Government Finance Settlement Funding

YEAR	LGFS FUNDING* £'000	CASH REDUCTION £'000	% REDUCTION
2010/11	12,556		
2011/12	11,030	1,526	12.1%
2012/13	10,105	925	8.4%
2013/14	9,719	386	3.8%
2014/15	8,433	1,286	13.2%
2015/16	7,143	1,290	15.3%
REDUCTIONS OVER 2010 SR PERIOD		5,413	43.1%
2016/17	6,050	1,093	15.3%
2017/18 [^]	5,231	819	13.5%
2018/19 [^]	4,792	439	8.4%
2019/20 [^]	4,292	500	10.4%
REDUCTIONS OVER 2015 SR PERIOD[^]		2,851	39.9%
[^] provisional figures			
CUMULATIVE REDUCTIONS OVER BOTH PERIODS		8,264	65.82%

*Figures have been adjusted to allow like for like comparisons between years.

The table shows that the Council will receive £8.264m less funding to run its services in 2019/20 than it did in 2010/11, which represents a 65% cut in annual funding.

Although the principle of a 4-year settlement is welcomed and will significantly aid the Council's longer term financial planning the implications and extent of the proposed funding cuts over the period to 2020 demonstrate that the Council will need to fundamentally review how it delivers services in future.

3.2 **Council Tax**

For the 5-year period between 2011/12 to 2015/16 the Government awarded grants to those Council's which opted to freeze or reduce their Council Tax levels. The Council elected to freeze its Council Tax at 2010/11 levels in each of those years. The Government did not offer Council Tax freeze grants in either 2016/17 or 2017/18.

3.2.1 **Council Tax Capping and the Public's Right to Veto 'Excessive Council Tax Increases'**

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”).

The council tax referendum threshold principles for 2017/18 for District Councils have been set at the higher of 2% or £5 for a Band D equivalent property.

3.2.2 Proposed Council Tax increase

Given the funding pressures the Council faces it is proposed that a £5 Council Tax increase (2.31%) be applied for a Band D property for the 2017/18 year. This will generate additional income of £185k.

Table 4 below shows the resultant Scarborough Borough Council element of the Council Tax levy by band if Council Tax levels are increased by this amount.

Table 4 – Council Tax levy per band

Band	2016/17	2.31% Increase	
	£	2017/18 £	Increase £
A	144.21	147.54	3.33
B	168.24	172.13	3.89
C	192.28	196.72	4.44
D	216.31	221.31	5.00
E	264.38	270.49	6.11
F	312.45	319.67	7.22
G	360.52	368.85	8.33
H	432.62	442.62	10.00

3.2.3 Increase in Council Tax Base and Collection Fund Surplus

Each year the Council calculates its tax base based on the number of properties listed on the Council Tax system. This calculation takes into account chargeable properties, discounts, and exemptions listed in the system as well as projected changes for the following year. In 2017/18 an increase in the projected Council Tax Base will generate additional income of £152k for the Council. This additional income is due to increases in the number of properties as well as reductions in the costs of the Localised Support for Council Tax scheme discount (LSCT).

In addition to the increase in the Council Tax Base the Collection Fund projections anticipate that the fund will also hold a surplus of £1.960 million at the end of 2016/17, which will be available for distribution in 2017/18. The Council’s share of this surplus is £258k and as these are one off monies they

have been earmarked to part fund the Council's £3 million contribution towards Coast Protection Works (as detailed in Appendix B).

3.3 **New Homes Bonus (NHB)**

In February 2011 the government published the proposals for the NHB – a scheme that was designed to incentivise local authorities to welcome new housing developments. The headline details announced in the original scheme were as follows:

- The scheme is intended to incentivise local authorities to increase housing supply by rewarding them with a grant, equal to the national average for the council tax band on each additional property and paid for the following six years as an unringfenced grant.
- In addition to the above there is a flat rate enhancement of £350 per annum for affordable homes.
- 80% of the Bonus is retained by the Borough Council, the remaining 20% is paid to North Yorkshire County Council
- The NHB is paid as an “unringfenced grant” therefore the Council can decide how it wishes to utilise any monies received.

In its Spending Review and Autumn Statement 2015 the Government announced that it aimed to reduce New Homes Bonus funding by £800m over the Spending Review period and redirect those resources to adult social care. A technical consultation paper on the proposed changes to the distribution method was issued alongside the provisional settlement in December 2015 and the final proposals were announced alongside the 2016 provisional settlement.

The revised proposals can be summarised as follows:

- The period of the grant will reduce from six to five years in 2017/18 then to four years in 2018/19;
- Payments will only be made for housing delivery above an annually determined national baseline figure (0.4% in 2017/18)

The government are also consulting on options to withhold allocations where an authority does not have a local plan in place or in cases where houses are built on appeal;

The Council's NHB allocation totalled £1.288m in 2016/17 and this will reduce to £1.112m in 2017/18.

Due to the financial difficulties facing the Council the 2016/17 allocation was fully committed to balance the Council's revenue budget in order to minimise cuts in service. The in-year funding reduction of £176k therefore increases the Council's revenue funding gap.

3.4 **Localised Business Rate Income Surpluses**

The Local Government Finance Bill was introduced by the Secretary of State in December 2011. The legislation contained within the Bill represented a radical change to the local government finance system and aimed to take forward proposals designed to encourage local economic growth, reduce the financial deficit and drive decentralisation of control over Local Authorities finances. One of the key proposals contained within the legislation was the localisation of business rate income.

Prior to the 2013/14 financial year business rates revenue was collected by local authorities, who then paid it over to central government. Central government pooled the income generated and then redistributed it to local authorities, based on an assessment of their needs. Local authorities were then notified of the amounts that would be distributed as part of the Local Government Finance Settlement.

As local authorities did not retain business rate income it was felt that there was only a limited financial incentive to promote business growth and maximise business rate income collection in their area. In July 2011 the Government published its proposals to allow councils to retain locally raised business rates. These proposals presented a fundamental shift in the way that local authorities are funded, and aimed to free councils from dependence upon central government grant and give them a strong financial incentive to drive local economic growth. The new scheme came into effect on 1 April 2013.

Under the new legislation the Council is set a baseline income level for rates collection in a year (as detailed in Section 3.1.2) and can retain a share of any growth achieved above this baseline. Historically the Council's share of retained business rates has exceeded the baseline and this surplus has been committed to support the Council's revenue budget.

3.4.1 **Business Rate Pooling**

In 2014/15 the Council entered into a business rate pool with North Yorkshire County Council, Ryedale District Council, Craven District Council, Hambleton District Council and Richmondshire District Council. This pooling arrangement has been extended to cover the 2017/18 year. The Borough Council is the lead authority for the pool.

Under the pooling regime authorities included within a pool are treated as a single authority for localised business rate scheme purposes. This has the benefit that any deficit relating to the Council's share of business rates could be offset by surpluses achieved by other pool members rather than from the Council's own resources; however if the Council makes a surplus on its own scheme this could be more than offset by deficits arising on other pool members schemes.

Individually the Council would be required to pay a levy of 50% on its share of surplus business rate income under the localised scheme. The major advantage of creating a pool is that this levy rate is reduced to nil when each of the authorities are treated collectively as a single authority. The levies saved through pooling are distributed back to pool members through a pool dividend.

Assuming that each authority within the pool hit or exceed their business rates baselines, and that the Council's business rates income for 2017/18 is in line with expectation the Council will receive a pool dividend. The revenue budget does not recognise the potential receipt of any pool dividends due to the uncertainty relating to the settlement of business rate appeals across the pool. Any dividend received in 2017/18 will be earmarked to progress priority capital schemes.

4 INVESTMENT IN PRIORITY AREAS

Members, Directors and Service Unit Managers, in conjunction with Finance Staff, have been asked to identify any areas where additional investment is required, with particular reference to local and national priorities.

The areas proposed for additional investment are summarised in Table 5 below, with further details provided in Appendix A2.1

Table 5 – Meeting Priorities

Service	Bid	£'000
Corporate	Increase in ongoing revenue contributions to capital and borrowing costs	192
Corporate	One off contributions to fund capital / one-off costs in 2017/18 (see Appendix B for details)	250
Corporate	Contribution to Local Enterprise Partnership	15
Corporate	Funding to address seagull issues across the Borough	36
		493

Further details are provided within Appendix A2.1.

Investment Fund

The 2016 Financial Strategy established an Investment Fund of £594k to provide one-off funding for schemes that will help the Council to deliver revenue savings in 2016/17 and beyond. A further £626k was transferred to the reserve from the 2015/16 year-end underspend. During the year officers undertook a review of earmarked reserves with an aim of freeing up uncommitted resources. This review identified £188k of one-off monies that are available for allocation and these monies have been transferred to the Investment Fund. Given the financial pressures facing the Council in the

coming years it is also proposed that any year-end underspend achieved in 2016/17 be transferred to the reserve.

The authority to approve expenditure from the Investment Fund is delegated to the Director's Team in consultation with the portfolio holder for Finance, Legal and ICT. The following indicative funding bids have been, or will likely be, funded from the reserve over the 2016/17 and 2017/18 financial years:

- £93k Phase 1 – new Whitby kiosks
- £88k Restructure of TIC provision across the Borough
- £30k Transformational training / equipment and resources
- £250k Public Conveniences review
- £80k MOT facilities at Dean Road depot garage
- £55k In Cab devices for refuse freighters
- £105k Fleet Management system and implementation
- £25k External support for the review of Dean Road / Manor Road depot facilities
- £17k Essential works at the Crematorium

The original financial projections for the period to 2020 showed that the funding gap for 2017/18 was significantly higher than the funding gap identified for the following two years. Given that the transformation programme will take time to evolve and identify savings it was agreed that £0.5 million reserves would be utilised in 2017/18 to reduce the level of savings required in that year and equalise the savings targets over the 3 year period. This £0.5 million will be funded from the Investment Fund.

Assuming that the 2016/17 year-end revenue underspend is in line with current expectation (£322k) the uncommitted balance on the reserve will stand at approximately £0.5m after allowing for the above amounts.

Future expenditure from the Investment Fund will be driven by the Council's transformation and savings programme.

5 FUNDING GAP

Taking into account the details contained within the previous sections of this Appendix, and assuming the approval of the proposed Council Tax increase, the following table summarises the funding gap for 2017/18.

Table 6 – Summary of Funding Gap for 2017/18

	£'000	£'000
Base Revenue Budget for 2017/18		16,390
Unavoidable Costs (Per Table 1)		1,066
Investment in Priorities (Per Table 5)		493
		17,949
Last Year's Financing*	16,120	
Reduction in multi-year settlement offer (Para 3.1.1)	(903)	
Increase in retained business rates income		

baseline (Para 3.1.2)	79	
Reduction in New Homes Bonus allocation (3.3)	(176)	
Increase in Council Tax Base (Para 3.2.3)	152	
Increase in Council Tax Charge (Para 3.2.2)	185	
Resources available		(15,457)
Funding Shortfall		2,492
Contribution from Reserves		(500)
Funding gap to be bridged with savings		1,992

* Financing was £270k less than budget requirement due to an approved draw from the General Fund Reserve.

This leaves a shortfall of £1.992 million that needs to be addressed through additional funding, efficiency and other savings.

6 PROPOSED SAVINGS OPTIONS

Senior Management have adopted the identification and achievement of savings as an integral part of the Council's budget setting process. Work to identify savings starts early in the preceding financial year, ensuring that there is sufficient time to implement full year's savings and to consult with relevant stakeholders.

The savings options identified to date total £1.789m and are detailed in Appendix A3.

7 STAFFING IMPLICATIONS

The Council has recognised that to achieve efficiency savings that minimise the impact on the delivery of front line services there will be a need to reduce staffing numbers, which will inevitably result in redundancies.

Where possible, all employees that could be directly affected by the changes will be notified prior to this report being published. Any savings proposals affecting staff will be closely managed and consultation will take place with all Trade Unions. The Council has a strong commitment to try and minimise the impact on staff and number of compulsory redundancies by utilising natural wastage and providing some training for staff to support this.

8 SUMMARY OF THE 2017/18 BUDGET POSITION

Table 7 summarises the net budgetary position as detailed in this report.

Table 7 – Summary of Budget Position

	Report Table Reference	£'000
Funding Shortfall	Table 6	2,492
Contribution from Investment Fund	Table 6	(500)
Efficiency and Other Savings	Appendix A3	(1,789)

Shortfall		203
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The table shows that there remains a budget shortfall of £203k, which still needs to be resolved.

The Council's Medium Term Financial Plan shows that there will be a requirement to identify further savings of at least £2.1m in 2018/19 and £1.3m in 2019/20 therefore it is considered essential that a balanced budget be set in 2017/18, particularly given that a substantial draw from reserves is already incorporated within the budget proposals.

In order to set a balanced budget there is a requirement to approve all of the savings proposals identified in this report and identify further savings of £203k. Where savings are not deemed to be acceptable alternative savings of an equivalent value will need to be identified.

9 ASSESSMENT

The Revenue Budget for 2017/18 continues to build upon the success of the Financial Strategy, which is now clearly embedded throughout the Council; and the budget efficiency and other savings requirements were identified in the Medium Term Plan well in advance.

As resources become tighter it becomes even more important to ensure that the budgets approved in a year are robust and achievable. Directors and Service Unit Managers receive a high level of support from the finance team however it is acknowledged corporately that the responsibility for setting, monitoring and controlling budgets must lie with the managers and directors responsible for running the services. Directors will be asked to sign off the savings included within this report to confirm that they believe them to be deliverable and both Service Unit Managers and Directors will be required to sign off the final budget figures for their service areas.

Central Government have provided provisional grant settlement figures for the four-year parliamentary period to 2019/20 and, although the principle of a four-year settlement is welcomed and will aid the Council's longer term financial planning, the level of the funding cuts proposed are extensive and show that in cash terms the Council's core annual funding from central government in 2019/20 will be £8.264m (65%) less than the funding received in 2010/11. These funding cuts are exacerbated by the Council's decision to aid its tax payers by freezing Council Tax levels between the periods from 2010/11 to 2015/2016 and forego the associated ongoing revenue streams that Council Tax increases could have secured.

The extent of the Council's budget shortfall each year is not only dependent on cuts in funding, but also by the level of growth required in the revenue budget. The Council has made a concerted effort to reduce the levels of growth included within this year's budget and this is demonstrated by the minimal amounts of additional funding provided for ongoing priority investment; however unavoidable cost and inflationary pressures totalling £1.066m have

been identified and continue to put strain on the budget position. In addition the Council is proposing to borrow further monies to progress essential Coast Protection works across the Borough and this continues to put further strain on the Council's revenue budget. 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.

The Council's Medium Term Financial Plan shows that there will be a requirement to identify further budget savings of at least £2.1m in 2018/19, £1.3m in 2019/20 and it is clear that strong long term financial planning will become increasingly important as funding reduces and resources become scarcer.

The financial forecasts and extent of funding cuts over the period to 2020 demonstrate that the Council will need to fundamentally review how it delivers services in future and 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.

BUDGET PRESSURES

		£
Benefits and Localised Support for Council Tax Administration Subsidy	<p>The Council receives an annual subsidy for Housing Benefit and Local Support for Council Tax Administration. In 2016/17 the grant allocation totalled £622k, for which £124k was for administering the Localised Support for Council Tax (LSCT) Scheme and £498k was for administering the Housing Benefit Scheme.</p> <p>In similar vein to recent years, Central Government have again cut the administration grants to account for efficiency targets. Whilst the Council have not yet received an indication of the LSCT element of the grant from DCLG, it is expected that the Borough Council's award for 2017/18 will be cut to £572k (£115k for administering the Localised Support for Council Tax Scheme and £457k for administering the Housing Benefit Scheme).</p> <p>The reduction in grant funding equates to £50k (8.04%).</p>	50
Recycling costs and income	<p>Under current arrangements the Council has a contract with a third party provider for the disposal of recycling waste. This contract was renewed part way through the 2016/17 financial year. Prior to the contract renewal the Council received a premium of £7.50 per tonne for all recycling material collected (excluding garden waste), however as a result of price reductions in the international markets for recycling materials the Council now incurs a cost for its disposal. Growth of £300k was included in last year's budget, which reflected the part year impact of the change in contract prices. The £100k growth for 2017/18 reflects the full year effect of the price change.</p>	100
Business Rates revaluation	<p>The amounts of business rates payable on commercial properties are periodically revalued nationally to take into account variations in market rents across the country. The last valuation was done in 2010 and a new ratings list will come into effect on 1 April 2017.</p> <p>The draft list, which was received in September, shows that business rates payable on Council owned properties are expected to increase by approximately £0.5m over the period to 2020. This increase will be partially mitigated in the earlier years through transitional relief and will come into effect as follows: £115k 17/18, £186k 18/19, £189k 19/20.</p> <p>The increase primarily relates to significant increases in the rateable value of Council owned car parks and is being queried with the valuation office.</p>	115

		£
Apprentice levy	<p>A new apprentice levy of 0.5% on company pay bills was announced in the 2015 Autumn Statement. The new charge will come into effect in April 2017 and will help with the costs of training new workers. A £15,000 allowance for employers means that the levy will only be paid on employers' bills over £3m.</p> <p>To keep the process as simple as possible the 'pay bill' has been based on total employee earnings subject to Class 1 secondary NICs.</p> <p>Based on the Council's current pay bill, the annual levy will be £65k.</p>	65
Insurance premium tax	<p>Insurance premium tax (IPT) is a tax paid on general insurance premiums and, unlike VAT, is not a recoverable tax. Any increases in the amounts paid therefore lead to increased costs for the council.</p> <p>There have been a number of increases in this rate recently, the first one of which was announced in the 2015 Summer Budget. This saw the rate increase from 6% to 9.5% and was effective from 1 November 2015.</p> <p>The 2016 budget outlined a further increase in IPT with this increase to 10% being effective from 1 October 2016.</p> <p>With the Council incurring insurance costs of over £500k per year, this 4% increase will lead to an additional cost to the Council of £20k.</p> <p>Despite these recent increases, the 2016 Autumn Statement outlined a further rise to 12%. With this not being effective until part way through the year this increase has not yet been reflected within the Council's budget.</p>	20
Transformation	<p>The Council sees transformation as the cornerstone of its efficiency savings programme. A team of business analysts have been identified from within existing staffing resources and have been seconded to the transformation programme with an aim of reviewing and improving current processes.</p> <p>The £34k growth included within the budget reflects the Council's decision to permanently recruit one of the seconded employees into a transformational post. The post that the</p>	

		£
	seconded employee has left will not be back filled therefore this growth has been funded from corresponding staffing savings within the housing benefits unit.	34
Pension – auto enrolment	<p>October 2017 sees the next major phase of the Council's pension auto enrolment obligations. Legislation will see 71 staff members who are not currently part of the Council's workplace pension automatically enrolled into the scheme. Whilst these staff members will have the option of once again opting out, inertia coupled with the continued reminder that retirement planning is important will see many staff members remain in the scheme.</p> <p>The cost of a full take up would be £265k although it is recognised that some officers already have alternative retirement plans in place or do not see a pension as a priority at this stage in their life.</p> <p>In addition to the officers outlined above, there are other staff members who are not currently in the pension scheme but who are in a different part of the 3 year cycle. Take up from this phase will be used to estimate the likely uptake from the remaining employees.</p>	130
TOTAL		514

MEETING PRIORITIES – BASE BUDGET GROWTH

BID	DETAILS	£'000
Increase in revenue contributions to fund capital expenditure and borrowing costs	The council must increase its annual contributions into the Capital Development Reserve to make provision for future projected capital expenditure and borrowing costs, particularly in respect of asset management and coast protection works.	192
Funding for one-off capital works	<p>It is becoming apparent that the funding available to progress one off priorities and essential capital works is diminishing and demand for resources significantly outweighs the funding available. As capital resources are already overcommitted the following revenue contribution is required to fund one-off works in 17/18.</p> <p>Further details of the works that will be progressed with this funding are provided in Appendix B</p>	250
Local Enterprise Partnership	The annual contribution to the Local Enterprise Partnership has been funded from one-off resources and reserves in recent year. This budgetary growth will provide an annual base budget to fund the contribution.	15
Seagulls	<p>Seagulls are becoming an increasing nuisance throughout the Borough and this funding looks to implement a disruption and dispersal programme for herring gulls in specific locations in Whitby and Scarborough.</p> <p>This procedure will use falconry response in conjunction with regular gull egg and nest removal under general license as a method of effective bird control. This makes the area undesirable to the Herring Gulls and encourages them to establish a new pattern of behaviour in another area.</p> <p>Once the Herring Gulls learn that there is a potential predator in the area (and have moved away) only a periodic maintenance program will be required in order to maintain control and to keep a predator presence.</p>	36
TOTAL		493

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
Chief Executive								
General budget savings and removal of vacated posts within Human Resources	Human Resources	28,717			28,717	1.00	Removal of vacated posts and unutilised hours. No impact on service delivery Savings from ongoing transformation reviews on postage, Print Plus and the crematorium. Savings not yet identified therefore classified as medium risk Savings identified on various budget heads including overtime, comms lines and corporate licences Saving resulting from increase in capital salary chargeout rates	
Transformation Savings (Postage, Print Plus and Crematorium)			58,238		58,238			
General budget reductions	IT	16,566			16,566	0.00		
Increase capital recharge budget	Capital & Procurement	8,000			8,000	0.00		
Sub Total Chief Executive		53,283	58,238	0	111,521	1.00		
Director (NE)								
General budget savings and removal of vacated salary posts in Local Taxation	Corporate Finance	27,341			27,341	1.00	Savings delivered through the introduction of more efficient ways of working. No impact on service delivery Savings delivered through the introduction of more efficient ways of working. No impact on service delivery Savings delivered through the introduction of more efficient ways of working. No impact on service delivery Additional income derived from the collection of overpaid housing benefits following continued improvements in working practices and recovery procedures. General budget savings currently being achieved at Scarborough Harbour. No	
General budget savings and removal of vacated salary posts in Transactional Finance	Corporate Finance	13,000			13,000	0.50		
General budget savings and removal of vacated salary posts in Accountancy	Corporate Finance	19,000			19,000	1.00		
Efficient recovery and management of housing benefit overpayments	Corporate Finance	100,000			100,000	0.00		
General budget savings at Scarborough Harbour	Harbours	50,000			50,000			

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
							impact on service delivery	
Refuse Collection and Street Cleansing	Refuse / Cleansing	379,000			379,000		Transformation review is underway. Savings have been agreed with the service area. Savings include the additional income generated from the garden waste scheme and the billing of holiday let properties	
Transformation Savings	Transformation	(120,000)			(120,000)		Transformational savings included in the 2016/17 budget identified from the above review of refuse collection and street cleansing	
Transport	Transport	100,000			100,000		Savings expected to be derived from the modernisation of processes and implementation of the findings from an external review of the Transport Service undertaken in 2015	
Transport	Transport	30,000			30,000		Introduction of MOT facilities at Dean Road Depot	
2% inflationary increase on rental property income targets	Estates	34,000			34,000		Corporate policy to inflate income targets by 2%	
2% inflationary increase on income targets at Scarborough Harbour	Harbours	11,772			11,772		Corporate policy to inflate income targets by 2%	
2% inflationary increase on income targets at Whitby Harbour	Harbours	20,691			20,691		Corporate policy to inflate income targets by 2%	
Public Conveniences Review	Public Conveniences			100,000	100,000	0.00	Savings expected to be derived from a review of public convenience provision across the Borough. Savings classified as high risk as the proposals have not yet been agreed; although negotiations are progressing well	
Rental Income	Estates	25,000			25,000		Based on current income. Over and above the 2% target increase	

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
Remove budget for external contribution for Whitby Industrial Units	Estates	36,866			36,866	0.00	NYCC interest in property expired.	
Increased rental income for Whitby Industrial Units	Estates	8,297			8,297		Based on current income. Over and above the 2% target increase	
2% inflationary increase on income targets in Parks service	Parks	6,168			6,168		Corporate policy to inflate income targets by 2%	
Industrial Units - reduction of general revenue budgets	Estates	9,730			9,730		Reduce historic miscellaneous budgets that have been created from previous rent reviews.	
Town Hall rental income	Estates	17,000			17,000		Based on current income levels being achieved	
Contingency budgets	Corporate	99,780			99,780		Contingency budgets included in previous years no longer required	
Reduce Insurance excess costs	Corporate	20,000			20,000		Reduced insurance excess costs and claims following the historic transfer of the highways agency	
Sub Total Director of Service Delivery		887,645	0	100,000	987,645	2.50		
Director (LD)								
Administration efficiencies	Administration	13,736			13,736	0.50	Removal of residual salary budget and partnership contributions. Post already vacated and partnership no longer exists therefore no impact on service delivery	
Restructure and creation of Information Officer post	Administration	15,043			15,043	0.50	Deletion of post within the establishment along with removal of surplus budgets. Saving partly offset by the creation of an information officer post to address current workloads and slight in increase in hours/grade of a current part time post.	
Removal of vacant salary budget following the transfer of 1 FTE resource to transformation	Housing Benefits	29,505			29,505		Post will be back filled internally	

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
Reductions in admin support to Senior Management Team	Administration	19,822			19,822	1.00	Restructure of support team and reduction of 1 FTE	
Total for Director of Legal & Democratic Services		78,106	0	0	78,106	2.00		
Director (TW)								
Reduced salary budget from partial removal of vacant conservation officer post	Planning	12,000			12,000	1.00	Conservation officer work to be absorbed within existing resources	
Remove unallocated salary budget from reduction in hours in previous year	Planning	8,526			8,526		Saving already implemented. No impact on service delivery	
Remove miscellaneous budgets	Planning	15,357			15,357		No impact on service delivery	
Increase income budget (2% inflationary increase)	Planning	12,492			12,492		None	
Further increase to income budget above inflationary increase	Planning	17,508			17,508		None	
Reduced postage costs by no longer writing to neighbours in respect of planning applications	Planning	5,000			5,000		May receive criticism from affected members of the public. Mitigate by using improved public notices (brighter and more obvious).	
External contribution from Police & Crime Commissioner towards running costs of CCTV centre	CCTV	22,655			22,655		Additional external income. No impact on service	
Reductions in voluntary sector grants	Grants	3,000			3,000		Phase out other voluntary sector grants over a 3 year period. Grants will reduce from the current total of £15k to £12k in 17/18. Details reported to O&S Committee in Oct 16	
Increase in car parking income budgets	Car Parking	200,000			200,000		Increase in car parking income targets to reflect income generated in 16/17. Risks associated with this increase if weather is particularly poor	

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
Reductions in voluntary sector grants to play centres and boxing club	Grants	12,000			12,000		External bodies may be dependent upon funding stream however all affected bodies were made aware of the tapering funding reductions in 2014 to allow them to plan for the transition	
Removal of Customer First resource at Eastfield Library	Customer First	3,900			3,900		Saving due to no longer paying NYCC external rent for our occupancy. Analysis shows that demand for the service is low and resources could be better utilised at the main Customer First site. Decision could impact on the sustainability of Eastfield library.	
Scarborough Market	Markets	60,000			60,000		Reductions in net operating costs following capital investment at Scarborough Market	
Temporary Accommodation	Housing	45,000			45,000		Throughout recent years the Council, alongside Registered Social Landlord (RSL) partners, have undergone various schemes to reduce the requirement to utilise Bed & Breakfasts to provide accommodation for the homeless. These initiatives have taken the form of utilising prudential borrowing and S106 monies to use as match funding with RSL's to assist in the bringing back into use of specific buildings to use as temporary accommodation. As a consequence even though demand for homelessness accommodation has risen the Council's requirement on B& B accommodation has reduced, providing significant savings.	

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
York Housing Association - Kelia Court	Housing	10,000			10,000		The Council pays a fixed annual contribution to York Housing Association for provision of sheltered accommodation at Kelia Court. Budget previously included values for the payment of void losses incurred by the housing association. These have historically been lower than budgeted producing a £10k saving.	
Homeles Prevention Bonds	Housing	50,000			50,000		Repayable bonds previously provided to aid people in finding accommodation, resulting in lower homelessness costs to the council. Saving due to a mixture of being able to utilise DHP discretionary payments and a lower provision on non-repayments of the bonds.	
Staffing savings in outdoor leisure	Outdoor Leisure	40,000			40,000		Reductions in outdoor leisure staffing savings following a review of the service during 2016/17. No impact on service delivery	
Increase in fees and charges at the crematorium	Cems and Crem	20,000			20,000		Fees will increase from £650.50 to £699.50. Part of the additional income generated will be used to increase understated expenditure budgets within the service	
2% inflationary increase on income targets at outdoor leisure attractions and community centres	Outdoor Leisure	20,881			20,881		Corporate policy to inflate income targets by 2%	
2% inflationary increase on income targets at community centres	Customer Services	3,119			3,119		Corporate policy to inflate income targets by 2%	
Closure of Tourist Information Centres	Tourism	50,000			50,000		Year 1 effect of closure of the Council's TIC sites, rental of buildings and refocus of resources. This proposal has already been approved by Members - report reference 15/336 (December 2015).	

EFFICIENCY AND OTHER SAVINGS PROPOSALS

DESCRIPTION	SERVICE AREA	Low Risk	Medium Risk	High Risk	Total	FTE	Comment	Equalities Assessment
							Final figures are being calculated based on anticipated rental receipts etc.	
Total for Director of Business Support		611,438	0	0	611,438	1.00		
Overall Total (excluding those where savings not known)		1,630,473	58,238	100,000	1,788,711	7		

CAPITAL BUDGET

1 INTRODUCTION

This appendix focuses on the Council's Capital Strategy which is underpinned by the Capital Development Reserve and Investment Management Plan.

It provides details of:

- Capital Development Reserve projections
- Investment Management Plan projections
- Additions to the Capital Programme 2017
- Unfunded asset management works
- Unfunded infrastructure works
- Capital Receipts
- Prioritisation of unfunded schemes and funding available

2 CAPITAL DEVELOPMENT RESERVE (CDR)

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. It provides a mechanism by which capital spending is controlled, and ensures that the implications of capital spending in terms of the revenue impact are planned and minimised.

In order for Members to have confidence when making the major strategic decisions required on capital investments, clear direction is required on the availability of resources and the impact of decisions made.

The 2016 Financial Strategy set out that the CDR projections showed a surplus balance over the 10 year period to 2026 of £349k; however the reserve showed overcommitted balances in some of the later years therefore no proposals were made to commit monies from the reserve in 2016/17.

The CDR projections have been rolled forward one year for the 2017 Financial Strategy and show a revised surplus balance over the 10 year period to 2027 of £385k. The reserve does however still show overcommitted

balances in some of the later years therefore the proposals to commit monies from the reserve in 2017/18 have been restricted.

It is proposed that a £90k match funding contribution towards a Stage 2 Heritage Lottery Funding (HLF) Bid for South Cliff Gardens will be funded from the reserve in 2017/18 if the external funding bid is successful.

The Council can only generate more capital resources from increasing its amount of capital receipts or the level of unsupported borrowing. The Council has some schemes that could generate capital receipts in the short to medium term; however at this stage these capital receipts are not certain therefore they are not reflected in the above projections. This should ensure that capital resources are not overcommitted.

3 INVESTMENT MANAGEMENT PLAN (IMP)

Despite significant financial constraints the Council has developed, and continues with, an ambitious investment and regeneration plan for the Borough.

The Investment Management Plan (IMP) provides 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.

In the same way as the Capital Development Reserve identifies the funding available to progress scheduled and essential expenditure the IMP details those monies available and earmarked for regeneration projects.

The following schemes are included or have been delivered through the IMP.

- Waterpark
- Leisure Village
- Whitby Business Park
- Futurist/Town Hall
- Middle Deepdale
- Pindar All Weather Sports Pitch

All monies available in the IMP are fully committed to the above schemes.

4 CAPITAL CONTINGENCY RESERVE (CCR)

The current uncommitted balance on the CCR is £700k and a further £100k contribution will be added to the reserve in 2017/18.

The Council has an extensive capital programme, particularly given the imminent commencement of significant capital schemes such as the Futurist and Coast Protection works, therefore it is deemed prudent to predominantly retain the balance of the reserve at this level.

It is proposed that a £26k contribution towards the resurfacing costs of Scarborough Town Centre be funded from the reserve in 2017/18.

5 ASSET MANAGEMENT SCHEMES

A number of years ago £300k was top sliced from the Council's annual property repair revenue budget and was transferred to the Capital Development Reserve. This reflected that a proportion of the works required to the Council's assets were capital in nature and subsequently should sit within the wider capital programme.

These monies have been continually taken to the reserve and some of the funds have been utilised to progress asset management works. The £300k top sliced from the property repair fund bears no resemblance to the level of capital asset management works required across the Council's property holdings. To inform the 2016 capital budget process, and ensure that all outstanding capital commitments are recognised in the Council's Capital Strategy officers from Estates and Finance undertook an exercise to identify essential and priority maintenance backlogs and any funding sources available to address and progress them.

At the time the exercise was undertaken outstanding and unfunded works totalled £7.308 million up to the period ending 2020. While this is a significant figure it should be considered in the context of the Council's property portfolio which is valued at £192 million. Table 3 below provides a breakdown of the works that are still to be addressed within the Council's budget.

Table 3 – Breakdown of Unfunded Asset Management Works (2016)

Asset	Cost Requirement		Works covered by proposed redevelopments / reviews	Total
	Immediate	Future		
Scarborough Spa		180		1,320
Westwood Car Park		260		260
Town Hall - Civic	487			487
Town Hall – Other			1,876	1,876
Hard Standings		70		70
Total	487	510	1,876	2,873

The funding for the Town Hall Civic building (£487k) has not yet been identified within the budget and it is recognised that this cost must be factored into the Council's future financial plans.

6 INFRASTRUCTURE SCHEMES

In line with the works undertaken on asset management schemes, officers from Finance together with the Council's Coastal Protection Engineers

identified those infrastructure assets and forthcoming coastal defence works requiring funding over the medium term.

The major schemes identified within the review were flood alleviation works at Filey and coastal defence and stabilisation schemes at Scarborough Spa, Whitby Piers and Eskside Wharf. The 2016 Financial Strategy established a fully funded budget of £1.5million to provide match funding towards the works required at Eskside Wharf.

The Council no longer receives 100% grant funding to carry out coastal protection works. New Environment Agency funding regulations dictate that the level of funding offered directly correlates to the level of benefit received. The 2016 Financial Strategy proposed that a capped £3m Council contribution be established to progress essential Coast Protection and flood alleviation works. The £3m contribution was to be funded from borrowing factored into the 2017/18 budget and future capital receipts, in equal proportions. The revenue costs associated with the £1.5million borrowing are incorporated within the budget proposals set out in Appendix A and all surplus capital receipts generated during 2016/17 have been earmarked to fund the remaining £1.5million of the budget along with the Council's share of the 2017/18 Collection Fund surplus. After allowing for these amounts £44k of the £3 million remains unfunded and will be taken as a first call from any surplus capital receipts generated in the remainder of 2016/17 and the 2017/18 year.

As the scheme designs, costings and tendering processes across the various coastal protection schemes have progressed it has become apparent that the proposed £3m capped contribution will not be sufficient to deliver the Whitby Pier stabilisation scheme and the Council's contribution will need to be increased in future years. Works are currently ongoing to procure a specialist consultant who, in turn will procure a contractor and manage the delivery of the Whitby Pier project. The initial part of the consultants works is to project manage the construction tender stage and finalise the design in order to obtain a firm price for the scheme. These design and preliminary investigation aspects of the scheme are fully funded and will continue to be progressed with a view to commencing the stabilisation works in 2019/20. Although funding for the completion of the stabilisation works has not yet been identified the Council remains fully committed to the scheme and will class it as its highest funding priority in future year Financial Strategies.

7 CAPITAL PROPOSALS FOR 2017/18

7.1 PROPOSED ADDITIONS TO THE CAPITAL PROGRAMME IN 2017/18

It is becoming apparent that the funding available to progress one-off priorities and capital schemes is diminishing and demand for resources significantly outweighs the funding available. Given the pressures on the revenue budget it is essential that the Council does not over commit its capital resources, therefore the new schemes proposed for investment in 2017/18 have been restricted to the following:

	SBC Contribution £'000	Funded from
Town Centre Resurfacing	26	Capital Contingency Reserve
South Cliff Gardens	90	Capital Development Reserve
Peasholm de-silting	251	£171k Operational Reserves. £80k One-off revenue resources
Khyber Pass toilets	70	One-off revenue resources
Royal Albert Drive demolition	30	One-off revenue resources
Peasholm essential works	20	One-off revenue resources
Business Park road adoption costs	50	One-off revenue resources
TOTAL EXPENDITURE	537	
Funded from:		
Capital Contingency Reserve	26	
Capital Development Reserve	90	
One off resources*	250	
Operational Reserves	171	
TOTAL FUNDING	537	

* The £250k funding has been made available through a one-off contribution from revenue, as detailed in Appendix A.

In addition the Council will continue to fund the cost of scheduled vehicle and equipment renewals and lighting column replacements from the Capital Development Reserve and be asked to approve the £3m contribution towards Coast Protection schemes.

Further details on the nature of these schemes are provided in Appendix B1.

7.2 UNFUNDED PRIORITY CAPITAL EXPENDITURE

The 2016 Financial Strategy set out that, at that time, the budget did not make provision for Town Hall civic asset management (£487k) works and a further £600k anticipated or cemetery provision across the Borough. This continues to be the case. In addition Section 6 details that the Council's contribution towards Coast Protection works needs to be increased and essential works are also required at Peasholm and the crematorium.

Any future surplus capital receipts or other available monies will be allocated to progress the above schemes in the following order of priority:

- Essential works at Peasholm (required to maintain income streams)
- Priority works at the Crematorium (required to maintain income streams)
- Additional contribution to Coast Protection works
- Cemetery provision
- Town Hall Civic asset management works

It is proposed that an interim budget report be produced following the finalisation of the 2016/17 outturn position to allow some of the above schemes to be progressed.

8 **POTENTIAL RESOURCES FOR UNFUNDED CAPITAL EXPENDITURE**

Business Rates Pool Dividend and Collection Fund Surplus

The Council is a member of the North Yorkshire Business Rates Pool and receives a dividend from the pool if the net business rates income generated by pool members is in excess of baseline targets in any one year. The 2016 Financial Strategy did not commit the potential 2016/17 pool dividend due to the uncertainties relating to the settlement of business rate appeals across the pool and stated that any dividend received will be earmarked for the Investment Management Plan or to reduce future year borrowing requirements. This continues to be the case for the potential 2017/18 dividend.

The value of the 2016/17 pool dividend will not be known until the accounts are finalised in June 2017. Original estimates showed a potential dividend of £400k, however this assumes that settled appeals are in line with estimate. To ensure that resources are not overcommitted dividends will not be allocated to schemes until they are realised.

The budget setting process for 2017/18 requires the Council to estimate the surplus or deficit position on its Business Rates Collection Fund. Due to uncertainties relating to the likely outcome of prior year's appeals and the effects of the 2017 business rates revaluation it is not possible to calculate the value of the surplus or deficit at this stage.

Upfront prepayment of pension fund contributions

Following the 2016 triennial pension valuation the Council is exploring the opportunity of prepaying the next 3 years back-funded element of pension scheme contributions during 2017/18. The other options available to the Council are monthly payments over the three year period or annual payments in April of each year (which was the option chosen for the last three years).

The table below outlines the cash payments that would be made under each of the three scenarios:

	Total cash payment	Saving vs monthly option
Paid monthly	5,632,000	
Paid annually in advance	5,512,000	120,000
Paid 3 years in advance	5,278,100	353,900

Whilst making a one payment would generate cash savings of £353,900, funding this upfront payment would lead to lower cash balances (and therefore lower interest receipts during the period). Once the reductions in interest receipts are taken into account, the revenue saving over the period would be £267k (this would reduce significantly should the Council need to borrow to fund the upfront payment).

Officers are currently looking at whether the Council has the powers to make advance pension contribution payments and are liaising with the external auditors to ensure that they agree with the accounting treatment of any such payment. Should the decision be made to prepay the backfunded element as one lump sum in 2017/18, and the Council has sufficient cash balances to fund the payment without borrowing, then £267k would be available for one-off priority funding bids over the three year period.

One off Treasury Management Savings

In recent years the Council has increased its borrowing requirement to fund a number of capital schemes. The revenue budget was prepared on the basis that the Council would borrow external monies from the Public Works Loan Board to fund this expenditure and would incur interest payments of up to 2.5% on this borrowing.

Due to the particularly low interest rate environment it has been cost effective in the short term for the Council to utilise cash balances, which are only yielding returns of up to 0.75% when invested, to provide a share of the required funding rather than take out external borrowing. This, coupled with some slippage in the timings of the capital expenditure being incurred, may result in one-off treasury management savings within the 2017/18 budget.

Capital Receipts

The Capital Development Reserve matches the various sources of capital funding available on a scheme by scheme basis. Capital receipts provide a key source of funding for capital investment purposes. From 2018/19 onwards the only capital receipts factored in 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 holds some plots of land which may generate capital receipts in the short to medium term. Any such receipts are not reflected in the Council's capital projections, which should ensure that resources are not overstated and committed prior to the capital receipts being obtained.

The first call on any future capital receipts will be to fund the priority schemes set out within Section 7.2.

9 CAPITAL RESERVE LIST

The following schemes will be included on the Council's capital reserve list and will be progressed should resources allow, once the schemes detailed in Section 7.2 have been addressed:

- Resurfacing works at Dock End Whitby
- Contribution towards sports facilities in Filey

10 **ASSESSMENT**

It is clear that the Council has insufficient capital resources to meet current demand. The only way the Council can increase its capital resources is to generate capital receipts or increase its levels of unsupported borrowing. The costs of borrowing impact on the Council's revenue budgets, which are already under pressure due to the ongoing funding cuts.

The first call on any future capital receipts or available monies will be to fund the priority schemes listed in Section 7.2.

CAPITAL EXPENDITURE PROPOSED FOR INCLUSION IN 2017/18

SCHEME	TOTAL COST £'000	DETAIL
PLANNED INFRASTRUTURE		
Contribution towards Coast Protection and flood alleviation works	3,000	<p>The Council no longer receives 100% grant funding to carry out coastal protection works. New Environment Agency funding regulations dictate that the level of funding offered directly correlates to the level of benefit received. The 2016 Financial Strategy proposed that a capped £3m Council contribution be established to progress essential Coast Protection and flood alleviation works. It was intended that the principle schemes that would be progressed with this funding would be Filey flood alleviation works and coastal protection and stabilisation works at Scarborough Spa and Whitby Piers.</p> <p>As the various scheme designs, costings and tendering processes have progressed it has become apparent that the proposed £3m capped contribution will not be sufficient to deliver the Whitby Pier stabilisation scheme and the contribution will need to be increased in future years.</p> <p>Works are currently ongoing to procure a specialist consultant, who will be employed to procure a contractor and manage the delivery of the Whitby Pier project. The initial part of these works is to project manage the construction tender stage and finalise the design in order to obtain a firm price for the scheme. These design and preliminary investigation aspects of the scheme are fully funded and will continue to be progressed with a view to commencing the stabilisation works in 2019/20. Although funding for the completion of the stabilisation works has not yet been identified the Council remains fully committed to the scheme and will class it as its highest funding priority in future year Financial Strategies.</p>
OTHER PRIORITY SCHEMES		
<ul style="list-style-type: none"> Scarborough Town Centre Resurfacing 		North Yorkshire County Council (NYCC) as highways authority are carrying out resurfacing works in Westborough and Newborough. NYCC proposed to lay black tarmac in the centre strip, with stone slabs on each side going to the building line. Following consultation with NYCC it was considered that

	26	colouring the tarmac in a buff colour would be more aesthetically pleasing. This change in proposal will lead to an increase in budget for NYCC so agreement has been reached for SBC to provide a contribution of £26k, which will result in a significantly improved appearance.
<ul style="list-style-type: none"> • South Cliff Gardens 	90	Previous approval was granted (ref 16/49) to enable the submission of a stage 1 bid to the Heritage Lottery Fund for South Cliff gardens. If successful the bid will require a £90k match funding contribution towards the stage 2 costs, which will result in the completion of a full scheme design and funding bid, and aim to attract external funding of up to £5m. Current allocations for environmental enhancements to the gardens exist within the Spa Coastal Defence scheme and these allocations could be used as match funding towards the further £5m funding application, allowing a scheme of works significantly in excess of the like for like reinstatement currently provided for.
<ul style="list-style-type: none"> • Peasholm de-silting works 	251	<p>Peasholm lake was last dredged in 2004 and at that time 4,950m³ of silt was removed. The dredging was triggered following an incident occurring with one of the warfare boats, which suggests that the trigger level is lower than this point. Current estimates suggest that there are currently 3,100m³ of silt in the lake.</p> <p>In addition to the dredging of the lake, it would be prudent to undertake works to the silt ponds in Manor Road Park and to the Woodlands Ravine Watercourse. These works would reduce the levels of silt reaching the Peasholm Lake and would hopefully extend the life of the dredged lake.</p> <p>Annual contributions are made into a specific reserve to fund the cyclical costs of dredging the lake and to date £171k is available. The estimated costs of the above scheme are £251k and therefore a one-off capital budget of £80k is required to fund the shortfall.</p>
<ul style="list-style-type: none"> • Khyber Pass toilets 	70	Members approved (ref 16/288) the freehold disposal of the existing public convenience building at Khyber Pass together with acceptance of a tender for the construction and internal fit out of a new, alternative public convenience facility. The capital budget required for the construction and fit out of the new facility is £250k to be partially funded from the anticipated capital receipt of £180k. A net funding requirement of £70k is therefore required in order to provide these new facilities.

<ul style="list-style-type: none"> Royal Albert Drive demolition 	30	<p>Following disposal of the long leasehold interest in the site (ref 16/269) a further report to Members in January 2017 (ref 17/11) recommends the demolition of the retail and toilet facilities to provide a clear site. The provision of a cleared site will prove more attractive to potential developers. A budget is therefore required to cap off all related utility services and carryout the demolition including all related fees.</p>
<ul style="list-style-type: none"> Peasholm essential works 	20	<p>Works are required at Peasholm Park to replace the boating deck which is failing due to being a timber construction in a wet environment. Subject to funding being available, this work will be undertaken at the end of the 2017 season.</p> <p>To ensure that the boat deck can continue to be operational during 2017, preseason works are required to replace some of the timbers and underlying beams. Without these works the boat deck may have to close which would result in a loss of income from Peasholm activities.</p>
<ul style="list-style-type: none"> Scarborough Business Park road adoption costs 	50	<p>Remedial works are required within the Scarborough Business Park in order to achieve a standard to which NYCC will formally adopt the road. Once formal adoption is agreed all future maintenance of the road will be the liability of NYCC and not SBC as currently. Remedial works are required to address damage to the base road caused through ground movements, together with general deterioration caused to the road and related signage through everyday vehicle usage.</p>

APPENDIX C

PARISH	Tax Base adjusted for non collection
AISLABY	148.56
AYTON EAST	587.43
AYTON WEST	363.66
BARNBY, ELLERBY & MICKLEBY	122.74
BORROWBY, ROXBY, NEWTON MULGRAVE	79.57
BROMPTON	217.50
BURNISTON	595.54
CAYTON	878.89
CLOUGHTON	284.77
DANBY GROUP	706.79
EASTFIELD	1,156.68
EGTON	204.65
ESKDALE CUM UGGLEBARNBY	989.70
FILEY	2,985.28
FOLKTON	184.72
FYLINGDALES	686.05
GLAISDALE	470.87
GOATHLAND	229.62
GRISTHORPE & LEBBERSTON	228.07
GROSMONT	156.42
HACKNESS & HARWOOD DALE GROUP	205.05
HAWKSER CUM STAINSACRE	277.42
HINDERWELL	801.28
HUNMANBY	1,107.81
HUTTON BUSCEL	143.36
HUTTON MULGRAVE & UGTHORPE	98.41
IRTON	140.81
LYTHE	262.57
MUSTON	124.08
NEWBY & SCALBY	3,571.22
NEWHOLM CUM DUNSLEY	107.18
OSGODBY	476.64
REIGHTON	159.52
SEAMER	1,468.11
SNAINTON	367.63
SNEATON	77.38
STAINTONDALE	142.61
WHITBY	4,796.50
WYKEHAM	100.82
SCARBOROUGH	11,917.78
TOTAL	37,623.69

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	January 2016	That the Council does not set a robust budget	Potential overspends and unforeseen draws from reserves.	Review of savings proposals to ensure that they are achievable. Regular programme of budget monitoring Responsibility for achieving savings allocated to members of the Senior management team.	B4	B4	Director of Business Support / Corporate Finance Manager	None
2	January 2016	That the Council's medium to long term budget provision is not sustainable	Cuts in front facing and priority services	Strong Financial Strategy and embedding of a 5 year Medium Term Financial Plan which identifies savings targets at an early stage.	D4	D4	Director of Business Support / Corporate Finance Manager	None
3	January 2016	That capital resources are overcommitted	Increases in the required levels of borrowing Increased pressure on the revenue budget	Long term capital plan Capital contingency Reserve	B4	B4	Director of Business Support / Corporate Finance Manager	None

Glossary of Terms

Risk	An event which may prevent the Council achieving its objectives
Consequences	The outcome if the risk materialised
Mitigation	The processes and procedures that are in place to reduce the risk
Current Risk Score	The likelihood and impact score with the current mitigation measures in place
Corporate Objectives	An assessment of the Corporate Objectives that are affected by the risk identified.
Target Risk Score	The likelihood and impact score that the Council is aiming to achieve
Service Unit Manager	The Service Unit or Officer responsible for managing the risk
Action Plan	The proposed actions to be implemented in order to reduce the risk to the target score

Risk Scoring

Impact	5					
	4					
	3					
	2					
	1					
		A	B	C	D	E
	Likelihood					

Likelihood:

- A = Very Low
- B = Not Likely
- C = Likely
- D = Very Likely
- E = Almost Certain

Impact

- 1 = Low
- 2 = Minor
- 3 = Medium
- 4 = Major
- 5 = Disaster