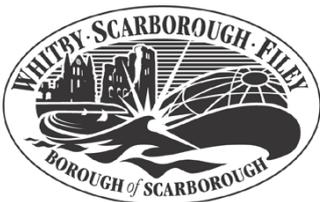


'A Item'

	REPORT TO CABINET TO BE HELD ON 13 FEBRUARY 2018	
	Key Decision	YES
	Forward Plan Ref No	
Corporate Priority: Meets all Corporate Priorities	Cabinet Portfolio Holder	Cllr Helen Mallory

REPORT OF: DIRECTOR (NE) – 18/36

WARDS AFFECTED: ALL

**SUBJECT: DRAFT FINANCIAL STRATEGY 2018 – 2028 AND
DRAFT ASSET MANAGEMENT MAINTENANCE STRATEGY
2018 - 2028**

RECOMMENDATION (S):

That Cabinet note:

- i. the feedback received to date from the budget consultation;
- ii. the updated Treasury Management Strategy and Annual Investment Strategy for 2018/19, with the principal amendments:
 - Increased maximum investment limit per individual English and Welsh Local Authority from £7 million to £10 million;
 - Increased maximum investment limit for Police and Fire Authorities from £2.0 million to £2.5 million;
 - Increased maximum investment limit for Scottish Local Authorities from £2.0 million to £2.5 million;
 - Reduction in the minimum sovereign credit rating from AA+ to AA.

That Cabinet Recommend to Council:

- i. The approval of the Financial Strategy, specifically:

- the Revenue Budget for 2018/19;
 - a Council Tax increase of £6.62 for a Band D property (2.99%);
 - the Capital Budget and proposed new schemes for 2018/19;
 - the optimum levels of reserves for 2018/19;
 - the Treasury Management Strategy and Prudential Indicators;
 - the Council's Pay Policy Statement contained, as required under Section 38 (1) of the Localism Act 2011;
- ii. The approval of the Asset Management Maintenance Strategy 2018 – 2028;
- iii. The fees and charges administered by the Council's Environment and Regulation service, as itemised in Appendix D, which will come into effect on 1 April 2018.

REASON FOR RECOMMENDATION(S):

Full Council must approve the 2018/19 budget and associated Council Tax level and fees and charges, which are incorporated within the Financial Strategy, at its meeting on 2 March 2018.

HIGHLIGHTED RISKS:

That the Council does not set a robust budget in 2018/19 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 2018-2028 will be presented to Full Council for approval in March.
- 1.2 The key proposals for the revenue and capital budget were presented to Cabinet at its meeting in January 2018. These included the proposed revenue budget including investment in priority areas, capital investment proposals, efficiency and other savings proposals, and associated Council Tax increases.
- 1.3 Cabinet were asked to agree that officers enter into a period of consultation on the budget proposals, in advance of the Financial Strategy being presented to Full Council in March 2018.
- 1.4 The purpose of this report is to:
- Set out the draft Financial Strategy; which includes the proposed budget and Council Tax levels for 2018/19 as endorsed by Cabinet in January, the Treasury Management Strategy, Prudential Indicators and Pay Policy;
 - Summarise any changes made to the draft capital and revenue budget proposals since they were presented to Cabinet in January; and

- Summarise the feedback received to date 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 D** to this report. **A completed, finalised version of this Strategy will be presented to Full Council for approval in March; however, the content in the final version will not change significantly.**

- 3.1.2 The Strategy incorporates the draft revenue and capital budget proposals as endorsed by Cabinet at its January meeting, along with the Treasury Management Policy, Reserves and Balances recommendations, Prudential Indicators and Pay Policy for 2018/19.

3.2 REVENUE BUDGET PROPOSALS

- 3.2.1 The following changes have been made to the revenue budget proposals appendix since they were reported to Cabinet in January:
- The retained business rates growth figures have been updated for 2018/19, based on the NNDR1 form which was submitted on 31 January 2018. After accounting for the 50% levy the Council's share of retained business rates in 2018/19 is projected to be £1.3656m higher than the Council's business rates funding baseline, assuming that appeals will be settled in line with a 4.7% national average figure that the DCLG incorporated in the localised business rates scheme figures. £770k of this additional funding had already been committed to balance the revenue budget. The remaining surplus may be required in part to establish contingency sums to mitigate against higher than anticipated business rates appeals and any residual amount will be earmarked for investment in the Capital Strategy;
 - The Council's projected business rate pool dividend for 2018/19 is in excess of £0.5m, however this is predicated upon each authority within the pool achieving their business rates targets. As this is outside of the Council's control the dividend has not been committed within the Council's budget proposals. The dividend will be earmarked for investment in the Capital Strategy once the outturn position can be determined with more certainty;

- Consideration will be given to utilising part of the uncommitted business rates surpluses to balance the remaining £370k funding gap for 2019/20. The 2020/21 funding gap projections are currently highly uncertain as they will be subject to the outcome of the Fair Funding Review and the resetting of business rate income baselines. No further work will be undertaken to balance the residual funding gap for 2020/21 until the likely outcome of the Fair Funding Review can be projected with more certainty;
- The final Collection Fund Surplus for Council Tax was calculated as £171k. £135k of this amount had already been committed within the revenue budget. The remaining £36k will be earmarked for one-off investment in the Capital Strategy.

3.3 THE LOCAL GOVERNMENT FINANCE SETTLEMENT

3.3.1 The provisional Local Government Finance Settlement (LGFS) for 2018/19 was announced to Parliament in December 2017. The budget proposals included within the draft Financial Strategy reflect those provisional figures.

3.3.2 The final LGFS figures will be published imminently. It is considered unlikely that the final LGFS figures will be significantly different from the provisional figures and experience shows that the final figures are usually a slight improvement on the provisional allocations.

3.4 CAPITAL BUDGET

3.4.1 The capital budget proposals remain in line with the draft proposals presented to Cabinet in January.

3.5 CONSULTATION FEEDBACK

3.5.1 In January Cabinet agreed that Officers should enter into a period of consultation on the draft 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 resident's 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 and members.

3.5.2 The consultation period runs to the 19th February. To date 84 responses have been submitted via the web based budget consultation page.

3.5.3 The key opinions and queries noted from the feedback are attached at Appendix A. A full summary of the consultation responses received to the end of the consultation period will be provided within the March Council report.

3.8 RESERVES

3.8.1 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 2017 levels and all reserves exceed their predetermined minimum balances.

3.9 PAY POLICY STATEMENT 2018/19

3.9.1 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.

3.9.2 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.

3.9.3 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.

3.9.4 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.

3.10 TREASURY MANAGEMENT

3.10.1 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.

3.10.2 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. In addition, as the ownership of financial institutions is complex and so that the Council is not over-exposed to 'ownership risk' a maximum Group investment limit has been implemented. This provides an extra layer of security to minimise the investment exposure.

3.10.3 A review of the minimum credit criteria and maximum investment limits applicable to counterparties has been conducted and the principal amendments made are detailed in the recommendation above.

3.11 ASSET MANAGEMENT MAINTENANCE STRATEGY

3.11.1 Following the divergence of Asset Management and Estates & Strategic Land this strategy now focuses on the maintenance elements of the Council's property, hard grounds and external lighting which fall within the remit of the Asset Management Service. This is the first presentation of the document and it will be subject to an annual review to ensure the most up to date information and methodology is reflected.

3.12.1 Estates & Strategic Land are presently developing a Strategy focusing on property rationalisation and commercial property investment, which will be presented to Members in due course.

4. CONSULTATION

4.1 See section 3.5

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 and key messages are as follows:

Revenue

- Current projections anticipate a revenue budget funding gap of £5.2m over the 3 year period to 2021;
- The strategy for addressing the funding gap continues to build on the themes of the existing Efficiency Plan, which are as follows:
 - Transformational Efficiencies and Commercialisation
 - Investment to support Economic Growth

- Strategic review of the Council's role in the delivery of services and use of assets; and
 - Planned use of reserves and Investment Fund
- The headline details for the 2018/19 budget are as follows:
 - A Council Tax increase of 2.99% (£6.62 for a Band D Property), leading to a Council Tax requirement of £8.663m;
 - Proposed efficiencies/savings totalling £2.122m;
 - The balancing of the budget will rely on a £200k contribution from reserves;
 - £129k mainstream budget provision for the following essential and priority investment:
 - £86k to increase contributions to the capital programme
 - £28k to reduce income from street trading
 - £15k to provide increased security at the Open Air Theatre;
 - £140k one-off funding for the following priority investments:
 - £70k to provide enhanced grass cutting across the Borough;
 - £20k for Armed Forces Day
 - £50k for a Community Investment Fund
 - The 2019/20 and 2020/21 budget savings will be largely focussed around the Council's transformation and commercialisation programme.

Capital

- The new capital schemes / contributions recommended for approval in 2018/19 are as follows :-
 - **Scheduled Vehicle and Equipment Replacements** (vehicles £336k, equipment £138k, IT £189k)
 - **Planned Infrastructure Works** (£100k replacement lighting columns)
 - **Statutory Requirements** (£1.35m Disabled Facilities Grants)
 - **Other** (£100k feasibility pot to develop capital schemes, £37k crematorium office space, £200k for replacement paving at Dock End, Whitby, £600k for a 3G pitch at Whitby, £200k for a contribution towards sports facilities in Filey)
- The Council will have an extensive capital programme in 2018/19 given the commencement of significant capital schemes such as the Futurist demolition and coast protection works, therefore additional contributions have been made to the Capital Contingency Reserve to bring the uncommitted balance up to £750k;
- The Council is keen to pursue commercial opportunities, which can generate financial returns to support the revenue budget. To support this the Financial Strategy factors in new borrowing of £12m over the 2018/19 and 2019/20 financial years and the revenue budget projections assume a net 5% return on this investment after funding the associated financing costs. This expenditure

will be allocated and governed in accordance with a separate Commercial Investment Strategy or may alternatively be used to provide Invest to Save funding for schemes that meet the Invest to Save criteria set out in Appendix C to the Financial Strategy;

- Capital budgets do not currently make provision for the following:
 - Essential maintenance and infrastructure backlog works;
 - Additional contributions to address issues with cemetery provision across the Borough

- There are a number of funding sources that are not currently committed within the budget proposals. The monies available from those sources will be utilised to develop a robust, long term capital investment strategy for the Council. The Strategy will integrate with the Council's revenue budget projections as well as the Property Asset Management Plan, Commercial Investment Strategy and Priority Projects Plan which are all currently being developed and drafted. The Capital Strategy will be subject to further reports to Members during 2018.

Reserves

- All reserve ranges are deemed to be adequate

Policies

The Financial Strategy contains the following Policies and Statements:

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

Any staffing changes resulting from the budget proposals will be closely managed and consultation will take place with Trade Unions. The Council has a strong commitment to try to minimise the impact on staff and number of

compulsory redundancies by utilising natural wastage and providing some training for staff to support this.

6.5 Planning Implications, Environmental Implications, Crime and Disorder Implications, Health and Safety 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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Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	February 2018	That the Council does not set a robust budget in 2018/19	Potential overspends and unforeseen draws from reserves in 2018/19.	<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 ▪ Transformation Team and Board governance structure 	B4	B4	HFAM / CFM / CE	None
2	February 2018	That the decisions made in 2018/19 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 2018	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. Transformation Programme	D4	D4	Director of Business Support / Corporate Finance Manager / Chief Executive	None
4	February 2018	That the Council's capital resources are insufficient to fund	<ul style="list-style-type: none"> ▪ Health and Safety issues. ▪ Increases in the cost 	<ul style="list-style-type: none"> ▪ Capital schemes included for approval are restricted and some 	D4	B4	HFAM / CFM	Prepare Capital Investment

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
		essential and desirable capital works	<ul style="list-style-type: none"> ▪ of responsive repairs ▪ Increases in unsupported borrowing ▪ Pressure on future year revenue budgets 	<ul style="list-style-type: none"> ▪ resources remain uncommitted. ▪ Comprehensive Capital Investment Strategy to be presented to Members in 2018 				Strategy
4	February 2018	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 ▪ Transformation and Commercialisation agenda 	E4	E2	DT / HFAM	Prioritisation of services and medium to long term strategy for budget reductions.
5	February 2018	The Council's share of localised business rates income is negatively affected as a result of successful appeals being higher than the national average.	<ul style="list-style-type: none"> ▪ Less resources for the Council ▪ Higher level of savings needed to balance future year budgets 	<ul style="list-style-type: none"> ▪ Close liaison with the Valuation Office ▪ Business rate surpluses not fully committed ▪ Potential establishment of contingency budgets 			CFM	Review the national and local level and success of appeals