# Financial Strategy

## *(Corporate Business Plan)*

## Supporting the Council's Vision and Key Priorities

**CONTENTS**

## EXECUTIVE SUMMARY

Financial Management is essential in achieving good corporate governance, and underpins service quality, improvement, and accountability. It supports effective performance and the achievement of organisations aims.

Financial Planning is integral to an organisations strategic planning process.

The Council has put in place a fully integrated financial strategy that seeks to ensure long-term financial stability, the achievement of value for money, and funding for priorities. This Financial Strategy updates the previous Strategy, which was approved by Council in February 2009.

The focus of this Financial Strategy is on long term planning, and decision making for the future. Whilst the Strategy includes specific proposals for the 2010/11 revenue budget, there should not be an over concentration on just one years budget. This Strategy seeks to avoid year on year budget setting, and use of short term/one off measures to balance the budget. It is a Strategy for the future, to ensure effective resource planning and the delivery of Corporate Objectives.

To achieve the successful delivery of this financial strategy will require an understanding within the senior levels of the organisation of the collective responsibilities for the stewardship and use of resources.

The Financial Strategy seeks to achieve the following **Objectives**: -

1. **Budgets are prudent and sustainable in the long term,**

2. **Financial plans recognise corporate priorities and objectives,**

3. **Significant risks are identified, and factors to mitigate against risks are identified,**

4. **The Capital Programme is planned over a 10 year period, with "unsupported" borrowing minimised, other than where there are clear financial or economic benefits for the Renaissance of the Borough,**

5. **Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account,**

6. **Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the financial plans, recognising that these increases may be subject to change.**

7. **Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council,**

8. **Value for money and achievement of improved efficiency and service delivery underpin the Financial Strategy, and the outcomes of investment made in priority areas are evaluated**

9. **The Financial Strategy supports the achievement of excellence in financial management and Use of Resources.**

The **Headline Proposals**, which seek to support these recommendations, are as follows:-

- The proposed revenue budget for 2009/10 of **£21,271,040**
- The proposed increase in Council Tax for the Borough Council element, of **2.0%** (increase of £4.14 per year per Band D Property) (note the total Council Tax, including County Council, Fire and Police is covered within the separate Council Tax Setting report to Council).
- Proposed efficiencies/savings from Heads of Service totalling **£1,096,630**
- Corporate efficiencies/savings of **£290,000.**
- Additional budget provision for the following priority areas: **£276,000** to fund the Spa Redevelopment, **£150,000** for Disabled Facilities Grants, **£109,500** for the Open Air Theatre, **£40,000** for the Futurist Theatre, **£10,000** towards the planning stage of the Barrowcliff Blueprint**, £75,000** towards various initiatives in the Benefits service to help mitigate against the impact of the recession, **£31,200** towards Night Marshalls, **£40,500** to extend the Anti Social Behaviour and Neighbourhood Regeneration posts, **£31,500** for enforcing fire safety standards.
- Funding from the Value for Money Reserve for the 2010/11 year for the following areas: **£35,000** for a Sustainability Officer, **£50,000** for the Local Development Framework, **£22,000** for an Asset Management Healthcheck, **£20,000** for the Groundwork Trust.
- Proposed capital expenditure as follows :-
  - Additional new general capital schemes totalling **£1.28 million**
  - Additional new Invest to Save Schemes totalling **£0.15 million**
  - Enhancements to IT technology of **£0.343 million**
  - Investment in Vehicles, Plant and Equipment in 2009/10 of **£1.116 million**
  - Additional new asset management schemes of **£0.175 million**
- The proposed Invest to Save Strategy
- Treasury Management Policy Statement
- Prudential Indicators and Minimum Revenue Provision Policy
- The Chief Finance Officers Statutory Statement, which Council are asked to note and endorse the comments contained within.

This Financial Strategy represents how the Council plans its resources over the long term. The Strategy provides the base to enable the Council to move forward positively over coming years. However, a significant amount of ongoing work will be required to put the Strategy into action, and ensure resources are effectively managed and aligned with priorities.

## 1. PURPOSE AND SCOPE OF THE FINANCIAL STRATEGY

The Financial Strategy sets out the overall shape of the Council's budget by establishing how available resources will be allocated between services, reflecting Council and community priorities, and therefore providing a framework for the preparation of annual budgets.

In particular it:

- sets out the Council's medium term financial aims and the measures to be taken to ensure they will be achieved;

- sets out the Council's approach to delivering improved services and value for money over the next few years;

- describes the Council's arrangements for developing the medium term financial plan, including:
  - The identification and prioritisation of spending needs;
  - The key financial influences on our medium term financial planning and the assumptions made in developing the plan;
  - The challenges and risks associated with the plan and how we will deal with them.

- sets out the Council's policy on reserves and balances.

- identifies the resource issues and principles, which will shape the Council's financial strategy and annual budgets.

The Financial Strategy covers all revenue and capital spending plans

## 2. LINKS WITH OTHER STRATEGIES AND PLANS

The Council's financial strategy and plan is linked with and supports service priorities and the Council's other strategies and plans. These include:

- The Community Strategy
- The Council's Corporate Plan
- Asset Management Plan
- The IT Strategy and Work Programme
- The Procurement Strategy
- The Treasury Management Strategy
- The HR Strategy and other related HR policies

## 3. LOCAL AND NATIONAL PRIORITIES

The Council's Corporate Plan sets out our vision, mission and key aims for the next five years and explains how it plans to achieve them.

Our vision is

**"to achieve the Renaissance of the North Yorkshire Coast by 2020."**

This will be achieved through our five key aims:

**Aim 1 Developing Safer and Stronger Communities**
**Aim 2 Building Prosperous Communities**
**Aim 3 Creating Healthy and Vibrant Communities**
**Aim 4 Creating Quality Environments**
**Aim 5 Improving the Council**

Within each aim are a number of priorities, which have been chosen following consultation with the local communities. The top priorities are:

- **Reducing Crime and Disorder**
- **Encouraging Economic Growth and Job Creation**
- **Ensuring Affordable and Decent Homes**
- **Enhancing Public Spaces and Parks**
- **Improving the Performance of our Services and ensuring they provide Value for Money**

The Council's medium term financial planning is driven by these priorities. By integrating the development of the budget and financial plan with these priorities we seek to ensure that resources have been allocated to deliver the corporate priorities, in a robust and sustainable manner.

The Financial Strategy also seeks to make links with national priorities. In considering any proposals for investment the links to national priorities are considered.

By planning over a number of years the Financial Strategy aims to ensure that local and national priorities are delivered in the long term, and service improvement and realignment is planned in an effective manner.

## 4. THE FINANCIAL CONTEXT

The Councils current revenue spending and funding is summarised below:

| 2009/2010 Estimate | | Cost of Borough Services | 2010/2011 Estimate | |
|---|---|---|---|---|
| | | | | |
| Gross Expenditure £000 | Net Expenditure £000 | Service | Gross Expenditure £000 | Net Expenditure £000 |
| 11,495 | 1,399 | Central Services to the Public | 11,701 | 1,604 |
| 4,502 | 4,376 | Democratic and Corporate Core | 4,155 | 4,031 |
| 10,149 | 6,693 | Environmental Health | 10,247 | 6,568 |
| 5,205 | 2,916 | Refuse Collection | 5,205 | 2,884 |
| 11,534 | 6,956 | Leisure & Culture | 11,671 | 7,218 |
| 32,199 | 1,787 | Housing Services | 31,767 | 1,374 |
| 2,959 | 1,372 | Planning | 2,956 | 1,470 |
| 8,773 | (21) | Highways, Roads and Transport Services | 9,181 | (269) |
| 10,100 | (4,529) | Other Services | 10,779 | (3,609) |
| 96,916 | 20,949 | Budget Requirement | 97,662 | 21,271 |

| 2009/10 £000 | Financing | 2010/11 £000 |
|---|---|---|
| 12,354 | Revenue Support Grant | 12,502 |
| 8,595 | Scarborough Council Precept | 8,769 |
| 20,949 | Budget Requirement | 21,271 |

The following table summarises the total Capital Expenditure and the Council's Investment in the Borough.

**Capital Expenditure**

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | 2012 - 2020 £000 | Total £000 |
|---|---|---|---|---|---|
| Priority Schemes | 8,163 | 10,610 | 1,171 | 7,904 | 27,848 |
| Asset Management Budget | 187 | - | - | - | 187 |
| Vehicle Plant and Equipment | 1,259 | 1,116 | 531 | 8,899 | 11,805 |
| Coast Protection | 651 | 1,556 | - | - | 2,207 |
| Information Technology | 1,017 | 343 | 370 | - | 1,730 |
| Invest To Save | 211 | 235 | - | - | 446 |
| Total Expenditure | 11,488 | 13,860 | 2,072 | 16,803 | 44,223 |
| Financed From: Grants and Contributions | (3,315) | (7,589) | (421) | (2,568) | (13,893) |
| **Net Cost to Council** | **8,172** | **6,271** | **1,652** | **14,235** | **30,330** |

**Revenue Spending from Capital Resources**

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | 2012 - 2020 £000 | Total £000 |
|---|---|---|---|---|---|
| Priority Schemes | 1,014 | 111 | 93 | 35 | 1,253 |
| Asset Management | 416 | 175 | - | - | 591 |
| Coast Protection | 2,698 | 1,793 | - | - | 4,491 |
| Invest to Save | - | 67 | - | - | 67 |
| Total Expenditure | 4,128 | 2,146 | 93 | 35 | 6,402 |
| Financed from: Grants and Contributions | (2,783) | (1,849) | (44) | - | (4,676) |
| **Net Cost to the Council** | **1,345** | **297** | **49** | **35** | **1,726** |

**Summary**

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | 2012 - 2020 £000 | Total £000 |
|---|---|---|---|---|---|
| Total Expenditure in Capital Programme | 15,616 | 16,006 | 2,165 | 16,838 | 50,625 |
| Total Financing from Grants and Contributions | (6,098) | (9,438) | (465) | (2,568) | (18,569) |
| **Total Council Investment** | **9,518** | **6,568** | **1,700** | **14,270** | **32,056** |

Further details of the expenditure and financing, on a scheme-by-scheme basis, are provided of the capital programme within Appendix 'H'

## 5. CURRENT ISSUES

### *External Influences*

As Council Tax pays for only 41% of the Council's revenue spending most of the Council's resources come from central government and, consequently, our Financial Strategy is to some extent shaped by factors outside our immediate control. However, there are many facets to an effective Financial Strategy, and the Council must ensure it proactively manages its resources with a view to ensuring robust financial planning that delivers Council priorities.

### *Comprehensive Area Assessment*

The white paper 'Strong and Prosperous communities' set out wide ranging proposals for supporting and improvement of local services. A key part of these proposals is a new performance assessment framework, Comprehensive Area Assessment (CAA) which comes into operation from 1 April 2009.

CAA will focus on the delivery of outcomes that are the responsibility of Council and our partner organisations including Police, Health, Fire and Rescue services and other Local Authorities. The process is based on two assessments, an Area assessment and an Organisational assessment.

Community outcomes, efficiency, partnership working and value for money are key measures in these assessments with a new set of national indicators measuring the performance of the Council and its partners against Government priorities.

### *Three year settlements for Revenue Support Grant and Revenue Financing*

In July 2005 the Government announced the introduction of a multi-year settlement process in order to give more stability and certainty to local authorities. The first full three-year settlement was announced in December 2007 and covered the 2008/09, 2009/10 and 2010/11 financial years. The revenue budget set out in this Financial Strategy covers the last year of this 3 year settlement.

The next 3 year settlement will be based on the 2010 spending review. This review was originally due to be published in 2009, however the Chancellor announced in his pre-budget report (PBR) that it would be delayed until after the 2010 general election.

The PBR confirmed that £12bn of savings a year would need to be found across the public sector by 2013/14. The government has allowed public borrowing to rise to support the economy in the recent period of recession and the PBR set out plans to halve the country's budget deficit over the next four years. The plan for reducing this borrowing includes, amongst other options, 'savings on public spending'. This has led to a high level of uncertainty over future settlements, and significant cuts in funding settlements are anticipated.

***Public Spending Plans and National Priorities***

The 2009 pre-budget report (PBR) set out that the government would continue to invest in front line public services and stated that between 2011/12 and 2013/14 NHS frontline spending will rise in line with inflation. It also stated that spending on frontline schools will rise by 0.7% a year in real terms, and spending on 16 to 19 year olds participation will rise by 0.9%. It is therefore likely that local authorities will be expected to find a significant amount of the £12bn of savings a year set out in the PBR.

Public services remain to be under increased pressure from their customers for improved service provision. In addition, national targets for improved service delivery are becoming common, including electronic service delivery, planning, concessionary fares and recycling. This financial strategy seeks to ensure national priorities are considered alongside local priorities.

***Efficiencies***

In October 2007 the Department of Communities and Local Government (DCLG) published a report 'Delivering Value for Money in Local Government'

The report highlighted that public services have been set a target of achieving at least 3% net cash releasing value for money gains per annum, between 2008 and 2011. Collectively Councils are expected to achieve £4.9 billion cash releasing efficiency by 2010-11. An announcement was made in the 2009 Budget that the government was increasing its original value for money target from £30 billion to £35 billion by 2010/11 to allow for continued investment in front line services.

These efficiencies have to be achieved through a greater focus on value for money and through a culture of innovation.

Responsibility for identifying opportunities for efficiency gains are left to individual councils and it will be up to them to put in place the processes that they need to plan VFM projects, track delivery, measure achievement, and assure service quality. The Councils progress on efficiency will be monitored and challenged through a number of methods including Comprehensive Area Assessment (CAA) and a new performance framework consisting of 198 performance indicators which includes a new national VFM indicator.

The Council recognises the need to ensure VFM and reflected this in its Corporate Plan 2006-2011 ‘Delivering Success’ where one of the top priorities is ‘to improve the performance of our services and ensure they provide value for money’. To help deliver this the Council has, for a number of years, operated a programme of service and value for money reviews and has recently developed the process further by introducing the Corporate Efficiency Programme which is designed to achieve savings while improving performance and Service delivery

***Sustainable Communities Act 2007***

The white paper, communities in control, CAA etc set out changes in the culture of local government and the way in which services are delivered in future. The Sustainable Communities Act 2007 provides a mechanism by which these changes can be progressed. The Act creates a duty for the Government to produce local spending reports which detail, for each local authority area, the amount of public money spent by relevant agencies on services and projects. The Act also invites Local Authorities to make proposals which they consider would contribute to promoting the sustainability of local communities. Proposals may include a transfer of functions of one public body, national or local to another. In these cases funding would also be transferred.

***Communities in Control – Real Power Real People***

In July 2008 the Government published its white paper Communities in Control “Real people Real power” which is far reaching covering issues relating to empowerment, access to information, democratic structures, volunteering and control of assets. The proposals also include the introduction of participatory budgeting and the Council is looking at ways in which this can be implemented.

***Sustainability***

Sustainability is a key measure of CAA. It is about long term social and economic benefits ensuring a strong healthy and just society as well as environmental concerns. In order to ensure that the Councils services and actions promote sustainability the Council has developed a Sustainability policy which contains principles and measures that are to be implemented over the coming years.

***Local Area Agreements***

Local Area Agreements (LAA’s) are about improving local services through a 3-year agreement between the main public sector agencies working in an area and the government. In June 2008 the Council along with North Yorkshire County Council and the Districts in North Yorkshire agreed a new LAA with the government office. The LAA is based on a set of 32 designated targets, 16 statutory education and early years targets and 25 locally agreed targets, which partners have committed to delivering. Achievement across the whole LAA is important for the Council and its partners as it encompasses the key priorities of the Sustainable Community Strategy for the County area. The LAA is a mechanism by which the government and the Audit Commission measures whether partnership working is effective in delivering improved outcomes for people in the area.

***Significant Partnerships***

In order to deliver more efficient services the Council continues to work with a range of partner organisations throughout the area. In some cases it has entered into a formal agreement with partners for the delivery of services and projects, examples include Woodend Creative workspace, Scarborough Museums Trust, the Yorkshire Moors and Coast Area Tourism Partnership, the Building Control Partnership, and the Procurement Partnership. The performance of these partnerships are monitored and reported upon throughout the year.

***Area Based Grants***

The Government has significantly increased Local Authorities' flexibility over the use of their main stream resources in recent years by moving at least £5 billion into non-ring fenced general grants over the Comprehensive Spending Review period. £4 billion of this amount has been moved into Area Based Grants.

Area Based grants are allocated on a 3 year basis to tie in with 3 year finance settlements. The grants are non ring fenced and the grant determinations do not include any conditions for use. Local Authorities are therefore free to use the grants as they see fit to support the delivery of local, regional and national priorities in their areas.

During the 2010/11 year the Council will receive Area Based Grants of £103,819 - £319 for environmental damage regulations, £75,000 for cohesion, £6,000 for economic assessment duty and £22,500 for climate change.

***Prudential Borrowing***

For many years borrowing to fund capital investment was restricted by the Government. In April 2004 credit controls were lifted and replaced by the Prudential Code. We can now borrow "prudently" if it can be demonstrated that borrowing is affordable.

In order to lessen the revenue pressures facing the Council, this strategy restricts borrowing to expand the capital programme to only schemes which can demonstrate clear financial or economic benefits, where the scheme specifically attracts Government Revenue Support or where the borrowing can be backed by equivalent internal funds.

### *External Funding*

The Audit Commission sees the achievement of external funding as a key part in the demonstration of Value for Money. External funding opportunities include European funding, lottery funding, and Yorkshire Forward funding.

The Council must carefully appraise the role that external grant resources can play in meeting its objectives. Decisions about bidding for external grants must be taken in the context of the priorities in the Corporate Plan and are considered by Senior Management.

### *Participatory Budgeting*

Participatory budgeting (PB) is a process whereby local people have direct control over how a proportion of public money is spent. There are currently over 70 pilot areas in Britain and the Government is very keen to see PB rolled out on a national basis. The Community Empowerment White Paper: Communities in Control sets out a government ambition to see all local authorities engaged in some form of PB by 2012, and a national strategy has also been published.

The most common model for participatory budgeting is that a fund is identified, organisations are invited to put forward bids for funding, local people vote on the bids and the projects with the most votes secure the funding.

At the end of 2008/09 the Council allocated £100,000 of its revenue underspend to establish a Community Fund. This fund presents an excellent opportunity to consider ways in which PB can be developed across the Borough. The broad themes of the PB schemes will be linked to the areas of need identified by the Place Survey

A programme of training will be delivered to elected members and officers to ensure that informed decisions can be made about the use of this fund in 2010/11.

## 6. THE COUNCILS FINANCIAL OBJECTIVES AND HOW THEY WILL BE ACHIEVED

The Financial Strategy is designed to maintain financial stability and, as far as possible, avoid the need for large unplanned increases in Council Tax and unaffordable borrowing, whilst ensuring we have sufficient resources to achieve the corporate aims and priorities. To this end, it is proposed that the Medium Term Financial Strategy should ensure the following specific objectives. Each of these objectives is underpinned by an Action Plan set out within **Appendix 'C'** of this report.

**Objective 1 - Budgets are Prudent and Sustainable in the Long Term**

This seeks to ensure that budgets recognise real cost pressures, and that no over reliance is placed upon any one off savings, and/or use of one off reserves.

This will be achieved by ensuring:-

- adequate provision is made for inflation pressures, current economic conditions, pay awards, and new legislation
- the revenue budget is not supported by one off savings, or any significant use of reserves
- effective budget monitoring to ensure early identification of issues and action planning
- equalisation reserves are established for high risk budget areas such as car parking income

**Objective 2 – Financial Plans Recognise Corporate Priorities and Objectives**

This seeks to ensure that financial plans link with corporate planning and priorities, and that there is provision within the Financial Strategy for growth/development funding on an ongoing basis.

This will be achieved by ensuring:-

- additional investment, and savings proposals make explicit reference to corporate priorities
- local and national targets are considered
- long term vision and objectives are considered within the report
- provision within financial planning figures for growth and contingency amounts based upon perceived risk,
- that the scoring of capital bids considers corporate aims and priorities

**Objective 3 - Significant risks, and factors to mitigate those risks, are identified**

Risk Management is crucial in long term planning, and it is essential that the Financial Strategy clearly identifies the associated risks. This is supported by an embedded risk management culture within the organisation.

This will be achieved by:-

- risk management being embedded in corporate and service planning
- financial risks being specifically considered on an ongoing basis, and specifically reflected within the Financial Strategy
- targeting high risk areas when setting budgets and monitoring these areas closely throughout the year

**Objective 4 - The Capital Programme is planned over a 10 year period, with "Unsupported" Borrowing minimised, other than where there are clear financial or economic benefits for the Renaissance of the Borough;**

This seeks to ensure that unsupported borrowing is minimised, thereby ensuring the capital programme is prudent and sustainable, and does not lead to unaffordable revenue implications.

This will be achieved by ensuring: -

- the development of a 10 year capital programme
- the establishment of a Capital Development Fund which matches resources and expenditure over a 10 year period
- the use of unsupported borrowing only on an invest to save basis or where clear economic benefits can be demonstrated.
- where schemes demonstrating economic rather than financial benefits are funded by unsupported borrowing the associated revenue costs will be reported, considered and approved by Council, to ensure that they are affordable
- an adoption of an Invest to Save Strategy
- contingency funding is included within capital schemes
- the establishment of the capital contingency reserve
- a corporate approach to external funding opportunities

**Objective 5 - Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account;**

It is important that the Financial Strategy is realistic and that there is a corporate awareness of the constraints on Council funding.

This will be achieved by ensuring:-

- specific reference within each financial strategy of constraints, and current issues

- regular reporting to cabinet on local government finance issues
- awareness of the financial position within the organisation through an effective Communication strategy

**Objective 6 - Council Tax increases will be kept below the Government's expected upper level of increase, and the broad anticipated increase for future years will be set out within the Financial Plans, recognising that these increases may be subject to change.**

The Government may in the future require authorities to set out planned council tax increases for the next three years. It is important in developing the financial plan that an assumed Council tax increase in included, ensuring that financial plans do not place over-reliance upon excessive Council Tax increases.

This will be achieved by ensuring:-

- that financial plans take account of this level of Council Tax increase, Government expectations on Council Tax increases, and in particular that target efficiency gains reflect the likely levels of council tax

However, it has to be recognised that additional burdens and demands can be placed upon local authorities, and that it may not always be feasible to achieve an increase in Council tax in line with the inflation rate.

**Objective 7 - Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council.**

It is important to strike a balance between maintaining adequate reserves and contingencies and delivering priorities and achievement of value for money.

This will be achieved by ensuring:-

- an annual review of reserves, linked to corporate priorities and treasury management implications
- that adequate levels of capital reserves are maintained. In view of the significant risks facing the Council in terms of the delivery of a major efficiency improvement programme and capital programme it is essential that minimum levels of reserves are maintained.

**Objective 8 - Value for money and achievement of improved efficiency and service delivery underpin the Financial Strategy, and the outcomes of investment made in priority areas are evaluated**

Value for money should be at the heart of everything the Council does, and the pursuit of improved efficiency and performance needs to be established as an ongoing underlying principle. It is important that the Council monitors how effective its investment in priority areas has been in order to evidence Value for Money.

This is being achieved through:-

- a Value For Money Group
- a Corporate approach to external funding
- embedded Finance and Performance reporting to Members
- benchmarking the costs of our services
- the establishment of the Corporate Efficiency Board to identify and deliver corporate savings
- a transformation programme

The outcomes of investment directed towards priority areas in the 2009-19 Financial Strategy are evaluated in Appendix J to this report

**Objective 9 - The Financial Strategy supports the achievement of excellence in financial management and Use of Resources**

A Financial Plan in isolation will achieve little. It needs to be supported by:-

- effective financial governance arrangements
- financial management that supports performance
- effective monitoring arrangements
- effective financial reporting

This will be achieved by:-

- implementation of the action plan in relation to the Use of Resources assessment
- continuing to develop the financial culture within the Council
- financial reporting and documentation based upon stakeholder needs
- improved financial systems (General Ledger Upgrade)
- Training and Development – finance/non finance
- Integration of financial and non financial performance measures

These objectives are further explored throughout this report, and the recommended actions to support these objectives are set out within the Action Plan

## 7. MAKING BETTER USE OF OUR RESOURCES

We can only maintain and increase investment in priorities by managing our services in an efficient way and being committed to a programme of continuous improvement and cost effectiveness. It is also important that there is effective corporate working along with long term planning and coordination of work within the Council.

**At Member Level: -**

The member **Corporate and Finance Strategy Working Group** will continue to be integral to driving the Financial Strategy forward. Supporting this role, the **Audit Committee** will have a key role in ensuring that effective Stewardship, internal control, and risk management are adopted within the Council and the **Corporate Efficiency Board** will drive the efficiency programme forward.

**Cabinet** will of course continue to play a key role in the delivery of Value for Money, and monitoring performance. **Full Council** will remain responsible for setting the overall budgetary framework, and the **Overview and Scrutiny Committees** will play a significant part in the development and monitoring of policies and performance.

**At Officer Level: -**

The **Capital Strategy Group** will monitor the achievement of the capital programme, reporting to Cabinet on a quarterly basis. The group will also review the option appraisal process/prioritisation of capital schemes to ensure a robust process is in place that ensures that resources are allocated in line with priorities. This Group will also support the Investment Strategy Group in developing a process that will ensure that the bidding for external funding is clearly focused on the Council's corporate priorities.

An **Investment Strategy Group** is in place to lead on the overall coordination of a number of major investment issues (e.g. Capital Strategy, Private Development, Partnerships, Community Strategy, Urban Renaissance, The Sands etc) and ensure these are being effectively managed corporately. A number of project teams are established for a range of major capital projects (e.g. the Sands, the Open Air Theatre, the Spa redevelopment, the Depot relocation).

A **Use of Resources Group** is established to ensure that the Key Lines of Enquiry within the Use of Resources Assessment are addressed.

**At both member and officer level:-**

**The Corporate Efficiency Board will**

- Manage the whole VFM process in line with the KLOE,
- Ensure that efficiency targets set within the Council's financial strategy are achieved
- Receive information on costs and how these compare to others
- Establish clear policies and effective processes for reviewing and improving value for money.
- Develop of a corporate work programme targeted at specific areas
- Recommend areas for one off investment to deliver long term VFM

**In Partnership: -**

To ensure resources are used to maximum effect will require the Council to continue to work in **partnership** with other organisations, and with the **Community**. Examples of such partnerships include: - working with Yorkshire Forward, the development of the Community Strategy with a wide range of groups and organisations, and development of Urban Renaissance with the Town Team.

The financial position of significant partnerships will be regularly reviewed, and reported to Cabinet and Overview and Scrutiny.

## 8. DEVELOPMENT OF THE FINANCIAL STRATEGY

As noted above, the development of the budget and medium term financial plan is driven by the Council's priorities.

We already have in place a comprehensive Financial Strategy, and this document represents an update to the existing Strategy. We aim to:

- help Members to determine priorities;
- forecast the changes in demand for services;
- identify the likely financial implications of changes in legislation;
- demonstrate the future cost of policies or proposals;
- match the demand for spending with the resources likely to be available; and
- provide a financial framework within which departments and individual managers can plan their services.

**The budget process**

The financial strategy comprises a 5-year revenue plan and a 10-year capital plan.

The plans will be reviewed annually and rolled forward by a year. The process, from the start of the review of the financial plans through to the approval and allocation of budgets, spans the whole year. An outline timetable is set out below. A more detailed timetable is presented in March to Corporate and Finance Strategy Group setting out the plan for the year. This plan is rolled forward, and reviewed at each future Corporate and Finance Strategy Group meeting.

One of the key features of the budget process is the linkage between the corporate financial requirements and the operational needs and demands of the Council. This is done through the Service Plans, which identify funding requirements for the revenue and capital budget, performance outcome expectations and risk assessments. A key feature of the Service Plans are the critical success factors and the proposed efficiency savings, which are shown at Appendix 'A3'

## The Budget Process

*March - April*

- Forward plan for year
- Integrate timetable with corporate planning
- Update projections
- Review of process
- Key financial reporting documents published

*May - June*

- Confirm efficiency targets for next three years
- Guidance to managers
- Review Final Accounts
- Ask HoS for priorities/bids/commitments – linking to local and national priorities

*July-Aug*

- Cabinet report re outturn (July)
- Priorities/Commitments assessed
- Efficiency proposals for 10/11 identified and developed

*Sept - Oct*

- Efficiency proposals reviewed and finalised
- Review of reserves
- Financial Plan updated
- Review investment in priorities / commitments
- Determine consultation methods
- Scoring of capital bids

*Nov – Dec*

- Finance settlement
- Consultation
- Review service risks
- Review priorities – local and national
- Detailed budget preparation
- Cashflow forecast
- Member presentation

*Jan –Feb*

- Update MTFP
- Sign off by heads of service
- Council tax setting
- New capital schemes
- Cabinet report (Dec)
- Cabinet report (Jan)
- Council report (Feb)

*Ongoing*

- Regular monitoring information
- Efficiency identification
- Reports to CSFG/Cabinet/Corp Efficiency Board
- Presentations to Senior Management, and to Departmental Management Teams
- Communication strategy to staff
- Performance Monitoring reports
- Audit Committee – risk management
- Quarterly meetings between s151/HoS

## Training Requirements

It is recognised that financial training must be delivered to both officers and members to ensure that the key features and objectives of the Financial Strategy are embedded throughout the Council.

Finance staff regularly meet with officers throughout the authority to deliver tailored training sessions as and when required. The delivery of training to officers will be particularly important prior to the implementation of the new ledger system. A detailed training programme is scheduled into the implementation plan for the project and it is recognised that this training will be integral to the success of the new system.

Several member training sessions have been undertaken during the 2009/10 financial year covering the Medium Term Financial Strategy, Final Accounts and the Financial Strategy. This training will continue into 2010/11.

## Budget Monitoring arrangements

It is essential that the financial plan is regularly monitored, with the progress being reported to lead members. This will be done through the issuing of monthly revenue and capital monitoring reports to senior management, and quarterly financial and performance reports, linking financial performance to service performance, to Cabinet and Overview and Scrutiny.

The monitoring process focuses on high risk budgets and involves:

- Regular reviews/dialogue between finance staff and service managers with timely and accurate budget monitoring information.
- Regular meetings between each Head of Service, the Section 151 Officer and finance staff to discuss financial issues and concerns.
- Challenging Heads of Service' efficiency proposals
- Using the VFM group, Corporate Efficiency Board and CFSG to monitor delivery of efficiencies/savings

The process requires budget holders to explain the reasons for any significant variances and Heads of Service to identify ways in which such variances can be managed within their total resources available. This is one of the key principles underlying the strategy – that growth items are wherever possible accommodated within existing resources. To achieve this requires a culture of financial awareness within the authority and this is seen as a key priority.

# 9. CONSULTATION AND COMMUNICATION

There is a need for this Strategy to be effectively communicated to staff and key stakeholders. In addition, it is important that in the development of the Strategy, allocations of resources, and the setting of council tax that there are effective consultation mechanisms in place.

The following methods were used to ensure effective communication and consultation of the proposals set out in this Financial Strategy:-

- Borough News – regular information about the council's performance, resource issues, and plans for future years, with requests for feedback on the council's budget proposals were included in the Borough News.

- Area Committees – presentations setting out the council's budget proposals were delivered to all Area Committees and attendees were asked for feedback on those proposals

- Web Based Consultation – The Council launched a web based consultation when the budget proposals were announced and people were asked to provide feedback on the proposals

- Customer First – copies of the budget proposals and feedback forms were made available in all Customer First centres.

- Council employees – copies of the budget proposals were circulated to all Council employees and they were invited to provide feedback via the council's consultation page on the website. Details of the budget were also circulated via the council's core brief. There is regular communication with staff at all levels, and with unions throughout the budget setting process.

- Third Sector and Partners – third sector organisations (via the Coast and Moors Voluntary Action Group) and the Council's major partners were invited to submit growth bids to feed into the Councils budget and were also notified about the consultation process.

**Place Survey**

In April 2008 the Government introduced a new performance framework for Councils and their partner organisations which requires all Councils to undertake a Place Survey every 2 years to establish people's views, experiences and perceptions about the area in which they live. The information is designed to help Councils and their partners such as the Police, Health Services, Fire and Rescue Service improve services and set priorities. All Councils carry out these Surveys simultaneously across the Country. Scarborough Borough Council and other Councils in North Yorkshire carried out the survey jointly with the County Council.

This survey replaces the previous General, Benefits and Planning Surveys which were carried out every three years, the last being undertaken in 2006/07.

The survey asks for opinions on all aspects of the quality of life in each local area, including what they think makes the area a good place to live, what needs improving, community safety, how satisfied are people with local public services including police, health, the arts, entertainment as well as other services and asks how people participate in community activities.

Results from the Survey provide data for 18 of the new National Performance Indicators which feed in to CAA.

During the consultation period (29 September 2008 to 19 December 2008) the Council sent out 6,000 letters and questionnaires from templates specifically designed centrally by the Government. The 6,000 respondents are randomly selected, from a sample that is taken from PAF (Postal Address File) and is supplied to us by the DCLG. It is a Government requirement for the Council to send out at least 2 reminders to ensure a good response rate to this Survey.

The Council is required to achieve a minimum response rate of 1,100 completed questionnaires. For the 2008/09 Place Survey the Council received 2720 completed responses equating to a response rate of 46%.

As a result of the Place Survey there were a number of wards where satisfaction was low. Approval was sought to undertake follow-up surveys in the 8 wards where satisfaction was lowest to determine reasons why.

Results of both these surveys have been fed back to Committee and Cabinet and are being used to establish the priorities of the Council and the LSP. A redraft of the Community Strategy is currently being undertaken which takes into account the results of these surveys in the development of priorities.

## 10. THE REVENUE PLAN 2009-2014

The medium term revenue plan is based on an analysis of the key influences on the Council's financial position and an assessment of the main financial risks facing the Council. The financial forecast is based on the following factors and assumptions:

***Local Government Finance Settlement***

The Council receives external support from Central Government through the distribution of resources within the Local Government Finance Settlement. The distribution is made in accordance to authorities' relative needs with a mechanism for protection against detrimental changes in grant allocations. Approximately 59% of the Councils net expenditure is financed from the Local Government Finance Settlement.

To strengthen financial stability and promote medium term financial planning this external funding has been announced for 3 years. 2010/11 is the final year of this 3-year settlement.

The 3-year finance settlement for the Council was very disappointing with increases of 1.6% for 2008/09 and 1.2% for 2009/10 and 2010/11. These being far less than inflation and certainly not enough to cover the cost of new burdens placed on the Council.

The next 3 year settlement will be based on the 2010 spending review. This review was originally due to be published in 2009, however the Chancellor announced in his pre-budget report (PBR) that it would be delayed until after the 2010 general election. The PBR confirmed that £12bn of savings a year would need to be found across the public sector by 2013/14, which will halve the country's budget deficit over the next four years. The plan for reducing this borrowing includes, amongst other options, 'savings on public spending'. This has led to a high level of uncertainty over future settlements, and significant cuts in funding settlements are anticipated.

The Borough Council has factored a 5% cut in settlement grant into its revenue plan for 2011/12, with no increases in funding for the following 2 years.

***Council Tax***

In accordance with Objective 6 of this financial strategy, the plan makes a clear assumption that future Council Tax increases will be restricted to below Government upper limits. The Government have said that they expect the overall increase in Council Tax for 2010/11 to reach a 16 year low and that capping will be applied for any excessive increases. The average Band D council tax increase in 2009/10 was 3%.

The proposed Council Tax increase for 2010/11 is 2%, with a provisional increase of 1% for 2011/12 and 3% for future years.

### ***Inflation rates and pay increases***

The medium term plan makes provision for inflation and pay awards as follows:

*Inflation:* a composite rate of 0% has been used for non-salary expenditure budgets with a corporate contingency of £100k to fund unavoidable cost increases.

*Pay awards:* an estimated increase of 0.75% has been included for 2010/11, reflecting the economic conditions at the time of writing this strategy.

### ***Interest Rates***

The Council has borrowed to fund capital investment in previous years and provision has been made in the plan to fund the ongoing borrowing costs and repayments.

The Council has significant levels of surplus cash balances at periods throughout the year, which it invests for short periods to earn interest. These cash balances represent unspent reserves held such as the Insurance Fund and unspent capital receipts.

The council employs treasury management consultants to review its debt and investment portfolio. These consultants work with officers in order to manage the portfolio in order to maximise interest receivable and minimise borrowing costs on a medium to long term basis.

A provision of £400k was provided in the 2009/10 budget strategy to write interest receipts down to a reasonable level and accommodate the current low levels of return. The Council has also established an earmarked reserve of £290k to offset any one off shortfalls in interest receipts.

### ***The ongoing effect of existing policies, priorities and economic conditions***

The ongoing effects of current policies, priorities and economic conditions are included in the plan. These additional costs include the establishment of a contingency budget to fund the costs of the recession, write down of profits achievable from trading units, salary increments, contributions to the capital development fund, the write down of the vat mitigation scheme, increases in the cost of business rates, the inclusion of a partial exemption VAT contingency, increases in the budget for disabled facilities grants, and increased cost resulting from additional responsibilities for the council in relation to the enforcement of fire safety.

***Growth and Contingency***

## *The plan assumes provision for growth/contingency as follows:-*

- 2010/11 – £250,000, earmarked to offset costs associated with the recession and unavoidable inflationary cost increases.
- 2011/12 - £310,000
- 2012/13 - £847,000
- 2013/14 - £985,000

Provision is included for years 2011 onwards to recognise the likelihood of additional burdens/pressures upon the Council. These contingency budgets are dependent on the level of Revenue Support Grant announced in the next 3 year settlement and the council achieving efficiency saving targets of £2.116m in 2011/12, £1.3m in 2012/13 and £1.3m in 2013/14.

***Value for Money savings and the Gershon Review***

In October 2007, The Department for Communities and Local Government published *Delivering Value for Money in Local Government: Meeting the challenge of Comprehensive Spending Review 2007 (CSR07)*, also called the VfM Delivery Plan. The Government has set a baseline target for the whole public sector of 3% on the forecast net expenditure for 2007-08, equating to £53bn. Like the rest of the public sector, councils are therefore expected to achieve at least 3% gains per annum; however there are no mandatory local targets for individual council's.

National Indicator 179 (NI179), one of the indicators in the new National Indicator Set, is now the mechanism through which council's report their progress on achieving VfM gains. It replaces the Annual Efficiency Statement, which was previously used to report Gershon efficiency savings.

Value for money gains included in the NI179 calculation must be cash releasing, and 'arise where there is an improved relationship between the inputs and outputs of a service with no deterioration in the overall effectiveness of that service'. Examples of eligible gains include, delivering the same level of service at a reduced cost or delivering an increased demand for a service at the same cost.

The Government's baseline expenditure used to calculate the £53bn target included capital as well as revenue expenditure. As the Borough Councils expenditure for 2007-08 included a number of renaissance projects, which were completed in that financial year, it has been deemed unreasonable to expect a 3% ongoing saving on these projects. For this reason the Borough Council's targets are based on revenue budgets only.

The table below sets out the Borough Councils cumulative targets for each of the next 3 years based on the government baseline targets for the 2007-08 revenue budget of £19.854m.

| Year | 2008-09 | 2009-10 | 2010-11 |
| --- | --- | --- | --- |
| Target<br>(% of 2007-08 baseline) | 3% | 6.1% | 9.3% |
| Cumulative Efficiency gains Target | £0.595m | £1.211m | £1.846m |

The Council's estimate for eligible gains that will be achieved in 2009-10 is £0.6m and a further £1.123m was achieved in 2008-09. The estimated cumulative savings over the two years (£1.723m) is therefore well in excess of targeted savings.

The Medium Term Financial Plan includes efficiency and savings targets of £2.116m in 2011/2012 and £1.3m in 2012/2013 and £1.3m in 2013/14. This level of saving assumes a 5% cut in the level of support grant in 2011/12 and is the minimum level that is acceptable if the Council's financial objectives for the medium term are to be met.

2011/12 will be the first year of transferring responsibility for the delivering of the majority of savings from Heads of Service to the Corporate Efficiency Board. Although responsibility will transfer to the Board senior management will continue to be heavily involved in the identification and delivery of efficiencies.

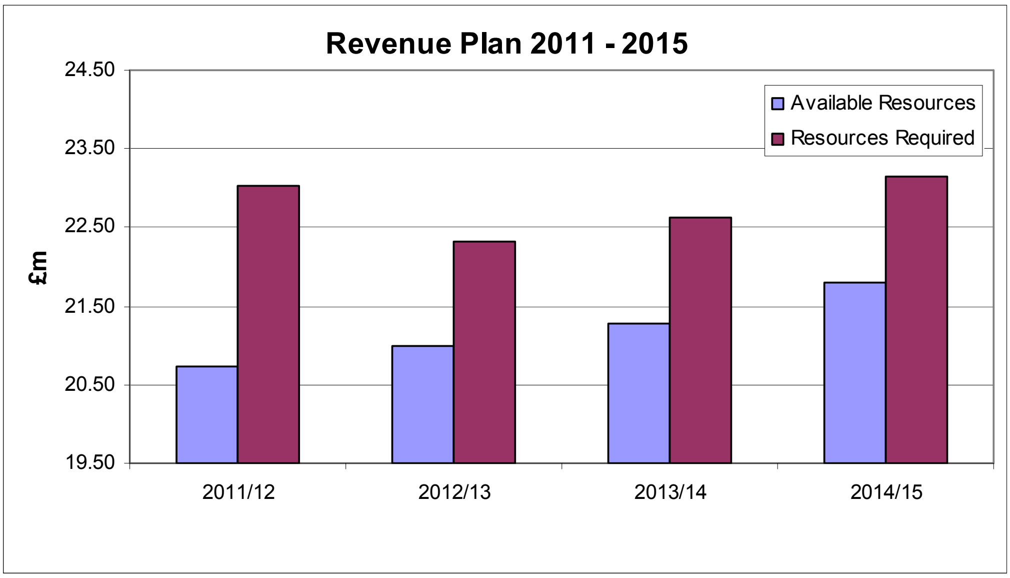
***Risks, contingencies and balances***

There are significant risks inherent in the Medium Term Plan for the reasons summarised above and exemplified in the section below. A number of key items in the plan cannot be estimated with accuracy and the figures in the plan assume that significant savings will be made. In this situation it is essential to maintain sufficient balances, not only to deal with unforeseen events but also to cover the potential risk of not achieving the savings required.

In line with objective 7, the plan assumes nil use of reserves to support the revenue budget.

***Revenue Plan 2010-2014***

The graph below shows the forecast "standstill" budget, and estimated resource availability for the next four years.




***The reason for the "gap" in funding is summarised in the table below***

| **Budget Variations Anticipated** | **2011/12 £000** | **2012/13 £000** | **2013/14 £000** | **2014/15 £000** |
|---|---|---|---|---|
| Pay and Price Inflation | 399 | 445 | 495 | 545 |
| Corporate Commitments | 1,055 | 305 | 145 | 440 |
| Contingency Sum | 311 | 847 | 985 | 885 |
| (Increase) / Decrease in Financing | 538 | (266) | (274) | (519) |
| **The Funding Gap** | **2,303** | **1,331** | **1,351** | **1,351** |
| | | | | |
| **Bridging the Gap** | | | | |
| Head of Service Savings | (400) | (300) | (300) | (300) |
| Corporate Savings already identified | (186) | (31) | (51) | (51) |
| Corporate Efficiency Board Savings | (1,717) | (1,000) | (1,000) | (1,000) |
| **Total** | **(2,303)** | **(1,331)** | **(1,351)** | **(1,351)** |

The efficiency targets are in line with those reported to Cabinet. Contingency sums are dependent on achieving the level of savings shown. The anticipated cuts in funding are subject to the 3-year finance settlement, due to be announced in 2010/11.

The graph highlights the need for significant efficiency gains in order to ensure that priority services continue to be delivered.

Achievement of these targets will be difficult, and therefore the process needs to be seen as an ongoing one, not an annual stop start process. Heads of Service will be supported in the achievement of efficiencies via the Corporate

Efficiency Board, an efficiency partner and transformation group and there will continue to be close working with finance staff.

In recognising the need to achieve such a scale of transformation the Council needs to look closely at all areas of potential efficiency including partnership working, procurement, trusts and streamlining back office duties.

## 11. CAPITAL STRATEGY

The Council's corporate strategy has an overarching vision to:

***'enhance the quality of life for those living in, working in, or visiting the Borough'.***

The Capital Strategy is the key vehicle for developing long term change to deliver the key priorities and corporate objectives.

The capital strategy meets this challenge by setting out the mechanism for delivering structural change in line with the principles for excellence as set out in the "Use of Resources" Assessment. It does this by addressing the key issues of:

a) prioritisation in line with the key priorities and corporate aims

b) engagement with partners of the community

c) affordability of funding

d) integration of capital and revenue decision-making

e) framework for managing and monitoring

### a) Prioritisation methodology

The Council has developed a prioritisation process that allows members and officers to focus on corporate priorities when formulating spending proposals and ensures that any resources available can be allocated in the context of the Council's priority needs.

This prioritisation methodology will be applied to all proposals, regardless of the source of funding, prior to any decision being made to apply for external capital support such as grant funding, so that the Council can ensure that they form part of an overall capital investment strategy.

The Capital Strategy Group, Investment Strategy Group, and Corporate and Finance Strategy Group are all involved in capital decisions

### *b) Engag*ement with partners of the community

The Council is committed to seeking out innovative partnership and funding opportunities in order to deliver the capital strategy and achieve best value.

The Council has worked closely with funding partners (particularly Yorkshire Forward and Government Office) to deliver recent projects. Future projects will continue to be developed through partnership working. The Council also recognises the importance of increased community engagement and participation as fundamental to the quality of public services and the health of community life. The Council will therefore seek to develop projects with the full involvement of local communities and ensure appropriate consultation prior to scheme approval.

### *c)* Affordability of funding

### Financing the Capital Programme for the Future

Resources to fund capital spending are provided from central government in the form of specific grants. In addition other external grants and contributions are sought. The grants and contributions provided by central government and resources from other external agencies are often specific to an individual scheme and cannot be used for any other purpose by the Council. Council funding in the form of capital receipts, unsupported borrowing, use of reserves and from revenue sources make up the balance of resources.

In moving towards a 10-year capital programme it is important to review options for the funding of a programme that will meet Corporate Priorities over a 10-year period and beyond.

Controlling the level of resource availability and ensuring the Council does not over commit resources or incur expensive borrowing are also crucial factors therefore the Capital Development Fund was established in order to achieve these priorities and serve as the principle source of new capital funding.

The Capital Development Fund identifies the available capital funding for the Council. 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. The use of the Capital Development Fund as the primary source to identify the capital funding available ensures that unsupported borrowing can be minimised and financial stability maintained.

The Fund seeks to contribute, in a planned and prudent manner to the long-term vision of the Council, supporting the renaissance of the Borough.

### Financing the Capital Development Fund

The following table shows the Medium Term Capital Plan and resource availability for the next 10 years. The additional resources available to invest in priority areas over the next 10 years is £3.205m and the associated spending plans are detailed in Appendix B. The Council can only generate more capital resources from increasing its amount of capital receipts or the level of unsupported borrowing.

**Capital Development Fund 2010 to 2020**

| | £ 000's | £ 000's |
|---|---|---|
| Balance Brought Forward | | 582 |
| | | |
| **Transfers In** | | |
| Disabled Facility Grant | 3,210 | |
| Contributions from Revenue and Other Reserves | 22,757 | |
| Anticipated Capital Receipts | 3,399 | |
| | | 29,366 |
| **Anticipated Net Expenditure** | | |
| Asset Management (2009 to 2019) | 2,520 | |
| IT Replacement / Development (2009 to 2019) | 2,880 | |
| Vehicle Plant and Equipment (2009 to 2019) | 10,546 | |
| Disabled Facility Grants (2008 to 2019) | 8,950 | |
| Capital expenditure approved prior to 1 April 2009 (net of external grants and contributions) | 5,114 | |
| Expenditure funded from Borrowing | (3,267) | |
| | | (26,743) |
| **Resources available if capital receipts are achieved *** | | 3,205 |

**Capital Contingency Reserve**

The Capital Contingency reserve is essential in the management of Capital Resources.

There are two likely uses for the Capital Contingency Reserve.

(i) it will provide a flexible and responsive resource to fund **small-scale** ad hoc capital schemes.

(ii) It will provide contingency funding for potential additional costs incurred on the existing capital programme.

The uncommitted balance on the Reserve for 2010/11 (inclusive of a £150,000 contribution to the reserve in 2009/10) is currently £0.774m, which is within the pre-determined criteria.

**(d) Integration of Capital and Revenue Decision-Making**

***The Prudential Code***

Under the Prudential Regime, which has operated since April 2004, the Council has the responsibility to demonstrate that its capital investment programme is affordable, prudent and sustainable. The Prudential Code requires that this is done by calculating specific indicators for capital expenditure and financing and by setting borrowing limits. The indicators and borrowing limits for the current and next two years are set out at Appendix F.

The Council has largely mitigated the risk of unaffordable borrowing by establishing the Capital Development Fund in order to avoid the extension of borrowing over the medium term.

As current economic conditions have led to low interest rates and limited capital receipts, options for borrowing have been utilised in 2009/10 to continue the Regeneration of the Borough. The full implications of this unsupported borrowing, including the impact on revenue budgets, were factored into the decision making process for these schemes.

Any future borrowing will be minimised and will only be progressed where it can be demonstrated as being affordable, sustainable and lead to economic or financial benefits.

***Revenue Implications***

The revenue implications of funding the capital programme are the loss of interest receivable from the use of internal balances or repayment of principal, and increases in interest payable on additional external borrowing.

The introduction of the Capital Development Fund restricts borrowing unless it can be demonstrated as being affordable and hence limits the impact on the revenue budget. In order to achieve revenue savings in the short term the Council has utilised uncommitted capital receipts within the capital programme, limiting external borrowing and therefore the impact on the revenue budget. This has delivered significant short-term revenue savings, but these benefits do not extend to the medium term.

It is recommended that the Council can use borrowing to fund capital investment as follows:

- ***to the level of 'supported borrowing' allocations***

- ***to fund Invest to Save schemes, based upon sound business cases/risk assessment, utilising Prudential Borrowing. To assist in this process a proposed Invest to Save Strategy is set out in Appendix D. This sets out basic principles that underpin the use of Prudential Borrowing, and the process to be followed for potential schemes***

- ***to fund schemes that deliver clear economic benefits where it can be demonstrated that the borrowing is affordable***

- ***to a level to reimburse uncommitted capital receipts***

- ***in accordance with the Prudential Code and Treasury Management Policy***

### (e) Framework for Managing and Monitoring the Capital Programme

The Section 151 Officer has overall responsibility for the preparation and monitoring of the Council's capital programme and for reporting the outcome to Cabinet. The process, which is managed by the Capital Strategy Group, involves:

- Reviewing the capital programme annually.
- Reviewing the current and estimated future availability of external earmarked funding and other opportunities for obtaining or bidding for additional capital resources.
- Prioritising and appraising any new proposals against agreed corporate criteria.
- Preparing the Council's capital programme, strategy and consultation process.
- Monitoring progress in achieving the capital programme objectives.
- Ensuring that the outcomes of investment are reported to Cabinet.
- Ensuring that there are effective arrangements for project planning and project evaluation.
- Issuing corporate guidance to ensure that there is a consistent approach across all service areas.
- Reviewing and monitoring the Council's capital resources and asset disposal programme.

Quarterly monitoring reports on the capital programme and prudential indicators are submitted to Cabinet, the last of which comprises the end of year outturn. The financial regulations set out a requirement for regular reporting to members for all schemes above £250,000.

## *VAT – Partial Exemption*

VAT partial exemption allows Councils to reclaim VAT on exempt activities as long as the amount is within a 5% of the total reclaimable VAT (Input Tax).

It was identified at the time of selling the Council Houses to Yorkshire Coast Homes that the loss of Input Tax from the expenditure on the Housing Revenue Account would have potential implications in relation to the exempt 5% vat threshold.

As a result, since then the VAT threshold is monitored very closely. To date, the limit has not been breached. All future capital schemes will be assessed to identify how they will impact on the partial exemption VAT position.

## 12. IMPACT ASSESSMENT

This section recognises the challenges and risks that have implications for the Council's financial position in the medium term. This assessment of risk is an essential element of the budget process; it is used to inform decisions about the appropriate levels of contingencies and reserves that may be required and to indicate priorities for financial monitoring.

Managing risk is an important part of the Financial Strategy. Each service maintains its own risk register and these are reported annually to the Audit Committee. During 2009 comprehensive training has been given to Officers and Members.

The key risks identified for 2010/11 and in the medium term are listed in Appendix I, together with comments on how they will be managed and a sensitivity analysis showing the potential impact.

**Social and Community Needs**

The Financial Strategy needs to be reviewed in terms of its equalities impact to assess the bearing it has on the Borough's population and differing community groups.

Whilst this process needs to be developed and embedded within the scoring criteria for evaluating priority growth bids, it is important to note that the Council is being proactive with its finances in supporting equalities and the needs of the community with such schemes as:

- Council Building Disabled Accessibility
- Outreach support for Council Tax and Housing Benefits
- Concessionary Bus Travel for the over 60's
- Housing disabled facility grants
- Area Committees and Area Forums
- Parish Councils and the Model Agreement

The public and third sector organisations are consulted with on the budget proposals set out in this Financial Strategy and the Service Business Plans identify the Key Stakeholders for each service area.

**Sustainability Impact**

In order to progress towards integrating sustainability into the performance management cycle and ultimately into the accounting process the Council has developed a sustainability policy which contains principles and measures that are to be implemented over the coming years. This will provide the backbone of the Councils sustainability drivers and facilitate the development and implementation of a range of Sustainability strategies.

To promote this process the Council, as part of the Carbon Trusts Carbon Management Programme, have set reduction targets for both CO2 emissions and energy use. A Strategy and implementation plan, including a complete list of identified projects, has been drafted for approval and endorsement by full Council.

Council officers are also part of a multi discipline working group looking at ways to reduce Co2 emissions within the Borough. In addition Forward Planning have published a Sustainable Building guide for Developers.

A corporate target of a 10% reduction in energy usage has been set for the 6 year period from 2005-2011. Figures to date show that this reduction is on track to meet the target.

## 13. BALANCES AND RESERVES

The Local Government Act 2003 places a specific duty on the Chief Finance Officer, i.e. the Section 151 Officer (Head of Finance and Asset Management), to make a report to the authority when it is considering its budget and the level of the Council Tax. This report must deal with the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. The Council must have regard to this report in making their decisions.

The Council also has a fiduciary duty to local taxpayers and the Section 151 Officer must be satisfied that the decisions taken on the level of balances and reserves represent the proper stewardship of funds.

In assessing the adequacy of the contingencies, balances and reserves, the Section 151 Officer takes account of the key financial assumptions underpinning the budget, together with an assessment of the Council's financial management arrangements. This assessment will include a review of past performance and external influences on the financial plan, and full consideration of the risks and uncertainties associated with the plan, their likelihood and potential impact.

The Council's policy is to maintain its contingencies, balances and reserves at levels that are prudent but not excessive.

Appendix "G" details the position on the Councils Reserves.

## 14. CONCLUSION

This Financial Strategy sets out a range of proposals regarding the future management of resources and delivery of priorities.

The Strategy is underpinned by nine key Objectives, which are set out within section 2 and these are supported by the detailed action plan (Appendix C). The Executive summary highlights the main proposals, and recommendations.

In addition, specific proposals are highlighted for the 2010/11 revenue budget, and the inclusion of new capital schemes.

The process of developing the Medium Term Financial Plan is ongoing. Although there are further improvements to be made, the Financial Strategy is now embedded throughout the organisation and it is recognised as one of the Council's key corporate documents. The Strategy puts in place a framework and establishes a strong financial base to aid the delivery of priorities.

As far as possible, the plan anticipates future needs and recognises the financial uncertainties, risks and challenges faced by the Council. We have in place rigorous financial monitoring, and project management processes are being developed. We aim to ensure we hold balances and reserves that we consider adequate without being excessive.

Consequently, Scarborough Borough Council now has in place a sound Medium Term Financial Strategy and a robust financial plan that is designed to support the delivery of the targets in the Corporate Plan and meet the council's objectives.

**APPENDIX A**

# REVENUE BUDGET AND COUNCIL TAX 2010/11

## 1 INTRODUCTION

This appendix sets out the detailed movements in the revenue budget between 2009/10 and 2010/11, and recommends the proposed budget for 2010/11 along with the associated levels of Council Tax.

It provides details of:

- Efficiency and other savings targets set for each Head of Service and the proposed savings put forward.
- Areas of Budget Pressure and Unavoidable Cost Pressure
- Areas of additional investment

## 2 BUILD UP OF THE 2010/11 REVENUE BUDGET

A base revenue budget of £20,948,810 was approved for the 2009/10 financial year, which forms the starting point for the 2010/11 budget requirement.

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**

| | £ |
|---|---|
| Pay and Price Inflation | 273,360 |
| Other Budget Pressures | 860,000 |
| Total Unavoidable Costs | 1,133,360 |

**Pay and Price Inflation**

This increase reflects the inflationary allowances on all budget heads along with salary increments and variations. The salary budget built into the 2010/11 budget allows for an increase of 0.75% which, given the current economic climate, is deemed to be reasonable given the 1% pay award agreed for 2009/10.

The 2010/11 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 assumed that short term staffing savings will be required to fund recruitment and advertising costs.

**Other Budget Pressures**

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

## 3 RESOURCES

On 6 December 2007 the Government announced its first 3-year Finance Settlement covering the 2008/09, 2009/10 and 2010/11 years. The Borough Council's settlement for 2009/10 totalled £12,353,810.

The settlement awarded for 2010/11 totalled £12,502,001. This equates to an increase of £148,191 on the previous years settlement, an increase of 1.2% on the grant awarded for 2009/10.

Taking this into account, and at this stage assuming a Council Tax increase of 2%, the following table summarises the resource position for 2010/11:

**Table 2 – Summary of Resources Position for 2010/11**

| | £ | £ |
|---|---|---|
| Base Revenue Budget for 2009/10 | | 20,948,810 |
| Unavoidable Costs (Per Table 1) | | 1,133,360 |
| Last Years Financing | 20,948,810 | |
| Increase in Settlement Grant | 148,190 | |
| Assumed 2% increase in Council Tax | 174,040 | |
| Resources available assuming a Council Tax increase of 2% | | (21,271,040) |
| Shortfall | | 811,130 |

This leaves a shortfall of £811,130 that needs to be addressed through efficiency and other savings. In addition there are a number of areas of additional investment in priority service areas that require funding. These are outlined later in this report.

## 4 INVESTMENT IN PRIORITY AREAS

Strategic Directors and Heads of Service, in conjunction with Finance Staff, have been asked to identify any areas where additional investment is required, with particular reference to Local and National Priority Areas. The areas proposed for additional investment are summarised in Table 3 below, with further details provided in Appendix A2.

**Table 3 – Meeting Priorities**

| Heads of Service | Bid | £ | Local / National Priority Growth Bid |
|---|---|---|---|
| Corporate | Revenue Implications associated with the Capital Programme | 70,000 | See Appendix A2 for details |
| Tourism and Culture | Spa | 276,000 | Building Prosperous Communities |
| Environmental Health | Disabled Facilities Grants | 150,000 | Ensuring Affordable and Decent Homes |
| Tourism and Culture | Open Air Theatre | 109,500 | Building Prosperous Communities |
| Tourism and Culture | Futurist Theatre | 40,000 | Building Prosperous Communities |
| Technical Services | Filey Decorative Lighting | 5,000 | Building Prosperous Communities |
| Environmental Health | Enforcement of Fire Safety Standards | 31,550 | Ensuring Affordable and Decent Homes |
| Tourism and Culture | Barons Leisure Centre | 10,000 | Creating Healthy and Vibrant Communities |
| | | **692,050** | |

A further £331,699 of one-off funding from the Value for Money Reserve and Revenue Development Reserve will be directed to priority areas in 2009/10. Further details are provided in Appendix G of this report.

In addition to the above the following amounts for priority areas were also approved to be funded from the revenue budget underspend in 2008/09:

- £100,000 to be added to the Value for Money Reserve
- £50,000 for an apprenticeship scheme
- £100,000 to a community fund (to take forward participatory budgeting schemes – see below)
- £100,000 towards the improvement of services identified as areas of need in the Place Survey (£50,000 for street cleansing and £50,000 for non-highways improvements)

**Place Survey 2008/09**

In April 2008 the Government introduced a new performance framework for Councils and their partner organisations which requires all Councils to undertake a Place Survey every 2 years to establish people's views, experiences and perceptions about the area in which they live. The information is designed to help Councils and their partners such as the Police, Health Services, Fire and Rescue Service improve services and set priorities. All Councils carry out these Surveys simultaneously across the Country. Scarborough Borough Council and other Councils in North Yorkshire carried out the survey jointly with the County Council.

The survey asks for opinions on all aspects of the quality of life in each local area, including what they think makes the area a good place to live, what needs improving, community safety, how satisfied are people with local public services including police, health, the arts, entertainment as well as other services and asks how people participate in community activities.

During the consultation period (29 September 2008 to 19 December 2008) the Council sent out 6000 letters and questionnaires from templates specifically designed centrally by the Government. The 6,000 respondents are randomly selected, from a sample that is taken from PAF (Postal Address File) and is supplied to us by the DCLG. It is a Government requirement for the Council to send out at least 2 reminders to ensure a good response rate to this Survey.

Results of the place survey are being used to establish the priorities of the Council and to direct funding towards these priorities.

**Participatory Budgeting**

Participatory budgeting (PB) is a process whereby local people have direct control over how a proportion of public money is spent. There are currently over 70 pilot areas in Britain and the Government is very keen to see PB rolled out on a national basis. The Community Empowerment White Paper: Communities in Control sets out a government ambition to see all local authorities engaged in some form of PB by 2012, and a national strategy has also been published.

The most common model for participatory budgeting is that a fund is identified, organisations are invited to put forward bids for funding, local people vote on the bids and the projects with the most votes secure the funding.

At the end of 2008/09 the Council allocated £100,000 of its revenue underspend to establish a Community Fund. This fund presents an excellent opportunity to consider ways in which PB can be developed across the Borough. The broad themes of the PB schemes will be linked to the areas of need identified by the Place Survey

A programme of training will be delivered to elected members and officers to ensure that informed decisions can be made about the use of this fund.

**Rejected Bids for Revenue Growth**

Heads of Service came up with several areas of growth that were reported to the Corporate and Financial Strategy Working Group but which are not recommended for approval within this report. The Council has made an effort to restrict the allowable growth bids to ones that meet strict Corporate and National Priority criteria, therefore minimising budget pressures and the need for further efficiency savings.

Some of the rejected growth bids are listed in Table 4 below:

**Table 4 – Growth bids not included within Budget Strategy**

| | £ |
|---|---:|
| Customer Services Trainer | 23,000 |
| Information Manager | 36,600 |
| Discretionary extension to concessionary fares scheme | 50,000 |

## 5 EFFICIENCY AND OTHER SAVINGS TARGETS

**Savings Targets 2010/11**

The need to develop a process aimed at the achievement of efficiencies and other savings was highlighted in the Medium Term Financial Strategy Report (SDCS/05/42), approved by Cabinet in September 2005. This report set out the long term financial pressures facing the Council and the savings required to mitigate the anticipated budget deficits, which are in excess of £1 million per annum for the foreseeable future.

The annual savings target is calculated as a percentage of each Head of service's net base budget. The 2010/11 savings target totalled £1,096,630. Table 5 sets out the split of savings targets by type and Head of Service.

**Future Years Savings Targets**

In recent years the Council has applied an across the board savings target for all Heads of Service. It is now recognised that, although this has successfully driven out inefficiencies in service areas, this is not sustainable in the long term. The Medium Term Financial Plan therefore phases in a gradual shift in terms of the efficiency programme, from service-based reductions, to a more corporate approach.

All services will still be expected to continue to achieve a minimum efficiency level of around 1-2% per year. This level is considered achievable and sustainable through general good housekeeping and budget management.

The main thrust of achieving efficiencies in the medium term is considered to be deliverable through Corporate Efficiencies. The process for delivering these corporate efficiencies will be through the established Corporate Efficiency Programme (CEP).

**Corporate Efficiency Programme (CEP)**

The CEP is controlled by a Corporate Efficiency Board consisting of Members and Officers. The role of the Board is to review all Council Services, identify efficiencies, improve the delivery of services and ensure Value for Money.

There will be a need for the CEP to develop a medium term plan of reviews, focussed on cross service issues. From 2011/12 there is a £1m savings target included in the Medium Term Financial Plan for savings that need to be identified and delivered through this programme.

## 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.

Throughout the year Heads of Service have met quarterly with Senior Finance staff and service accountants to discuss and scrutinise their savings proposals and also monitor the current year's budget position.

The savings proposals put forward by Heads of Service have been scrutinised by the Corporate and Financial Strategy Group and are summarised in Table 5 below and detailed in Appendix A3

**Table 5 – Target and Proposed Savings**

| | Total Savings Target £ | Savings Proposals | | |
|---|---|---|---|---|
| | | Efficiencies | Other | Total |
| Environmental Services | 283,250 | 155,750 | 127,500 | 283,250 |
| Finance and Asset Management | 147,130 | 127,130 | 20,000 | 147,130 |
| Human Resources and Performance | 27,210 | 27,210 | - | 27,210 |
| Legal and Support Services | 58,590 | 58,590 | - | 58,590 |
| Regeneration and Planning | 52,990 | 25,960 | 27,030 | 52,990 |
| Technical Services | 170,460 | 76,790 | 93,670 | 170,460 |
| Tourism and Culture | 279,540 | 246,350 | 33,190 | 279,540 |
| Transformational | | | | |

| | | | | |
|---|---|---|---|---|
| Management | 77,460 | 9,140 | 68,320 | 77,460 |
| **TOTAL** | **1,096,630** | **726,920** | **369,710** | **1,096,630** |

**Corporate Savings**

The table below sets out the corporate savings that have been included to balance the 2010/11 budget:

**Table 6 – Corporate Savings**

| Detail | Saving |
|---|---|
| West Riding Superannuation Scheme contributions | 20,000 |
| Savings on insurance contributions | 150,000 |
| Reduced contributions to the Revenue Development Reserve | 50,000 |
| Management Structure Review | 70,000 |
| | **290,000** |

Further details are provided in **Appendix A4** to this report

In addition to the corporate savings a number of items of additional expenditure are being funded from one off sources of funding or reserves. Details are given in the table below:

**Table 7 – One off sources of funding**

| | |
|---|---|
| One off loss of car parking income due to the Spa renovation to be funded from earmarked reserves | 35,000 |
| 2010/11 increase in Futurist Subsidy to be funded from earmarked reserves | 40,000 |
| Baron's leisure centre subsidy for 2010/11 to be funded from earmarked reserves | 10,000 |
| Safer houses initiative post to be funded from Planning Delivery Grant allocation | 31,550 |
| **TOTAL** | **116,550** |

## 7 STAFFING IMPLICATIONS

The Council has recognised that to achieve efficiency savings that do not impact on the delivery of front line services there will need to be a reduction in staffing numbers.

The savings put forward by Heads of Service show a reduction of 21.09 full time equivalent posts.

The need to make efficiency savings and the resultant staffing reductions is considered in conjunction with the Council's workforce plan.

## 8 IMPACT OF THE LOSS OF THE HIGHWAYS AGENCY AND REDUCTIONS IN TRADING ACCOUNT PROFITS

In the 2007/08 financial year the Council was notified that the County Council were terminating the Highways Agency Agreement. The contract includes a 3-year termination clause and will transfer in April 2011. The property trading account has also suffered from reduced workloads in 2008/09 due to reductions in Borough Council capital projects and YCH Disabled Adaptation work.

The Council currently makes a profit on works undertaken by the trading units therefore there is a requirement to remove this profit element from base budgets. **Appendix A5** shows how the profits will be reduced down to a reasonable level over the 3 year period leading up to the transfer of the Highways Agency.

## 9 SUMMARY OF THE 2010/11 BUDGET POSITION

Table 8 summarises the net budgetary position as detailed in this report.

**Table 8 – Summary of Budget Position**

| | Report Table Reference | £ |
|---|---|---|
| Shortfall | Table 2 | 811,130 |
| Meeting Priorities | Table 3 | 692,050 |
| Efficiency and Other Savings | Table 5 | (1,096,630) |
| Corporate Savings | Table 6 | (290,000) |
| One off Savings / Funding | | (116,550) |
| **Shortfall** | | **-** |

A net budget of £21,271,040 is proposed for the 2010-11 financial year, with corresponding financing of £21,271,040.

Table 9 below summarises the net budget by Head of Service and Corporate Budget Heads and the financing for the year, comparing them with the revised budgets for the 2009/10 financial year.

**Table 9 – Net Budget under Head of Service and Corporate Control and Associated Financing**

| | 2009/10 £ | 2010/11 £ |
|---|---|---|
| Environmental Services | 5,289,550 | 5,048,080 |
| Finance and Asset Management | 3,343,120 | 3,862,410 |
| Human Resources and Performance | 780,670 | 758,480 |
| Legal and Support Services | 2,256,320 | 2,204,110 |
| Regeneration and Planning | 942,240 | 913,460 |

| | | |
|---|---|---|
| Technical Services<br>Tourism and Culture<br>Transformational Management | (4,410,070)<br>3,782,940<br>2,036,700 | (4,496,710)<br>3,812,680<br>1,983,890 |
| Total Budgets under specific Heads of Service Control | 14,021,470 | 14,086,400 |
| Corporate Budget Heads<br>Total Net Budget | 6,927,340<br>20,948,810 | 7,184,640<br>21,271,040 |
| Financed by:<br>Local Government Finance Settlement<br>Borough Council Precept | <br>(12,353,810)<br>(8,595,000) | <br>(12,502,000)<br>(8,769,040) |
| Total Financing | (20,948,810) | (21,271,040) |

## 10 RESERVES AND BALANCES

The Council's Reserves and Balances are considered in **Appendix G**. The 2009/10 budget does not rely on a contribution from General Reserve Balances.

## 11 OTHER SOURCES OF FUNDING

On 4 November 2009 the DfT (Department for Transport) launched a public consultation about the proposed amendments to the formula for distributing its concessionary fares grant funding for the 2010/11 year.

The consultation document highlighted that whilst the government were confident that the additional grant funding provided to local authorities for the enhanced scheme was sufficient in total to meet the additional costs of the concessionary travel, a review of the costs incurred by authorities during the first full year highlighted that there were some distributional issues with the grant. A number of authorities, like the Borough Council, received insufficient funding to cover their additional costs whilst others received significantly more grant than required.

The primary aim of the DfT's consultation was to seek views on whether to allocate the grant funding for 2010/11 using a revised distribution method which would seek to better match the actual costs imposed on local authorities by the scheme.

The government has now announced that it has considered the responses to the consultation and has decided to proceed with a revised grant distribution for 2010/11. This will result in an additional grant of £0.3m for the Council in 2010/11.

It is proposed that the additional funding be used as follows:

- up to £45k to be used to fund the costs of the parks rangers during 2010/11 whilst overview and scrutiny committees undertake a review of the service; with

- £250k to be transferred to the Council's Capital Development Fund and be earmarked to undertake feasibility and planning works to progress some of the larger schemes on the capital reserve list such as the Town Hall and Dean Road Depot relocation and Leisure Strategy.

  Proposals and regular updates on the use of this fund will be regularly reported to Cabinet through the quarterly finance and performance monitoring reports.

- £5k to be put towards an A64 corridor study. The total funding needed for this study is £10k therefore it is proposed that a further £5k will be taken from contingency budgets in 2010/11

## 12 COUNCIL TAX

The budget position assumes an increase in the level of Council Tax of 2%. Table 10 shows the Scarborough Borough Council element of the Council tax levy per band.

**Table 10 – Council Tax levy per band**

| Band | 2008/09 £ | 2009/10 £ | Increase £ |
|---|---|---|---|
| A | 138.11 | 140.87 | 2.76 |
| B | 161.13 | 164.35 | 3.22 |
| C | 184.15 | 187.83 | 3.68 |
| D | 207.17 | 211.31 | 4.14 |
| E | 253.21 | 258.27 | 5.06 |
| F | 299.25 | 305.23 | 5.98 |
| G | 345.28 | 352.18 | 6.90 |
| H | 414.34 | 422.62 | 8.28 |

**Council Tax Capping**

In early December all local authorities received a letter from Barbara Follett MP on Council Tax capping for 2010/11. The following extracts are taken from that letter:

*"As I said in my statement to the House of Commons, I am pleased that the average Band D council tax increase this year was 3 per cent. The Government anticipates this amount to fall further in 2010-11 whilst authorities protect and improve front line services. In fact, we expect the average Band D council tax increase in England to achieve a 16 year low in 2010-11. The Government remains prepared to take capping action against excessive increases by authorities and to require them to rebill households for a lower council tax if necessary.*

*As I announced in my statement, the Government has instituted capping action against the police authorities of Cheshire, Leicestershire and Warwickshire in advance of the 2010-11 settlement as a result of previous, excessive, increases set by them. No other decisions on capping in 2010-11 have been taken. These will, as in previous years, be taken after authorities have set their 2010-11 budgets. Capping principles have always been determined on a year by year basis to take into account current economic and social circumstances and this will again be the case in relation to 2010-11.*

*It would, therefore, be a mistake for any authority to assume that previous years' capping principles will apply to 2010-11. I have made it very clear that the Government expects the average Band D council tax percentage increase to reach a 16 year low in this period. I have also indicated that we will take capping action against any excessive increases and I do not propose to send any further written warnings about the risks involved.*
*I realise that decisions on council tax increases in 2010-11 are a matter for each individual authority, but the Government has clearly set out the context in which these must be taken."*

## 13 ASSESSMENT

The Revenue Budget for 2010/11 builds upon the success of the Financial Strategy, which is now clearly embedded throughout the Council.

The budget efficiency and other savings requirements were identified in the Medium Term Plan well in advance, allowing Heads of Services to transform their services areas to achieve these challenging targets and limit the financial impacts on local taxpayers.

Notwithstanding this, the efficiencies and other savings could not be achieved without pain, however the developments of the Corporate and Finance Strategy Group, the Financial Strategy and quarterly budget monitoring to Members have supported the process.

The key features of the proposed budget include:

- No requirement to draw from General Fund Reserves
- Identification of the efficiency targets and other savings
- Significant investment in priority services
- Restricted council tax increases (2%)
- Recognition that the current economic climate will continue to have an impact on the 2010/11 revenue budget.
- The inclusion of a contingency budget of £190,000 to mitigate budget pressures arising from the recession and/or part year savings that cannot be fully realised in year.

The budget process for 2010/11 does not stop now the Financial Strategy has been written. As demonstrated in 2009/10 the budget proposals now have to be delivered. Heads of Service receive monthly financial management reports on both their revenue and capital budget and quarterly updates are reported to Members.

During the year there will inevitably be changes to the budget. Embedded procedures will allow the Council to be responsive to these changes whilst ensuring that the budget proposals are delivered

**APPENDIX A1**

# BUDGET PRESSURES

| | | £ |
|---|---|---|
| Vat Mitigation and Right to Buy Scheme | When the housing stock transferred to Yorkshire Coast Homes the Borough Council budgeted to receive income from the Vat Mitigation Scheme (on capital works undertaken on Council Houses), along with income from the sale of each Council House under the Right to Buy Scheme.<br>An amount of £200,000 is included within strategy, reducing the income included within the base budget, to reflect that fact that Right to Buy sales will fall and income from the Vat Mitigation Scheme will reduce as the capital works are undertaken by Yorkshire Coast Homes.<br>This is the sixth year that this write down has been included in budget strategy and the income from these sources total approximately £346,000 in the 2010/11 budget. | £200,000 |
| Reduction in Trading Account Profits | The Council was notified during the 2007/08 financial year that the County Council were terminating the Highways Agency Agreement. The contract includes a 3-year termination clause. This growth reduces the profit targets for the Highways trading accounts and spreads the impact of this loss over a 3 year period. | £100,000 |
| Benefits Administration Subsidy | The Council receives an annual subsidy for Benefits Administration. Central Government have cut this allocation nationally by 5% to account for efficiency targets. The Council's reduction equates to £60,000. | £60,000 |
| Reductions in salary savings | In previous years the Council has opted to budget for approximately 99% of its total salary costs to provide for savings arising on vacant posts. In the current economic climate it is expected that staff turnover, and the resultant savings, will reduce. This growth reduces the corporate salary savings included within budget to nil. | £100,000 |
| Business Rates | In 2008/09 expenditure on business rates exceeded budget by £240,000 and in the current financial year expenditure is exceeding budget by £227,000. The increases on expenditure is due to a lack of successful rating appeals, reductions in transitional rate relief and changes in legislation which removed rate relief on some empty properties. Budget growth of £200,000 is required to bring the 2010/11 budget up to a reasonable level.<br><br>A number of actions are being undertaken to reduce future expenditure on business rates. The contract for external rating consultants is being re-tendered | |

| | | |
|---|---|---|
| | and Council owned empty buildings are being reviewed for demolition / alternative use. | £200,000 |
| Partial Exemption VAT liability | Local Authorities can normally recover all the VAT that they incur on expenditure under the special partial exemption regime for 'section 33 bodies'. This is on the condition that VAT on costs relating to exempt business activities (e.g. cremation services, some sports facilities, some harbour activities) is not more than 5% of all VAT incurred (input VAT).<br><br>In 2007/08 and 2008/09 HMRC applied a moratorium and did not impose this limit however it was reinstated on 1 April 2010. If the 5% limit is breached the VAT on all costs relating to exempt activities (approximately £200,000 for the Council) becomes payable to HMRC.<br><br>Partial exemption was raised as a concern at the time of the housing stock transfer as it resulted in a significant reduction in the level of input VAT claimed back each year, thus increasing the % attributable to exempt activities.<br><br>Partial exemption limits are also affected by capital expenditure incurred on schemes or assets that generate exempt income therefore potential breaches will need to be considered before any scheme is included within the capital programme.<br><br>Officers will be reviewing the Council's levels of exempt activities to ensure that this penalty is avoided should tax planning allow. | £200,000 |
| **TOTAL** | | **£860,000** |

**APPENDIX A2**

## MEETING PRIORITIES

| HEAD OF SERVICE | BID | DETAILS | £ |
|---|---|---|---|
| Corporate | Revenue Implications associated with the Capital Programme | The capital expenditure funded from the capital development reserve will result in fewer reserves being available for investment and will lead to an estimated £20,000 reduction in interest receipts per annum. A further growth of £50,000 has been added into the revenue budget to gradually build up contributions to the Capital Development Reserve, allowing for future capital expenditure. | 70,000 |
| Tourism and Culture | Spa Redevelopment | Full details of the Spa redevelopment project was reported and approved by Full Council on 2 November 2009 (Report 09/639). This funding provides for £156k off losses of entertainment, catering and car parking income during the 2010/11 financial year whilst areas of the Spa are being redeveloped and £120k to fund the costs of borrowing to facilitate the Borough Council's investment in the project. | 276,000 |
| Environmental Services | Disabled Facilities Grants | The cost of mandatory disabled facilities grants significantly outweighs the government funding received for these costs. The baseline cost based on previous years expenditure exceeds external funding by approximately £619k per annum. As these costs are mandatory the Council is obliged to fund this shortfall.<br><br>The Council's capital programme already includes a budget of £169k each year for these costs, leaving an annual funding shortfall of £450k. It is proposed that the budget to fund these costs is increased by £150k per annum for the next 3 years. | 150,000 |
| Tourism and Culture | Open Air Theatre | The Open Air Theatre Development was reported to and approved by Full Council on 7 October 2009 (Report 09/528). £162k was approved to provide funding for the payment of an operators subsidy, losses of rental income and site maintenance costs. Reductions to this amount have been applied to reflect potential sponsorship of the dancing waters (£30k) and reductions in treasury management costs (£52.5k).<br><br>The Council has recently received notification from the sands developer that they are not in agreement with the Council's proposal to use all rents generated from the North Bay Railway to cross subsidise the Open Air Theatre subsidy. Negotiations are still ongoing, however it is considered prudent to assume that £30k will no longer be used to fund the Open Air Theatre subsidy and will instead be transferred to the Sands balance sum account. | 109,500 |
| Tourism and | Futurist | Full Council have already agreed a one off increase of £40k for the Futurist | |

| | | | |
|---|---|---|---|
| Culture | | subsidy. This increased subsidy will ensure that the venue stays open in 2010/11 | 40,000 |
| Technical Services | Filey Decorative Lighting | This funding will allow Filey Town Council to run a lighting initiative to improve the decorative lighting display in their town. The Town Council are actively pursuing sources of funding and donations for this initiative. The Borough Council contribution will fund the annual cost of installing and removing the decorations. | 5,000 |
| Environmental Services | Enforcement of Fire Safety Standards | The responsibilities of the Council in relation to the enforcement of fire safety standards have steadily grown over recent years as a result of legislative change. The responsibility to enforce these standards now lies with the Council as Housing Authority for most residential dwellings in the Borough. Should the Council not enforce these standards it would be vulnerable to litigation/corporate manslaughter if an incident/death occur in a property where action is needed. A post is required for an additional technical officer to deal with this additional workload. Backlogs of required enforcement action are still likely to develop even when this post is filled and as such this bid is one of a range of actions being undertaken to mitigate the risk to Council. | 31,550 |
| Tourism and Culture | Barons Leisure Centre | In March 2009 the Council entered into a services agreement with Scarborough Rugby Union Club and agreed to pay a subsidy of £10k per annum in exchange for them allowing residents use of the facility. | 10,000 |
| **TOTAL** | | | **692,050** |

APPENDIX A3

# EFFICIENCY AND OTHER SAVINGS

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| **Environmental Services** | | | | | | | |
| Combining Dog Bins / Clinical Waste Collections with other patrols | 21,550 | 21,550 | | | Low | 1.00 | This will increase the workload on the other patrols and will lead to less flexibility and response times to ad hoc works |
| Dispose of spare machine sweeper | 10,400 | 10,400 | | | Low | | This is a spare vehicle but the loss may result in delays to street cleansing in some areas where there have been vehicle breakdowns etc |
| Reduce litter bin collections in winter | 10,700 | | 10,700 | | Low | 0.50 | This will result in more work for the driver and crew-member but the volume of litter in Winter is considerably reduced. |
| Disposal of vehicle (fleet no. 240) | 45,000 | 45,000 | | | Low | | Using 290 to do this work (smaller vehicle currently used for clinical waste etc. see OS1) |
| Reduce duplication of late litter bin collection | 11,000 | 11,000 | | | Low | 0.25 | There is currently an overlap between shifts in Summer - this will remove the overtime but will decrease flexibility and increase response times to ad hoc works |
| Revise Whitby response unit | 8,600 | 8,600 | | | Low | 0.25 | This will effectively remove the response unit at weekends - any ad hoc work will have to be covered by others and this may result in some delays |
| Sandsend seasonal village caretaker | 11,000 | | 11,000 | | Low | 0.50 | This work will be covered by the Hinderwell / Staithes caretaker - this may result in some reductions to the service in all areas but there will be additional cover from the mobile caretaking team |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Additional trade refuse income | 15,000 | | | 15,000 | Medium | | This is the income projected from increasing commercial waste charges in 2010/11 |
| YCH recharge for street cleaning | 5,000 | | | 5,000 | Medium | | YCH should pay for the work carried out on their land. |
| Review of refuse collection rounds | 50,000 | 50,000 | | | Medium | | The round review will be completed in 2009/10 and will save a minimum of 1 vehicle as well as a number of other efficiency and cost gains. There should be no impact as a result. |
| Additional income from NYCC for bin emptying at Park and Ride sites | 2,500 | | | 2,500 | Medium | | NYCC should be paying the full cost of this work. No impact elsewhere |
| Additional trade waste income from holiday properties | 54,000 | | | 54,000 | High | | The collection of waste from holiday lets is a chargeable service. No work has been done to either identify these or levy the applicable charge. Work needs to be done to identify and recharge as appropriate owners of such properties. This will be an on-going piece of work. |
| Additional income from commercial recycling | 24,000 | | | 24,000 | Medium | | This is the income projected from increasing the commercial recycling service in 2010/11 |
| Additional sales of recyclables from commercial customers | 8,000 | | | 8,000 | Medium | | This is the income projected from the sale of materials from increasing the commercial recycling service in 2010/11 |
| Less: costs of 2 posts to achieve the above 3 additional income sources (Sc3) | (56,000) | | | (56,000) | Low | (2.00) | Posts necessary to undertake work to increase commercial customer base and identify chargeable collection premises |
| Additional recycling income (50% share of recyclate) | 53,303 | | | 53,303 | Medium | | Projected income increase in 2010/11 |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Review of car allowances and traveling | 7,280 | 7,280 | | | Low | | No impact |
| Miscellaneous small savings | 1,920 | 1,920 | | | Low | | No impact |
| **Total** | **283,253** | **155,750** | **21,700** | **105,803** | | **0.50** | **Savings Target £283,253** |
| **Finance & Asset Management** | | | | | | | |
| Staffing efficiencies in exchequer services | 25,000 | 25,000 | | | Low | 1.00 | Impact mitigated by introduction of new system |
| Financial Ledger system software savings | 15,000 | 15,000 | | | Medium | | Achieved |
| Debt Management Restructure | 20,000 | | 20,000 | | Low | | Achieved |
| Energy Management | 10,000 | 10,000 | | | Medium | | Initiatives to be identified |
| General budget savings | 1,150 | 1,150 | | | Low | | Limited impact |
| Accountancy Staff Reduction | 18,850 | 18,850 | | | Low | 0.50 | Achieved through restructure |
| Staffing efficiencies in benefit, fraud and recoveries | 32,133 | 32,133 | | | Low | 1.50 | Impact upon housing benefit fraud and council tax recovery rates |
| Staffing efficiencies in local taxation | 25,000 | 25,000 | | | Low | 1.00 | Impact mitigated through restructure |
| **Total** | **147,133** | **127,133** | **20,000** | **0** | | **4.00** | **Savings Target £147,133** |
| **Human Resources & Performance** | | | | | | | |
| General budget adjustments | 14,032 | 14,032 | | | Low | | |
| Deletion of vacant post (HR0045) | 7,950 | 7,950 | | | Low | 0.39 | |
| Reduction in hours (HR0032A) | 5,226 | 5,226 | | | Low | 0.20 | |
| **Total** | **27,208** | **27,208** | **0** | **0** | **Low** | **0.59** | **Savings Target £27,208** |
| **Legal & Support Services** | | | | | | | |
| Savings for 2010/11 already achieved | 48,591 | 48,591 | | | Low | 2.00 | These savings have already been achieved during 2009/10 |
| Reductions in print cartridge usage | 5,000 | 5,000 | | | Low | | |
| Increased income in legal section | 5,000 | 5,000 | | | Low | | |
| **Total** | **58,591** | **58,591** | **0** | **0** | | **2.00** | **Savings Target £58,591** |
| **Regeneration & Planning** | | | | | | | |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| NYCC - York and North Yorks Partnership | 5,000 | | 5,000 | | Low | | Budget reduction - no risk |
| Relocation of Town Centre Management from Falconers Square | 10,000 | 10,000 | | | Medium | | This will allow rental income to be generated from the space although there could be a loss of income from advertisers |
| Planning grant to NYCC - Conservation Officer | 2,080 | | 2,080 | | Medium | | Potential complaint from NYCC |
| Restoration Grants | 11,950 | | 11,950 | | Medium | | May get negative feedback from English Nature etc |
| Grants to NYCC Heritage Coast Project | 8,000 | | 8,000 | | High | | Potential complaints from NY National Parks |
| General Budget Reductions | 11,260 | 11,260 | | | Low | | No impact |
| Merge management of Scarborough Market and Town Centre Management | 4,703 | 4,703 | | | High | 1.00 | Option still at review stage. Part time saving included here - full year saving will be greater. Full implications and costings still to be considered. |
| **Total** | **52,993** | **25,963** | **27,030** | **0** | | **1.00** | **Savings Target £52,993** |
| **Technical Services** | | | | | | | |
| General Budget Adjustments | 21,075 | 21,075 | | | Low | | |
| Adjustment to contributions to harbour reserves | 30,000 | | 30,000 | | Medium | | Potentially insufficient budgets in future years to fund unforeseen works |
| Staffing efficiencies - Sands Project Manager end of fixed term contract | 38,750 | 38,750 | | | Medium | 1.00 | Public may perceive that this could hinder the progress of the Development |
| 50% vacant post in Project Management | 16,960 | 16,960 | | | Medium | 0.50 | |
| Adjustment to maintenance budgets at Scarborough Harbour | 8,880 | | 8,880 | | Medium | | Adjustment to maintenance budget due to capital works undertaken in recent years. Savings would need to be reinstated in approx 5 years time |
| Adjustment to maintenance budgets at Whitby Harbour | 4,970 | | 4,970 | | Medium | | Adjustment to maintenance budget due to capital works undertaken in recent years. Savings would need to be |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| | | | | | | | reinstated in approx 5 years time |
| Coast Protection works | 31,480 | | 31,480 | | Medium | | Adjustment to maintenance budget due to capital works undertaken in recent years. Savings would need to be reinstated in approx 5 years time |
| Cessation of Bus Shelter works by contractors | 9,000 | | 9,000 | | Low | | In house delivery |
| Cessation of Car Parks works by contractors | 9,340 | | 9,340 | | Low | | In house delivery |
| **Total** | **170,455** | **76,785** | **93,670** | **0** | | **1.50** | **Savings Target £170,455** |
| **Tourism & Culture** | | | | | | | |
| Parks & Countryside Service - non replacement of 2FTE | 34,350 | 34,350 | | | Low | 2.00 | These are gardener posts; one in Scarborough Town Centre and one on South Cliff. Attempts will be made to cover the high profile elements of the work using the remaining workforce but the loss of 2 full time posts will impact on standards. No redundancy costs - due to retirement |
| Parks and Countryside Service - saving from staff leaver (0.5 FTE) | 17,000 | 17,000 | | | Low | 0.50 | Post TC0232 - saving realised. This post being vacant has placed significant extra pressures on the management side of the service. There may be lost opportunities for external funding. |
| Parks & Countryside Service – restructure of Park Ranger Service | 45,000 | 45,000 | | | Low | 2.00 | Restructure of service |
| Parks & Countryside - Section 106 payment for Centurion Way | 13,800 | | | 13,800 | Low | | Payment already received. |
| Parks & Countryside Service - reduction in mobile communication costs. | 5,000 | 5,000 | | | Medium | | There have been under spends in previous years on this budget item. |
| Parks & Countryside Service - reduction in fleet. | 10,000 | | 10,000 | | Low | | Reduction of 1 vehicle which will reduce flexibility. |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Parks & Countryside Service - rationalisation of materials. | 22,000 | | 22,000 | | High | | Overall reduction in materials. |
| Parks & Countryside Service - event organisation. | 10,000 | | 10,000 | | Low | | Entire budget now removed – cease all events e.g. Secret Wood. |
| Parks & Countryside Service - sponsorship of floral barrels. | 6,000 | | | 6,000 | High | | Source external funding to maintain the service level. £50 per barrel = 120 barrels. |
| Parks & Countryside Service - street weed spraying for NYCC. | 10,000 | | | 10,000 | Low | | Some of this external work can be carried out using existing resources. |
| Parks & Countryside Service - efficiencies of working with other services. | 15,000 | 15,000 | | | High | | This is to be part of a wider review of the service departments, possibly involving specialist external advisers. It is anticipated that the outcome of such a review will not be implemented until the fourth quarter of 2010/11 therefore the level of savings is based on a three month period. |
| Parks & Countryside Service - reduction in costs of operating the Nursery at Manor Road. | 10,000 | | 10,000 | | Low | | No tangible external impact. |
| Parks & Countryside Service - increase in the fee for work carried out for NYCC or a reduction in work; following completion of the mapping exercise of land currently being maintained by Parks & Countryside. | 3,390 | | | 3,390 | Medium | | The mapping exercise to date shows a 7% difference in favour of SBC. |
| Leisure Services - increase Chalet fees | 5,000 | | | 5,000 | Low | | 7.5% increase above inflation. The long waiting lists are an indication that fees are currently below their market value. The increase is not likely to reduce occupancy. |
| Leisure Services - Filey Brigg Caravan Park extended season | 15,000 | | | 15,000 | Low | | Net additional income. A trial of extending the opening Filey Brigg Caravan Park from the end of October through to the New Year was conducted during 2009/10. |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Leisure Services - reduction in labour at Peasholm (including Naval Warfare) and seafronts. | 20,000 | | 20,000 | | Medium | 1 | A reduction in the number of Naval Warfare events to one per week in the shoulder months of the season and a reduction of one of the fleet. Reduction in Peasholm (free of charge) organ events. Greater flexible use of remaining staff. May result in difficulties recruiting quality staff for jobs where seasonal working hours are reduced. |
| Leisure Services - externalise some of the seasonal activities | 5,000 | | 5,000 | | High | | This has been tried before with very little success. Higher levels of unemployment may assist in achieving operators for some of the amenities. |
| Leisure Services - cease operating the meteorological stations | 6,000 | | 6,000 | | Medium | | This removes the whole budget. |
| Leisure Services - increased use of fitness facilities at Scarborough Sports Centre, Scarborough Swimming Pool and Whitby Leisure Centre | 18,000 | | | 18,000 | Medium | | Subject to an Invest to Save bid to upgrade the equipment. The current facilities are continuing to suffer from a reduction in market share due to lack of investment to keep abreast of competition and provide a service that meets the expectations of customers. The equipment could either be purchased or leased and can be relocated should the need arise within the next four or five years. |
| Leisure Services - closure of crèche at sports centre | 12,000 | | 12,000 | | Low | To be identified | Could lead to complaints from a small number of customers. There will be proposed redundancy costs. |
| Leisure Services - use of crèche room as an alternative activity space | 1,500 | | | 1,500 | High | | The crèche room to be used for a small number of alternative activities. |
| Leisure Services - joint receptionist / bar tender | 5,000 | 5,000 | | | Low | To be identified | Small initial outlay to link the reception and bar servery areas |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Leisure Services - cease provision of attendants at Whitby West Cliff and Filey Seafront public conveniences. | 13,000 | 13,000 | | | Medium | To be identified | Net efficiency savings which takes account of the loss of income. Reduced frequency of cleaning and overall a decline in cleanliness. Possible risk of vandalism. |
| Leisure Services - cease to operate North Bay toilets as an attended pay on entry toilets and cover the cleaning with the mobile cleaning team or as an alternative seek an operator for the facility. | 12,000 | | 12,000 | | Low | 1.00 | Net efficiency savings which takes account of the loss of income. Reduced frequency of cleaning and overall a decline in the cleanliness. Possible risk of vandalism. Unlikely to retain 'Loo of the Year' award. May miss out on the opportunity of potential income with increased footfall in the North Bay once the Open Air theatre opens for business. May be successful in securing an alternative operator. |
| Leisure Services - close 2 (out of 40) public conveniences and use some of the savings to secure access to private facilities. | 20,000 | | 20,000 | | High | | Alternative providers would need to be suitable and access to toilets available at reasonable times. The focus will be on those public conveniences that have low usage levels. In addition to a revenue saving there may be an opportunity for capital receipts if facilities are disposed of. |
| Tourism Services - reduction in staffing costs following transfer of staff to the Moors & Coast Tourism Partnership. | 14,000 | 14,000 | | | Low | 0.40 | The post holder worked for the partnership 3 days per week. Some of the duties carried out during the other two days per week have transferred to other officers. This has placed additional pressure on the remaining senior staff within the department. Saving already achieved. |
| Tourism Services - staff restructure at Scarborough Spa and Whitby Pavilion. | 20,000 | 20,000 | | | Low | 1.00 | Post Number TC0032 - no redundancy costs, posts now vacant. |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Tourism Services - annualised hours at Scarborough Spa and Whitby Pavilion. | 15,000 | 15,000 | | | Medium | 1.00 | More effective and productive use of staff resources coupled with reducing enhanced overtime payments. This will require consultation with staff and the Union. |
| Tourism Services - Whitby Pavilion - various initiatives including closure of Café at non peak times and encouraging community groups to use the facilities on a particular day of the week to enable staff reductions to be made on quieter days. | 8,000 | | 8,000 | | Medium | 0.60 | Limited catering provision will be made through vending machines i.e. confectionery and hot & cold beverages. May be an inconvenience for community changing their regular booking days/times. |
| Tourism Services - reduce the number of days that the Scarborough Spa and Whitby Pavilion are open to the public. | 15,000 | | 15,000 | | Low to High | To be identified | Close of facilities to the public for significant periods during relatively quiet times of the year; e.g. January, February and early March. For the saving to be achieved there will need to be changes to staff working patterns e.g. annualised contracts where staff are required to work longer hours during busy periods and fewer hours during quiet periods. This will require consultation with staff and the Union. |
| Tourism Services - market test the management of the Spa and Whitby Pavilion. | 20,000 | | 20,000 | | High | | This is a lengthy and time consuming piece of work as it will be necessary to go through a full tender procedure. It is anticipated that it will be the fourth quarter of 2010/11 before any new contract is fully implemented therefore the level of savings is based on a three month period. |
| Tourism Services - additional income from lease of box office on West Cliff. | 6,000 | | | 6,000 | Low | | Already achieved. |
| Tourism Services - creation of 3 new business units at the Evron Centre | 3,000 | | | 3,000 | Low | | Capital expenditure required (unless reduced rents offered). Would be £9k of income if full rent achieved. |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Tourism & Culture Services -staff restructure - Falsgrave Community Centre and Filey Evron Centre | 15,000 | 15,000 | | | Low | 1.00 | Joint management of the two venues. This could lead to potential redundancy costs. |
| Tourism & Culture Services - Removal of the departmental research development budget | 12,000 | | 12,000 | | Low | | Removal of the capacity to procure research and engage external resources to assist with projects and initiatives |
| Tourism & Culture Services - reduction in energy and water usage through implementation of numerous energy conservation initiatives across a range of sites | 15,000 | 15,000 | | | Low to High | | To include pools, sports facilities, public conveniences and entertainment venues |
| Tourism & Culture Services - increased income across a wide range of services through improved marketing and promotion by utilising specialist staff based at the Spa. | 10,000 | 10,000 | | | Low to High | | More joint promotion initiatives within the department and linking with those of partner organisations. |
| Tourism & Culture Services - general budget reductions. | 23,000 | 23,000 | | | Low | | Sum total of under spends achieved in previous years on a number of budget codes. No impact. |
| Tourism & Culture Services - budget shortfalls carried forward from 2009/10. | (230,500) | | (230,500) | | | | This is a balancing figure to enable some income budgets to be reduced to an achievable level. Therefore the total Tourism & Culture saving figure for 2010/11 is £510,040. |
| **Total** | **279,540** | **246,350** | **(48,500)** | **81,690** | | **10.50** | **Savings Target £279,540** |
| **Transformational Mgt** | | | | | | | |
| Financial Ledger system software savings | 15,000 | 15,000 | | | Medium | | an extra 6 months will now be funded out of the FAPM project savings but will then be cancelled |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| Job Costing and Asset Management system software savings | 20,000 | 20,000 | | | Medium | | Contract already cancelled |
| Savings on server warranties | 11,240 | 11,240 | | | Medium | | £1,700 at risk |
| Disaster Recovery savings | 3,000 | 3,000 | | | Low | | new contract at lower cost |
| Savings on escrow licenses | 1,420 | 1,420 | | | Medium | | No impact |
| Virtualisation | 1,000 | 1,000 | | | Medium | | 50% completed to date. Kit now in place to measure energy efficiencies |
| Visitor badges | 888 | | | 888 | Low | | No impact. |
| Additional income from TIC sales | 42,520 | | | 42,520 | Medium | | No impact. initiatives for sustaining include central buying of stock, better layout at Whitby TIC, advertising board, move into larger premises in Scarborough centre, rental of Whitby TIC space to Police/National Park (5423.88 p.a.) extended hours (£5000) |
| Misc small savings | 3,000 | 3,000 | | | Low | | No impact on service, minimal impact on internal operation |
| Savings not achieved from 2009/10 | (42,520) | (42,520) | | | Low | | |
| Rent for TIC franchise at Eastfield | (3,000) | (3,000) | | | Low | | No impact on service, minimal impact on internal operation |
| Don't take CCA Accreditation | 5,000 | | 5,000 | | Medium | | CCA Accreditation is Audit Commission requirement. Risk of negative Audit Commission comment. Lose contacts for learning best practice. Leaves us behind rest of North Yorkshire |
| Loss of one FTE | 19,909 | | 19,909 | | Medium | 1.00 | Our service levels will drop meaning that fewer customers will be dealt with. To minimise impact propose losing a team leader position rather than an advisor although this may have an affect on quality of service. Expected loss in income of around £5,000 p.a. is reflected in the actual saving offered of £19,909. Forecast drop in service level of approximately 6%. Note that we |

| Saving Proposal | Total Savings £ | Efficiency Savings £ | Other Savings £ | Increase Income £ | Risk | Reduction in FTE Employee | Notes / Implications |
|---|---|---|---|---|---|---|---|
| | | | | | | | have not yet attained our 80% target - we are currently at 67% |
| **Total** | **77,457** | **9,140** | **24,909** | **43,408** | | **1.00** | **Savings Target £77,457** |
| | | | | | | | |
| **Grand Total** | **1,096,630** | **726,920** | **138,809** | **230,901** | | **21.09** | **Total Savings Target £1,096,630** |

**APPENDIX A4**

## CORPORATE SAVINGS

| SAVING PROPOSAL | DETAILS | £ |
|---|---|---|
| West Riding Superannuation Scheme | This saving relates to residual costs accruing to the Council on an old West Riding pension scheme. | 20,000 |
| Insurance contributions | The Councils insurance contract was retendered during 2008/09. This saving reflects a full years reduction in the cost of insurance premiums arising from the re-tender as well as the Council's improved claims history. | 150,000 |
| Reductions in contributions to revenue development reserve | The revenue development reserve was set up to fund small, one off items, of revenue expenditure. An annual contribution of £50k is made into this reserve. Due to the pressures faced in this year's budget it is proposed to take these contributions as a saving in 2010/11 only. It is anticipated that the contributions will be added back as a strategy item in 2011/12. | 50,000 |
| Management Structure Reviews | A number of options for restructuring are being considered by senior management. These proposals are still in the early stages and have not yet been quantified however will be reported to Members once the appraisals have been completed. | 70,000 |
| **TOTAL** | | **290,000** |

**APPENDIX A5**

## FINANCIAL IMPACT OF THE LOSS OF THE HIGHWAYS AGENCY

### LOSS OF HIGHWAYS AGENCY AND REDUCTIONS IN WORKLOAD FOR PROPERTY TRADING ACCOUNT

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|
| Trading unit profits included in base budget | 768 | 668 | 438 | 338 |
| Budget Strategy Growth - reduction in Highways Trading unit profits | (100) | (100) | (100) | (100) |
| Budget Strategy Growth – reduction in Property Trading unit profits | | (143) | | |
| Annual contributions for Term Pension and Redundancy costs | | 13 | | |
| Savings to be achieved through reductions in support service costs | | | | (150) |
| Cost savings to be identified by the Head of Service | | | | (45) |
| Adjusted Profit included in base budget | 668 | 438 | 338 | 43 |

**APPENDIX B**

# ADDITIONS TO THE CAPITAL PROGRAMME 2010

New Capital Schemes

Recommended additions are set out in the following categories:

1. Priority Schemes
2. Asset Management Schemes
3. IT System Enhancements
4. Vehicle, Plant and Equipment
5. Invest to Save

## 1. Priority schemes

Priority schemes are designed to complement the Revenue Plan in meeting the aims and priorities set out in the Corporate Plan. The proposed investments for the 2010/11 financial year are minimal as the Council's available capital resources are limited

The new schemes proposed for 2010/11 are listed below:

- **Developing Safer and Stronger Communities**

Within this aim the top priority is 'Reducing Crime and Disorder'. This is primarily met through the Council's revenue budget. There are no additional capital investments recommended within this aim for 2010/11.

- **Building Prosperous Communities**

Major capital investment has recently been committed for the Spa and Open Air Theatre, to address the top priority of 'Encouraging Economic Growth'.

The Council's Geographic Programme and other Regeneration Schemes will also meet this priority.

- **Creating Health and Vibrant Communities**

The top priority within this aim is 'Ensuring Affordable and Decent Housing'. The Housing Strategy addresses this through the Revenue Budget and the 10 year Capital Plan. The capital programme already includes a commitment of £4.9 million over the period from 2010-2020 towards disabled facilities grants (£3.21 million of which is anticipated to be externally funded).

Current expenditure on these grants significantly outweighs the funding allocated in the capital programme therefore it is proposed that a further £4.05 million revenue funding be allocated over the period. The increases in revenue contributions will be phased in over a 3 year period at an amount of £150k per annum.

Two schemes will help to meet the priorities of improving the quality of life through participation in leisure and cultural activities and improving play facilities. These are the purchase of land at Whitby Golf Club and the North Bay Play Area.

The Leisure Strategy, which is currently being reviewed, and is included on the capital reserve list will also meet this priority.

- **Purchase of Land at Whitby Golf Club (£150,000)**

  Priority: Improving active participation in leisure and cultural activities

  This scheme will fund the purchase of an additional area of land from Whitby Golf Club on a rental purchase agreement. The eastern half of the course was becoming unsafe due to cliff erosion therefore the golf club made the decision to address the situation by acquiring additional land to reorder the course. An adjoining 23.4 acre plot of agricultural land was purchased by the golf club and this piece of land now holds 4 of the 18 holes on the course.

  This purchase of this land from the golf club will secure the future of the golf course in Whitby, maintain the Council's rental income from the piece of land, and significantly increase the value of the adjoining asset already held by the Council.

- **Northbay Play Area (£250,000)**

  Priority: Improving services for young people

  This will fund the provision of a new children's play area in the North Bay. £100k external funding will be funded by the Open Air Theatre Operator and the remaining £150k will be funded by the Borough Council. The external funding will not be received until the 2011/12 financial year therefore the scheme cannot be progressed until this time.

  Feasibility study works of approximately £5k will be undertaken in 2010/11.

- **Creating Quality Environments**

  It is proposed that the Council includes the cost of installing mercury abatement equipment at the crematorium in the 2010/11 capital programme in order to meet legislative requirements.

  The Council is also in the process of establishing an energy efficiency fund to manage the implementation of energy management initiatives across the Council's assets.

  Both scheme will meet the priority of 'becoming a greener council'.

  - **Mercury Abatement Equipment (£580,000)**

    The expenditure for mercury abatement equipment at the crematorium is needed in order to comply with legislative requirements, and the works must be completed by 2012. It is therefore proposed that the scheme be included in the 2010/11 capital programme. There could be a potential to recover an element of the cost through increased cremation fees.

Crematorium fees are exempt from VAT. If VAT on costs relating to exempt business activities is more than 5% of all VAT incurred (input VAT) by the Council all VAT on costs relating to exempt activities (approximately £200k) becomes payable to HMRC.

It was noted earlier in this report that the Council is very close to exceeding this limit and must therefore restrict its expenditure on exempt activities.

The Council is seeking professional advice to review options of leasing this equipment rather than purchasing it outright. This will benefit the Council by spreading the cost (and the associated VAT) over a number of years however interest costs associated with the lease will increase the amount payable.

- **Improving the Council**

The top priority within this aim is 'Improving Performance of our Services and Ensuring they provide Value for Money'. It is proposed that the capital development fund be used to fund a capital projects and partnership support post and a capacity building reserve to meet this aim.

This expenditure will meet the priority of Improving Performance of our services and ensuring that they provide Value for Money

  - **Projects and Partnership Support (£50,000)**

This funding would be used to employ a trainee in the legal section for a minimum of 2 years. The funding will provide a cost effective way of providing legal support for the Council's many capital projects. The alternative would be to use outside legal support, which would be significantly more costly.

  - **Capacity Building Reserve (£250,000)**

The council has an ambitious long term capital programme. A number of large schemes, such as the relocation of the Town Hall, relocation of Dean Road Depot and the Leisure Strategy, require the production of detailed feasibility, costings and options appraisals. The production of these appraisals will require a significant level of input from various council services such as legal, planning, finance, project management and asset management.

£250,000 has been earmarked to fund the costs of procuring this additional support to allow these schemes to be progressed.

**Summary**

The following table sets out the council's level of capital investment (£1.18million), which is recommended for approval within this Financial Strategy.

| | Total Cost £000 | External Funding £000 | Net Cost £000 |
|---|---|---|---|
| **Creating Healthy & Vibrant Communities** | | | |
| Purchase of land at Whitby Golf Club | 150 | 0 | 150 |
| Northbay Play Area | 250 | 100 | 150 |
| **Creating Quality Environments** | | | |
| Mercury Abatement works at the Crematorium | 580 | 0 | 580 |
| **Improving the Council** | | | |
| Capital Projects and Partnership Support | 50 | 0 | 50 |
| Capacity Building Reserve | 250 | 0 | 250 |
| **Capital Development Fund** | **1,280** | **100** | **1,180** |

* Schemes that require external funding can only proceed when funding has been offered and accepted by Cabinet

**Schemes approved in 2009/10**

Approval was also given in 2009/10 to fund the following capital schemes:

| | Total Scheme £000 | External Funding £000 | Net Cost £000 |
|---|---|---|---|
| Spa Redevelopment | 6,000 | (4,000) | 2,000 |
| Open Air Theatre | 3,540 | (3,500) | 40 |

These schemes are now included within the Capital Programme.

## 2 Asset Management

A separate budget exists for Asset Management schemes with consideration given to the need for enhancement or refurbishment of the existing asset stock.

The Capital Strategy set a budget of £4.2 million of investment in the Council's Assets over the 14-year period 2006 to 2020.

It is proposed that the following schemes be undertaken in 2010/11:

- **Repairs to Stone Works in the Council Chamber - £35k**

  A section of the stone work to the bay window on the eastern elevation of the Council Chamber has deteriorated and fallen away. This has left a sizable hole in the external stone work permitting the elements to access the building. This will lead to further deterioration of the stone work presenting a health and safety hazard with collapse a distinct possibility.

  The outcome of the expenditure will result in the stone work being repaired and the integrity of that part of the window maintained.

- **South Cliff Lift Health & Safety Works - £16k**

Following a visit by the Health and Safety Executive the following specific works were stipulated as being required.

1. Lightning Conductor
2. Replacement of main suspension ropes
3. Redecoration of motor room

Should the works not be carried out the Executive has the power to close the lift

- **Filey Evron Centre Asset Management Works - £34k**

This would fund remedial works to the windows and external decoration at the Evron Centre. Numerous windows are considered a health and safety risk and there are insufficient funds within the Property Repair Budget to carry out the required works to windows, masonry and redecoration. Upon completion the building will be rejuvenated and continue to be the Council's flagship property in Filey.

- **Legionella Inspections in Public Conveniences - 40k**

Remedial works and assessments are required to ensure that legionella inspections are up to date in all Council public conveniences. Failure to carryout the works will result in a health and safety risk and the possible closure of the conveniences.

- **Filey and Whitby pre-season works - £50k**

Significant works are required in order to repair and improve various leisure facilities in Filey and Whitby. The works will help to maintain the current income levels generated at the sites and reduce the levels of responsive repairs required. These works are to be carried out in advance of the tourist season making the facilities more welcoming to visitors and residents. Works include repairs and redecoration to the shelters and buildings in the West Cliff area of Whitby, repairs and redecoration to the chalets in Royal Parade Filey and the re-tiling, decoration and ventilation works in the main facility block at Filey Country Park.

**Summary – Asset Management Schemes**

The following table sets out the asset management schemes that are recommended for approval within this Financial Strategy

| Scheme | Amount |
|---|---:|
| Repairs to stone works in the council chamber | £35k |
| South Cliff lift health and safety works | £16k |
| Filey Evron Centre asset management works | £34k |
| Public conveniences legionella inspections | £40k |
| Filey and Whitby pre-season works | £50k |
| **TOTAL** | **£175k** |

The unallocated balance for asset management schemes now stands at £2.345m for the period up to 2019/20.

## 3 Information Technology Schemes

The Capital Strategy provides for £4.48m investment in IT over the 14-year period 2006-20. The following IT expenditure will be incurred in 2010/11:

| Type | Description | Cost |
|---|---|---|
| Ongoing infrastructure requirements | PC Replacement | £22k |
| | Microsoft Licence Agreement | £80k |
| | Server Licences Virtualisation | £10k |
| | Gov Connect Annual Charges | £15k |
| | Penetration Testing | £10k |
| | Move to Exchange | £30k |
| | General ICT Infrastructure | £18k |
| | General Communications costs | £10k |
| | Replace Core Switch | £70k |
| System Upgrades/Integration | ICON | £35k |
| Transformation Program work | Mobile Working Infrastructure | £50k |
| | Wide Area Network | £40k |
| | Cmetrix | £5k |
| | Repayment re FAPM | (£52k) |
| **TOTAL** | | **£343k** |

## 4 Vehicle Plant and Equipment

Separate capital provision exists within the Capital Development Fund for the replacement of essential, operational vehicle, plant and equipment items. All vehicle proposals have been through the Transport Manager and have been considered in terms of overall contribution towards operating Council front line services. The value of vehicles and equipment to be replaced in 2010/11 totals £1.116m. This amount includes some replacements that were originally scheduled for 2009/10 and have now been switched to 2010/11.

## 5 Invest to Save

The following schemes have been assessed under the Council's Invest to Save criteria and qualify for funding:

- **Whitby Pavilion - Northern Lights Suite Stage - £5,000**

The current stage is unsuitable for a number of customers and very labour intensive to set up and move. The Spa has some surplus steel deck and by purchasing additional sections a 32' x 20' semi-portable stage can be constructed at Whitby. This would enhance the service provided to customers and would also reduce the operating costs as it needs less time to set up and take down. Steeldeck is also an industry standard product that will be familiar to users and additional sections can be hired throughout the country should extensions be needed.

The cost of the scheme will be repaid over 9 years and will be funded through increased income and savings in staffing costs.

- **Whitby Pavilion – Signage £21,300**

Whitby Pavilion is a key venue for Whitby and the surrounding area's – due to its location it often suffers from lack of awareness from both visitors to the town and residents. This is, in part, due to the poor signage currently in situ, the signs are poor and cluttered and customers are often unclear as what events and entertainments are on at the venue.

Installation of new signage, together with the partnership the Council now has with the leasholder of the old box office to sell tickets, will ensure that visibility and promotion are maximised. The café has significant potential particularly in the summer months, and it is essential that we establish and communicate consistent opening times and offers and that these are visible from the top of the road above the venue.

The current poster display boards are at the end of their shelf life and are looking extremely tired which projects a poor image for the venue.

It is proposed that 4 double sided notice boards be strategically placed around the venue to achieve maximum exposure.

Specification of the signage, in keeping with other Scarborough Borough Council existing signage, has been explored and quotations have been sought via a street furnisher product selector catalogue. The signage will feature a full programme of the venue and café details/menus special offer and opening time.

The new signage will improve visibility and increase visitor footfall, which in turn will generate additional revenue. The cost of the scheme will be repaid over 10 years

- **In Cab System - £88,000**

The implementation of an "In cab communication and tracking system" represents the third phase of the collection round review which is aimed at increasing the efficiency of these collections. The equipment will enable drivers to send and receive real time information. The system also incorporates a vehicle tracking system. The initial benefits include efficiency, time and fuel savings. This system also has a number of additional benefits including:

- Paper free operations – crews receive electronic round information
- Electronic crew messaging – alerts can be sent advising if route changes, traffic information etc
- Electronic scheduling of bulky item collections
- Provision of essential management information – participation rates, crew performance and vehicle utilisation. Route analysis can identify any operational inefficiencies, potentially saving time and fuel.
- Electronic reporting of collection problems – contaminated bins, excess waste, damaged or lost bins etc. This can include automatic workflow allowing swift resolution of problems.
- Enhanced customer experience – Customer First have real time access to collection events, for example non-presentation, contamination, excess waste etc and are able to deal with enquiries at first point of contact. Complaints are managed quickly with prompt and accurate management information to enable good positive communication with the customer. There is also a substantial reduction in avoidable contact (NI 14).
- Reporting of other events – the collection crews are also able to report flytipping, abandoned vehicles etc which can be linked to automatic workflow to generate service requests to appropriate officers.
- Health and safety – Route hazards such as dangerous reverses, narrow access, height restrictions etc are relayed to the crew as they enter a street. This is a recommendation from the Health and Safety Executive following a recent inspection of the Council's waste service.
- Removing the need for re-calls for missed bins – the number of recalls to missed bins is reduced, minimising costs, saving fuel, reducing carbon emissions and improving the customer experience.

The round review will save approximately £50,000 in the first year with additional, as yet unquantifiable, savings in fuel and overtime. This system will be funded from the Head of Environmental Health's operational reserves.

- **Evron Centre – Reinstatement of Cash Office to Business Units - £20,000**

Following the recent creation of a "One Stop Shop" within the Tourist Information Centre the original SBC Cash payments service resident within the Evron Centre has now been relocated and integrated within the Tourist Information Centre. The existing space that originally housed the Cash Office is now redundant. This space could be utilised as SME's (Small/Medium Enterprises) start-up Business units, adding to the twenty units currently occupied. This would be in keeping with the Evron Centres key purpose of supporting fledgling businesses as the main source of income, ensuring continued commitment to its obligations in 2001 as a Business Centre.

The service will create workspace for a minimum of three individual businesses - a minimum of three full time equivalent jobs and will generate £7,000 per year additional income. The cost of the scheme will be repaid over 5 years

- **Whitby Beach Chalets - £8,800**

Due to increased popularity in beach chalets the current waiting list is close to 100. It is proposed that 10 new chalets be purchased and erected at Whitby at a cost of £8,800.

The new chalets will generate an additional income of £3,600 per year and the scheme will be repaid over 5 years.

- **Scarborough Sports Centre – works to the reception area - £7,000**

These works will merge the reception area at the sports centre with the bar area. This will allow the bar and reception to be managed with fewer staff therefore result in reductions in employee costs.

The cost of the scheme will be repaid over 2 years

These schemes will be managed through the Capital Development Reserve and have been funded from resources available within the reserve.

**Summary – Invest to Save Schemes**

The following table sets out the invest to save schemes that are recommended for approval within this Financial Strategy

| Scheme | Amount |
|---|---:|
| Whitby Pavilion – Northern Lights stage | £5,000 |
| Whitby Pavilion – Signage | £21,000 |
| In cab system | £88,000 |
| Evron Centre – reinstatement of cash office to business units | £20,000 |
| Whitby Beach Chalets | £8,800 |
| Scarborough Sports Centre – works to reception area | £7,000 |
| TOTAL | £150,100 |

**CAPITAL BID RESERVE LIST 2010/11**

Requests for capital investment far outweigh available capital resources. As capital receipts are limited in the current economic climate it is unlikely that there will be significant amounts available for investment in the short-term.

In the longer term the Council is assessing a number of large-scale projects, a number of which will be 'self-funding' through the generation of associated capital receipts. These schemes are still in the early stages and have not yet been costed or appraised. Details will be reported to members throughout the year as information becomes available.

It is recommended that the following schemes are included on the capital reserve list:

- Asset Management
- Purchase of new car parking machines
- Whitby Pavilion Lighting
- Depot Relocation
- Town Hall Relocation
- Leisure Strategy
- The Mere
- Spa Landslip
- Barrowcliff Blueprint
- Regeneration Schemes (The Geographic Programme)
- Repayment of Debt

**Asset Management**

It is clear that the need for investment in building maintenance exceeds the resources available. In the future there will be a need to consider either increasing the Asset Management budget or rationalising the Council's assets with a view to reducing the need for further expenditure

**Purchase of New Car Parking Machines**

The external audit on the Council's 2008/09 financial statements picked up issues surrounding the reconciliation of car parking income. A number of the problems identified related to the recording of income by older car parking machines.

Technologies have advanced significantly since the Council's machines were last replaced and the machinery available in the current market can accommodate multiple payment methods, enable automated readings to be made from remote sites etc. A replacement programme of the machines would result in improved governance arrangements surrounding car parking income as well as maximise the Council's income by introducing new payment methods.

The proposed fees and charges for car parking will increase income levels in the 2010/11 year, which will generate monies to invest in new machines. Car parking income in the revenue budget has been increased accordingly to reflect the proposed increases and a budget has been created to purchase the machines, subject to the income being generated. Proposals will be brought to Council prior to the purchase of the machines.

**Whitby Pavilion Lighting**

The Lighting in Whitby Pavilion Theatre is over 30 years old and parts can no longer be sourced. It is only a matter of time before the equipment fails, which will impact on the entertainment provision from the Theatre.

**Depot and Town Hall Relocation**

The potential relocation of Dean Road Depot and the Town Hall are currently being investigated to determine whether efficiencies can be made.

**Spa Landslip**

At its December meeting Cabinet approved that £100k be allocated from the insurance reserve to fund remedial works to the landslip at the rear of the Spa (Report 09/735). The full reinstatement of the landslip will cost a further £550k.

**Barrowcliff Blueprint**

This project comprises of a combination of training and employment schemes with environmental and open space improvements in Barrowcliff. The scheme, which would be delivered by Groundwork, would include a programme of individual projects such as allotments and healthy eating, play areas, wildlife areas, cycle tracks, traffic calming and carbon reduction initiatives.

Officers from Groundwork have indicated that they would be willing to run this scheme as a Participatory Budgeting trial should funding bids be successful.

This Strategy approves £10k of funding towards the planning stage of this scheme. The scheme will be reassessed and scored in line with the council's priorities when the planning and scoping exercise has been completed.

**Other Regeneration Schemes**

The Council is currently reviewing a number of potential capital projects where costings or specific information are not yet available; examples of these schemes include the Futurist Theatre, Middle Deepdale, Station Square, the Leisure Strategy, The Mere and the expansion of Whitby Business Park. Proposals will be reported to Cabinet as the feasibility works and detailed proposals are compiled.

**Repayment of Debt**

In recent years the Council has agreed to fund the purchase of McCains stadium and investment in the Spa from borrowing. The repayment of this borrowing and associated interest costs are funded from the revenue budget annually. If significant capital receipts are generated the Council could opt to 'repay' this borrowing to reduce its revenue costs.

**The Sands**

During 2008/09 the Council received a net capital receipt of £595,000 in relation to land drawn down for the Sands Development. This capital receipt has been earmarked for potential expenditure on the scheme, therefore is not included in the resources available for investment shown in Section 10 of this Strategy. The Strategy recommends that £150k of this receipt be earmarked for the development of a play area in Northbay.

**APPENDIX C**

## ACTION PLAN FOR ACHIEVEMENT OF OBJECTIVES

| Objective | How we will achieve it | Timescales | Lead Officer |
|---|---|---|---|
| **1. Budgets are Prudent and Sustainable in the Long Term** | Adequate provision is made for inflation, pressures, pay awards, and new legislation | Ongoing | HFAM/CFM |
| | The revenue budget is not supported by one off savings, or any significant use of reserves | Ongoing | HFAM |
| | Effective budget monitoring to ensure early identification of issues and action planning | Quarterly reports to cabinet<br>Monthly reporting to managers | CFM |
| | Income equalisation reserves are set aside for high risk areas | Ongoing | HFAM/CFM |
| **2. Financial Plans Recognise Corporate Priorities and Objectives** | Additional investment, and savings proposals make explicit reference to corporate priorities | Ongoing | HFAM |
| | Local and national targets are considered | Ongoing | HFAM |
| | Long term vision and objectives are considered within the report | Ongoing | HFAM |
| | Provision within financial planning figures for growth and contingency amounts to fund priority areas | Ongoing | HFAM |
| | All capital schemes undergo an options appraisal and are prioritised in line with Council priorities and aims. | Ongoing | CFM |
| **3. Significant risks are identified, and factors to mitigate against those risks are identified** | Risk management is embedded in corporate and service planning | Ongoing | HFAM |
| | Financial risks are considered on an ongoing basis, are specifically reflected within the Financial Strategy and are | Ongoing | CFM |

| | | | |
|---|---|---|---|
| | closely monitored | | |
| **4. The Capital Programme is planned over a 10 year period, with “unsupported” borrowing minimised, other than where there are clear financial or economic benefits for the Renaissance of the Borough,** | 10 Year capital programme developed | Complete | HFAM/CFM |
| | The establishment of a Capital Development Fund | Complete | CFM |
| | The Use of Unsupported Borrowing only on an Invest to Save Basis or where clear economic benefits can be demonstrated | Ongoing | HFAM/CFM |
| | Contingency funding is included within the capital programme | Ongoing | HFAM |
| | A Corporate approach to external funding opportunities | Ongoing | HFAM/CFM |
| **5. Constraints on capital and revenue resources, including the uncertainties around future government funding, are recognised and taken into account.** | Specific reference within the Financial Strategy of constraints, and current issues | Ongoing | HFAM/CFM |
| | Regular reporting to Cabinet on local government finance issues | Ongoing | HFAM/CFM |
| | Ensure awareness of financial position within the organisation through an effective Communication strategy | Ongoing | HFAM/CFM |
| **6. Council Tax increases will be kept below the Government’s expected upper level of increase, and the broad anticipated increase for future years will be set out within the Financial Plans, recognising that these increases may be subject to change.** | Financial plans take account of this level of council tax increase and target efficiency requirements reflect the likely levels of council tax | Ongoing | HFAM |

| | | | |
|---|---|---|---|
| | | | |
| **7. Prudent levels of general balances, reserves and contingencies are maintained in the context of an assessment of the risks facing the Council** | Annual review of reserves, linked to corporate priorities and treasury management implications | Annually, within Financial Strategy | HFAM/CFM |
| **8. Value for money and achievement of improved efficiency and service delivery underpin the Financial Strategy, and the outcomes of investment made in priority areas are evaluated** | A Value For Money Group is established with a clear work programme | Ongoing | HFAM/CFM |
| | The Service transformation group facilitates improved service delivery via the optimum use of IT through the Council | Ongoing | HTM |
| | The Corporate Efficiency Programme and efficiency partner will improve the efficiency and value for money provided by the Council | Ongoing | HFAM |
| | Benchmarking the costs of our services | Report via CEP | HFAM |
| | The outcomes of priority investment are monitored – see Appendix J | Ongoing | CPM / CFM |
| **9. The Financial Strategy supports the achievement of Excellence in Financial Management and Use of Resources** | An action plan in relation to the Use of Resources Assessment | Ongoing | HFAM |
| | Developing the financial culture within the Council | Ongoing | HFAM |
| | Financial reporting and documentation- based upon stakeholder needs | Ongoing | CFM |
| | Improved Financial Systems (General Ledger Upgrade) | April 2010 | HTM |

| | | | |
|---|---|---|---|
| | Training and Development – finance/non finance | Ongoing | HFAM/CFM |
| | Integration of financial and non financial performance measures | Ongoing | HFAM/CPM /CFM |

HFAM – Head of Finance and Asset Management
HTM – Head of Transformational Management
CFM – Corporate Finance Manager
CPM – Corporate Performance Manager

**APPENDIX D**

# INVEST TO SAVE STRATEGY

## Introduction

The Financial Strategy outlines restrictions on new borrowing. An exception to this will be made in the case of Invest to Save Schemes.

Invest to Save schemes are those where there is a capital cost, and associated borrowing costs arise, but the ongoing savings cover the associated borrowing costs. This results in both an improved revenue position (ie the benefits of the proposal exceed the borrowing costs) plus improved service provision through the capital investment.

All such proposals are considered in line with the Council's capital programme. The available funding for such proposals is in effect unlimited, providing the business case can be made.

All schemes will be assed for their viability, and contribution to corporate priorities.

The maximum period to repay the initial investment is 25 years. This is in line with standard accounting policies.

The repayments will be expected to repay the capital outlay, interest and a provision to cover financial risk. In essence the Council incurs the borrowing, and associated repayment/interest costs are then fully covered through the revenue savings. An allowance for risk will usually be included in the assessment. Therefore, most schemes will need to demonstrate that they more than cover the borrowing costs, and an overall net saving results.

## Interest

The rate of interest to be used in assessing whether the scheme meets the Invest to Save criteria will be the marginal cost of borrowing at the time of the decision. The interest rate will be fixed for the duration of the scheme.

All Invest to Save Schemes will be subject to a review report once the scheme has been implemented, to ensure the financial savings identified are achieved. Where savings are not demonstrated, the relevant service would be expected to find compensating savings. This rule ensures all services take a prudent view of such scheme, in the recognition that any risks/non achievement will ultimately fall back on them.

**Information Requirements**

To proceed with a request for Invest to Save, a capital bid must be made in line with the capital strategy process. This will include detailed financial appraisal. The appraisal will be subject to review from Finance.

In summary the following stages apply to ITS schemes

- Preparation of a Business Case (Head of Service)
- Financial Appraisal (Corporate Finance Manager)
- Risk Assessment (Head of Service)
- Report to Cabinet / Council (Head of Finance and Asset Management)

**APPENDIX E**

# TREASURY MANAGEMENT STATEMENT, ANNUAL INVESTMENT STRATEGY AND MRP POLICY FOR 2010/2011

## INTRODUCTION

### The Revised CIPFA Treasury Management Code of Practice 2009

In the light of the Icelandic situation in 2008, CIPFA has amended the CIPFA Treasury Management in the Public Services Code of Practice (the Code), Cross-Sectoral Guidance Notes and Guidance Notes and the template for the revised Treasury Management Policy Statement. It is also a requirement of the Code that this Council should formally adopt the Code. The relevant clauses have been incorporated into the Treasury Management Policy Statement (Appendix E2). As the Code has been revised, there is a *separate appendix to this report* where the Council is asked to adopt the revised Code and the revised Treasury Management Policy Statement (Appendix E2 and E3).

The revised Code has emphasised a number of key areas including the following: -

a) All councils must formally adopt the revised Code and four clauses
b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities.
c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.
d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation.
e) Credit ratings should only be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on government support for banks and the credit ratings of that government support.
f) Councils need a sound diversification policy with high credit quality counterparties and should consider setting country, sector and group limits.
g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme or to finance future debt maturities.
h) The main annual treasury management reports MUST be approved by full council.
i) There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved.
j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body.

k) Treasury management performance and policy setting should be subjected to prior scrutiny.
l) Members should be provided with access to relevant training.
m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.
n) Responsibility for these activities must be clearly defined within the organisation.
o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council (this will form part of the updated Treasury Management Practices).

This strategy statement has been prepared in accordance with the revised Code. Accordingly, the Council's Treasury Management Strategy will be approved annually by the Full Council and there will also be a mid year report. In addition there will be monitoring reports and regular review by Members in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

The Council will adopt the following reporting arrangements in accordance with the requirements of the revised Code: -

| **Area of Responsibility** | **Council/ Committee/ Officer** | **Frequency** |
|---|---|---|
| Treasury Management Policy Statement (revised) | Full council | Initial adoption in 2010 |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy | Full council | Annually before the start of the year |
| Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times | Full council | As appropriate. |
| Annual Treasury Outturn Report | Cabinet | Annually by 30 September after the end of the year |
| Treasury Management Monitoring Reports | Head of Finance and Asset Management | Quarterly |
| Scrutiny of treasury management and performance | Audit Committee | At least a mid-year report. |

**Revised CIPFA Prudential Code**

CIPFA has also issued a revised Prudential Code which primarily covers borrowing and the Prudential Indicators. Three of these indicators have now been moved from being Prudential Indicators to being Treasury Indicators: -

- authorised limit for external debt
- operational boundary for external debt
- actual external debt.

However, all indicators are to be presented together as one suite. In addition, where there is a significant difference between the net and the gross borrowing position, the risks and benefits associated with this strategy should be clearly stated in the annual strategy.

**Revised Investment Guidance**

It should also be noted that the Department of Communities and Local Government is currently undertaking a consultation exercise on draft revised investment guidance which will result in the issue of amended investment guidance for English local authorities to come into effect from 1 April 2010. It is not currently expected that there will be any major changes required over and above the changes already required by the revised Code.

**TREASURY MANAGEMENT STRATEGY 2010/2011**

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act), this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2010/11 of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Sector Treasury Services (Sector).

Treasury Management is a key component of the Medium Term Financial Strategy, as its activities, especially capital borrowing, underpin the financial affordability in meeting the Council's objectives.

Unless otherwise stated this report follows the convention used by HM Treasury in as much as years are always calendar years, not financial years i.e. quarter 1 (Q1) refers to January to March quarter.

## BALANCED BUDGET

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular, Section 32 requires the Council to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure,

2. and any increases in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

## PRUDENTIAL INDICATORS FOR 2010/2011 TO 2012/2013

It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit” and represents the legislative limit specified in the Act.

The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

Treasury Management is linked specifically to the Capital Strategy, through the setting of Prudential Indicators for capital investment and financing, including the level of borrowing to support capital schemes. The Prudential Indicators proposed for the next three financial years are detailed and explained within Appendix F.

The Council’s treasury portfolio position as at 31 December 2009 comprised:

| | Principal | Average Rate |
|---|---|---|
| Borrowings | £ | % |
| Fixed Rate Funding | 2,500,000 | 2.8200 |
| Variable Rate Funding | 4,000,000 | 4.4500 |
| **Total Debt** | **6,500,000** | **3.8231** |
| Investments | | |
| Internal | 11,000,000 | 0.7000 |

| | | |
|---|---|---|
| **Total Investments** | **11,000,000** | **0.7000** |

The level of investments fluctuate during the financial year as a result of cash flows and the above level is projected to fall to £3m by 31 March 2010, before increasing during the following financial year.

**ECONOMIC BACKGROUND**

- The credit crunch storm of August 2007 eventually fed through to the near collapse of the world banking system in September 2008. This then pushed most of the major economies of the world into a very sharp recession in 2009 accompanied by a dearth of lending from banks anxious to rebuild their weakened balance sheets. Many governments were forced to recapitalise and rescue their major banks and central banks precipitately cut their central bank rates to 0.10 – 1.00% in order to counter the recession.

- The long awaited start of growth eventually came in quarter 3 2009 in the US and the EU. However, there was disappointment that the UK failed to emerge from recession in quarter 3.

- Inflation has plunged in most major economies and is currently not seen as being a problem for at least the next two years due to the large output gaps and high unemployment putting a lid on wage growth. In many countries there have been widespread pay freezes in 2009 and these are likely to be persistent for some time.

- Deflation could become a threat in some economies if they were to go into a significant double dip recession.

- Asian countries, especially China, are buoying world demand through their own stimulus measures.

- Most major economies have resorted to a huge expansion of fiscal stimulus packages in order to encourage a fast exit from recession. This, together with expenditure on direct support provided to ailing banks, has led to a drastic expansion in government debt levels which will take many years to eliminate and to restore the previous health of national finances.

The current big issue is ‘how quickly will the major world economies recover?’ There is a sharp division of opinion on this question, which reflects in the Economists forecasts for interest rates, between a strong or weak recovery. Both scenarios are founded on major assumptions and research which could or could not turn out to be correct.

At the current time it is difficult to have confidence as to exactly how strong the UK economy it is prudent to adopt a more prudent view i.e. a moderate return to growth, whilst highlighting the risks to growth.

There are huge uncertainties in all forecasts due to the major difficulties of forecasting the following areas: -

- degree of speed and severity of fiscal contraction after the general election;
- timing and amounts of the reversal of Quantitative Easing;
- speed of recovery of banks' profitability and balance sheet imbalances;
- changes in the consumer savings ratio;
- rebalancing of the UK economy towards exporting and substituting imports.

The overall balance of risks is weighted to the downside i.e. the pace of economic growth disappoints and Bank Rate increases are delayed. However, there is a high risk that long term gilt yields and therefore Public Works Loan Board (PWLB) rates will rise markedly.

There is an identifiable risk of a double dip recession and deleveraging creating a downward spiral of falling demand, falling jobs and falling prices and wages leading to deflation but this is considered to be a small risk and an extreme view at the current time on the basis of current evidence.

**CAPITAL BORROWING AND THE BORROWING PORTFOLIO STRATEGY**

Detailed below are the expectations of the new borrowing rates for the PWLB, and are subject to variation if there are any unexpected shocks to financial and/or political systems. The PWLB is a statutory body operating within the UK Debt Management Office, an Executive Agency of HM Treasury.

- The 50-year PWLB rate is expected to gradually increase from current levels of 4.60% to reach 5.00% by March 2011. The rate will continue to rise to reach 5.45% by Q1 2013.

- The 25-year PWLB rate is expected to rise from 4.55% to 4.90% by March 2011, and to reach 5.35% by Q1 2013.

- The 10-year PWLB rate is expected to increase to 4.45% by March 2011, eventually rising to 5.15% by Q1 2013.

- The 5-year PWLB rate is expected to rise from 3.05% to 3.60%, reaching 4.85% by Q1 2013.

In addition, to the above forecasts the Council's borrowing strategy will be based upon the following information:

- Rates are expected to gradually increase during the year so it should be advantageous to schedule new long term borrowing for the start of the year.

- Variable rate borrowing is expected to be cheaper than long term borrowing and will, therefore, be attractive throughout the financial year compared to long term fixed rate borrowing.

- PWLB rates on loans of less than ten years duration are expected to be substantially lower than longer term PWLB rates offering a range of options for new borrowing.

- There is expected to be little difference between 25 year and 50 year rates so, therefore, loans in the 25-30 year periods may be more favourable than 50 year borrowing as the spread between the PWLB new borrowing and early redemption rates is considerably less. This would maximise the potential for debt rescheduling.

- Consideration will also be given to borrowing fixed rate market loans at 25-50 basis points below the PWLB target rate.

**External v Internal Borrowing**

The forthcoming financial year is expected to be a time of historically low Bank Rate, with long term borrowing rates anticipated to be higher than investment rates, which presents an opportunity to maximise short term savings by repaying existing debt or avoiding new borrowings; thus reducing investment balances. The measures taken in the last year have already reduced significantly the level of credit risk the Council faces.

The short term savings from avoiding new borrowing must be weighed against the potential for incurring additional long-term extra costs by delaying unavoidable new borrowing until later years when PWLB long term rates are forecast to be significantly higher.

Against this background caution will be adopted with the borrowing operations and Council officers will, in conjunction with Sector, continually monitor both the prevailing interest rates and the market forecasts, and adopt a pragmatic approach to any changing circumstances.

**Policy on Borrowing in Advance of Need**

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

In determining whether borrowing will be undertaken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

**DEBT RESCHEDULING**

The introduction on 1 November 2007 of different interest rates for new borrowing and premature repayment of debt , and the setting of a spread between the two rates has meant that PWLB to PWLB debt restructuring is now much less attractive than before that date. However, interest savings may be achievable through using LOBOs (Lenders Option, Borrowers Option) loans in rescheduling exercises.

As short term borrowing rates will be considerably cheaper than longer term rates, there are likely to be significant opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short term nature and the likely cost of refinancing those short term loans, once they mature.

The Council currently has one PWLB loan, which is due to mature in November 2010. As this is within the last twelve months of its duration it cannot be prematurely redeemed, and will be repaid on maturity. Consideration to prevailing rates at the time of maturity will determine whether the loan is refinanced, or whether investment balances are used to repay the loan. This is based on the premise that short-term investment rates are likely to be lower than borrowing rates.

There has been much discussion as to whether the size of spread between long term PWLB repayment and new borrowing rates should be revised (downwards) in order to help local authorities currently dissuaded from using investment cash balances to repay long term borrowing and thereby reduce counterparty and interest rate risk exposure. The PWLB issued a consultation document with suggested options to revise the methodology used to calculate the early repayment rate. The consultation period ended in January 2010 and Officers will monitor developments in this area to assess the impact on future borrowing decisions.

Any rescheduling undertaken will be reported to Cabinet as part of the Treasury Management Annual Outturn Report.

## ANNUAL INVESTMENT STRATEGY

## INVESTMENT POLICY

The Annual Investment Strategy (AIS) is produced in accordance with the Office of the Deputy Prime Minister's (ODPM's) Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and CIPFA's Code of Practice. The Council aims to achieve the optimum return on its investments commensurate with the proper levels of capital security and liquidity. The Council's risk appetite is low reflecting the priority given to security of its investments.

The borrowing of monies purely to invest in order to make a return is unlawful and this Council will not engage in such activity.

Investment instruments that the Council may use for the prudent management of its treasury balances during the financial year are detailed in Appendix E1 under the heads of Specified and Non-Specified Investments.

## SECURITY OF CAPITAL: THE USE OF CREDIT RATINGS

The Council uses the creditworthiness service provided by Sector. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays : -

- credit watches and credit outlooks from credit rating agencies
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Council would not be able to replicate using in-house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands*:* -

- Purple 2 years
- Blue 1 year (applies to full/semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 3 months
- No Colour not to be used

This Council will not use the approach suggested by CIPFA of using the lowest rating from all three rating agencies to determine creditworthy counterparties as Moodys are currently very much more aggressive in giving low ratings than the other two agencies. This would therefore be unworkable and leave the Council with few banks on its approved lending list. The Sector creditworthiness service does though, use ratings from all three agencies, but by using a scoring system, does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- If a counterparty or investment scheme is upgraded so that it meets the Council's minimum criteria, it will be included on the lending list.

- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, the Council will use market data and information, information on government support for banks and the credit ratings of that government support.

**Authorised Institutions**

The Council will invest with Bank of England Authorised Institutions with a minimum credit rating of F1+ (or equivalent) short term and AA- (or equivalent) long-term at the time of dealing.

The UK Government, whilst not providing a blanket guarantee on all deposits, has underlined its determination to ensure the security of the UK banking system by offering support to eight institutions named as:

- Abbey
- Barclays
- HSBC
- HBOS

• Lloyds Banking Group
• Nationwide Building Society
• Royal Bank of Scotland
• Standard Chartered

The UK Government is in essence taking part ownership of the above banks which may utilise the facility. Therefore, even if the above named institutions credit rating falls beneath the minimum criteria stipulated they should still continue to be used for investments as they have an implied Government guarantee.

Fully Nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually applied to identify banks which are of high credit worthiness. In particular, as they no longer are separate institutions in their own right, it is impossible for Fitch to assign them an individual rating for their stand alone financial strength. Accordingly, they have assigned an F rating which means that at a historical point in time, this bank failed and is now owned by the Government. However, these institutions are now recipients of an F1+ short term rating as they effectively take on the credit worthiness of the Government itself. They also have a support rating of 1; in other words, on both counts, they have the highest ratings possible.

As of 1 January 2010 the Northern Rock was split into two separate entities Northern Rock plc and Northern Rock Asset Management. Wholesale deposits i.e. Local Authority deposits, were transferred to the “good” bank, Northern Rock plc, which is an FSA regulated institution authorised to take deposits. Northern Rock Asset Management is not regulated by the FSA and are, as such, not authorised to take deposits. H M Treasury has confirmed that existing deposits will continue to be guaranteed until 31 December 2010. New wholesale deposits made during the 2010 calendar year will NOT be guaranteed. Standard & Poor has rated the Northern Rock as A- and A-2 for the Long and Short-term ratings respectively. Thus it no longer meets the criteria for this Council to invest with.

**Building Societies**

The Council has historically placed investments with unrated counterparties, such as building societies, where their creditworthiness is assessed on the total asset value of the organisation. The criteria applied by the Council was for a minimum of £2 billion asset value, which included the top 18 building societies. However, over the past 15 months or so a number of building societies have sought refuge through merging with larger institutions. This has highlighted that the use of asset value alone may not be considered an appropriate measure of credit risk. It is, therefore, proposed that in this uncertain and volatile economic environment to only place investments with building societies that have a minimum credit rating of A- long term and F1 short term. This in itself is no guarantee against an institution failing but it does provide a measure of their current and on-going viability.

**Local Authorities**

Local Authorities do not generally have a credit rating assigned; however, this does not imply they are not creditworthy organisations. There is a clear legal situation pertaining to straightforward cash lending for English and Welsh local authorities where Section 13 (3) of the Local Government Act 2003 states that:-

‘’All money borrowed by a Local Authority, together with any interest on the money borrowed, shall be charged indifferently on all the revenues of the authority’’.

Although a number of public sector bodies, approximately 123, have money frozen in the Icelandic banks local authorities are believed to be financially sound and it is proposed to continue to use them for placing investments with.

**Foreign Banks/Country limits**

On credit grounds alone, there is no reason why a highly credit-rated bank with non-UK origins operating in the UK should be discriminated against vis-à-vis its UK counterparty. However, the Icelandic bank situation has also raised the issue of a sovereign states’ propensity and ability to support a bank and/or banking system. The Icelandic government had the propensity to support their banks but unfortunately not the financial ability to do so.

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). This will also be the consideration where a country has given a blanket guarantee on all deposits.

The list of countries that qualify using this credit criteria as at the date of this report are detailed below:

| | |
|---|---|
| • Canada | • Norway |
| • Denmark | • Singapore |
| • Finland | • Sweden |
| • France | • Switzerland |
| • Germany | • UK |
| • Luxemburg | • USA |
| • Netherlands | |

This list will be added to or deducted from by Officers should ratings change in accordance with this policy.

The UK Sovereign rating is under significant pressure and may, dependant on a review by the credit rating agencies following the forthcoming general election, be downgraded. It is recommended that the Council should continue to invest within UK based institutions, including the central government, even if such a downgrade does occur. Obviously, the ratings will be continually monitored.

A definition of the long and short term ratings used within this report is detailed in Appendix E4.

**TEMPORARY INVESTMENTS STRATEGY**

The Council's funds are mainly cash-flow derived, with a small element of core balance available for longer term investments. The core balance has been reduced during the past 18 months, or so, by repaying debt and funding capital schemes rather than take new borrowing. This has also reduced the level of credit risk exposure, and generated short term savings.

The Bank Rate has remained unchanged at 0.50% since March 2009, and is forecast to commence rising in Q3 2010 and then to rise steadily from thereon. Bank Rate forecasts for financial year ends (march) are as follows:

- 2010: 0.50%
- 2011: 1.50%
- 2012: 3.50%
- 2013: 4.50%

There is a downside risk to these forecasts if recovery fro the recession proves to be weaker and slower than currently expected.

The Council will avoid locking into longer-term deals while investment rates are at historically low levels unless exceptionally attractive rates are available which make longer term deals worthwhile. Cash-flow generated balances will continue to be placed in business reserve accounts and short-dated deposits (up to 3 months) to benefit from the compounding of interest.

For 2010/2011 it is forecasted that the Council should budget for an investment return of 0.90% on investments placed during the financial year.

**END OF YEAR INVESTMENT REPORT**

In accordance with the CIPFA Code of Practice the investment activities for 2009/2010 will be reported to Cabinet as part of the Treasury Management Annual Outturn Report, no later than 30 September following the end of the financial year.

APPENDIX E1

## LOCAL GOVERNMENT INVESTMENTS (England)
## SPECIFIED INVESTMENTS

**All investments listed below must be sterling-denominated, with maturities upto a maximum of 1 year, meeting the 'high' credit rating where applicable.**

| **Investment** | **Share/ Loan Capital?** | **Repayable/ Redeemable within 12 months?** | **Security / Minimum Credit Rating **** | **Capital Expenditure?** | **Circumstance of use** | **Maximum period** |
|---|---|---|---|---|---|---|
| **Debt Management Agency Deposit Facility*** (DMADF)<br>* this facility is at present available for investments up to 6 months | No | Yes | UK Sovereign rating. | No | In-house | 1 year * |
| **Term deposits** with the UK government or with UK local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year | No | Yes | High security although most local authorities are not credit rated. | No | In-house and by external fund managers | 1 year |
| **Term deposits** with banks and building societies nationalised by high credit rated sovereign countries with maturities upto 1 year | No | Yes | UK sovereign rating | No | In-house and by external fund managers | 1 year |
| **Term deposits** with credit-rated banks with maturities up to 1 year | No | Yes | AA- long term F1+ short term | No | In-house and by external fund managers | 1 year |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Forward deals** with credit rated banks < 1 year (i.e. negotiated deal period plus period of deposit) | No | Yes | AA- long term F1+ short term | No | In-house and by external fund managers | 1 year |
| **Term deposits** with credit-rated building societies with maturities up to 1 year | No | Yes | A- long term F1 short term | No | In-house and by external fund managers | 1 year |
| **Forward deals** with credit rated building societies < 1 year (i.e. negotiated deal period plus period of deposit) | No | Yes | A- long term F1 short term | No | In-house and by external fund managers | 1 year |

**LOCAL GOVERNMENT INVESTMENT (England)**

**NON-SPECIFIED INVESTMENTS**

*Note : The maximum percentage limit for each investment is based on the aggregate sum managed in-house and through external fund managers*

### 1 Maturities of ANY period

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| **Term deposits** with credit rated banks and building societies with unconditional guarantee from a Sovereign government. | No | Yes, but only if maturity is 1 year or less | Sovereign rating of AA or UK Sovereign rating.<br>AA- long term F1+ short term<br>A- long term F short term for building societies. | No | In-house | 20 | 5 years |
| **Deposits with unrated deposit takers with unconditional financial guarantee from HMG or credit-rated parent institution.** | No | Yes, but only if maturity is 1 year or less | Parent must be rated minimum AA- long term and F1+ short term. Sovereign | No | In-house | 100 | 5 years, dependant on credit rating of parent. |

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| | | | rating AAA or UK sovereign rating. | | | | |
| **Fixed term deposits with variable rate and variable maturities** | | | | | | | |
| 1. Callable deposits | No | Yes, but only if maturity is 1 year or less | AA- long term F1+ short term | No | In-house and external fund managers | 25 | 5 years |
| 2. Range trade | No | Yes, but only if maturity is 1 year or less | AA- long term F1+ short term | No | In-house and external fund managers | 25 | 5 years |
| 3. Snowballs | No | Yes, but only if maturity is 1 year or less | AA- long term F1+ short term | No | In-house and external fund managers | 25 | 5 years |
| **Certificates of Deposit** issued by credit-rated deposit takers (banks and building societies). *Custodial arrangement required prior to purchase* | No | Yes, but only if maturity is 1 year or less | AA- long term F1+ short term | No | To be used by fund managers; to be used in-house after consultation/ advice from treasury consultant | 50 | 5 years |
| **Museum Trust (Rotunda)** | No | Yes | Not credit rated | No | In-house | 10 | 5 years |

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| **Money Market Funds**<br>(i.e. a collective investment scheme as defined in SI 2004 No 534)<br>These funds do not have any maturity date | No | Yes | AAA funds | No | In-house and by external fund managers subject to the guidelines and parameters agreed with them | 20 | *the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements* |
| **Reverse Gilt Repos : maturities up to 1 year**<br>[A transaction where gilts are bought with a commitment (as part of the same transaction) to sell equivalent gilts on a specified date, or at call, at a specified price.]<br><br>Custodial arrangement required prior to purchase | No | Yes | UK sovereign rating. | No | to be used by external fund managers only subject to the guidelines and parameters agreed with them | 20 | 1 year |
| **Commercial paper****<br>[short-term obligations (generally with a maximum life of 9 months) which are issued by banks, corporations and other issuers]<br>Custodial arrangement required | No | Yes | F1+ short term | No | to be used by external fund managers only subject to the guidelines and parameters agreed with them | 20 | 1 year |

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| **Treasury bills**<br>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]<br><br>Custodial arrangement required prior to purchase | No | Yes | UK sovereign rating. | No | In-house and external fund managers subject to the guidelines and parameters agreed with them | 25 | 1 year |
| **Bonds issued by a financial institution that is guaranteed by the United Kingdom Government** (as defined in SI 2004 No 534)<br>Any maturity<br><br>Custodial arrangement required prior to purchase | No | Yes, but only if maturity is 1 year or less | UK sovereign rating. | No | (1) Buy and hold to maturity : to be used in-house after consultation/ advice from treasury consultant<br>(2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them | 50 | 10 years |
| **Bonds issued by multilateral development banks** (as defined in SI 2004 No 534) any maturity<br><br>Custodial arrangement required prior to purchase | No | Yes, but only if maturity is 1 year or less | AAA or UK sovereign rating. | No | (1) Buy and hold to maturity : to be used in-house after consultation/ advice from treasury consultant<br>(2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them | 50 | 10 years |

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **UK government gilts**<br><br>*Custodial arrangement required prior to purchase* | No | Yes – but can be up to 10 years. | UK sovereign rating | No | (1) Buy and hold to maturity : to be used in-house after consultation/ advice from treasury consultants<br>(2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them | 50 | 10 years |
| **Floating Rate Notes** (FRNs) *[Bonds (i.e. debt instruments) with a coupon whose rate varies in line with a market rate of interest and is generally re-set every 3 months ]*<br><br>*Custodial arrangement required prior to purchase* | Yes | Yes | Yes – varied | Yes | For trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them | 20 | 5 years |
| **Corporate bonds** *[Bonds other than sovereign bonds]* | Yes | Yes | YES-varied** Suggested minimum long-term rating :<br>AA- : for bonds with maturities up to 2 years<br>AA : for bonds with maturities | Yes | For trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them | 20 | 10 years |

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| | | | up to 10 years | | | | |
| **Gilt Funds and other Bond Funds**<br>(dependent on set-up structure)<br>*** *These are open-end mutual funds investing predominantly in UK govt gilts and corporate bonds. These funds do not have any maturity date. The fund would hold highly liquid instruments and the Council's investment in these funds can be sold at any time.* | No | Yes | AA- long term F1+ short term | No, ***(ensure it is not a body corporate by virtue of its set up structure)*** | to be used by external fund managers only subject to the guidelines and parameters agreed with them ***Important : In the selection of a fund the manager will ensure that the fund is not a body corporate by virtue of its set up structure** | 25 | Open ended |
| **Sovereign issues ex UK govt gilts** : any maturity<br><br>*Custodial arrangement required prior to purchase* | No | Yes | UK sovereign rating. | No | (1) Buy and hold to maturity : to be used in-house after consultation/ advice from Sector<br>(2) for trading : by external cash fund manager(s) only subject to the guidelines and parameters agreed with them | 30 | 10 years |

## 2 Maturities in Excess of 1 Year

| Investment | Share/ Loan Capital? | Repayable/ Redeemable within 12 months? | Security / 'High' Credit Rating criteria | Capital Expenditure ? | Circumstance of use | Max % of overall investments | Maximum period |
|---|---|---|---|---|---|---|---|
| **Term Deposits** with UK Local Authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities in excess of 1 year | No | No | High security although most local authorities are not credit rated | No | In-house and by external fund manager | 50 | 5 years |
| **Term deposits** with credit rated deposit takers (banks and building societies) with maturities greater than 1 year | No | No | AA- long term F1+ short term | No | in-house and fund managers | 50 | 5 years |
| **Forward deposits** with credit rated banks and building societies for periods > 1 year (i.e. negotiated deal period plus period of deposit) | No | No | AA- long term F1+ short term | No | To be used by fund managers; to be used in-house after consultation/ advice from Treasury Consultants. | 50 | 5 years |

**APPENDIX E2**

# TREASURY MANAGEMENT POLICY STATEMENT

The Council defines its treasury management activities as: “The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.”

## CAPITAL FINANCING

The Capital Finance Requirements will in the foreseeable future be met from the Public Works Loans Board after having regard to both current interest rate levels and anticipated rate fluctuations.

The Council’s present debt structure and the low level of capital expenditure to be financed from loan in the next few years makes it unlikely that other loan instruments will be required. However, it may be that a straightforward long-term loan is available from the Money Market at more advantageous terms. In these circumstances this alternative which is in accordance with the requirements of the Local Government Act 2003 will be considered. No other borrowing or off balance sheet instruments will be used to raise capital finance without the prior approval of the Section 151 Officer.

## INVESTMENT OF SURPLUS MONIES

The Council’s practice for the investment of surplus funds is limited to the following:-

- Institutions supported by the UK sovereign rating.
- For any bank outside the UK, the Country of origin should have a Sovereign rating of AAA at the time of dealing.
- Institutions with an unconditional guarantee from a AAA rated sovereign country.
- Bank of England Authorised Institutions with a minimum credit rating of F1+ (or equivalent) short term and AA- (or equivalent) long term at the time of dealing from any one of the major credit rating agencies.
- The wholly owned subsidiaries of the UK clearing banks (subject to statement of support from the parent).

- Building Societies with a minimum credit rating of A- (or equivalent) long term and F1 (or equivalent) short term at the time of dealing.
- Converted Building Societies with a minimum credit rating of A1 (or equivalent) short term and A+ (or equivalent) long term at the time of dealing from any one of the major credit rating agencies.
- Nationalised Industries, including nationalised banks, and other Public Corporations.
- UK Central Government and UK Local Authorities.
- Other Institutions as approved through the Annual Investment Strategy, in accordance with the Local Government Investment Regulations.

The strategy which has been implemented over many years is 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. Investments are arranged in line with the Annual Investment Strategy under the heads of Specified and Non-Specified Investments, which details the maximum maturity duration for each instrument, bearing in mind future cash flow requirements and anticipated interest fluctuations. It is stressed that whilst maximising income is the aim, the first priority is the preservation of the capital value invested.

Having regard to the above criteria it follows that a spread of investments is required to minimise the counterparty risk and therefore a maximum investment at any one time with any one of the Institutions set out above is recommended. The limit applied is as follows and it is recommended that the maximum applied to each of the institutions be continued.

| | |
|---|---|
| Authorised Institutions as above | £5m |
| Government guaranteed institutions | £3m |
| UK clearing banks wholly owned subsidiaries | £3m |
| Building Societies as above | £3m |
| Converted Building Societies as above | £3m |
| Nationalised Industries and other Public Corporations | £3m |
| Individual Local Authorities | £3m |
| Central Government – Debt Management Account | £15m |

The following matters are also brought to the Council's attention:

**A Policy on External Service Providers**

**a) Fund Manager**

The Council will engage the services of professional external Fund Managers, where appropriate, in order to maximise for its lending and borrowing operations whilst it is felt that there is added value of such appointments. Contracts will be awarded in accordance with the Council's Constitution. The Fund Manager's performance will be continually monitored throughout the contract period to ensure compliance with the risk management controls incorporated into the agreement.

**b) Treasury Management Advisers**

The Council will engage the services of professional external treasury management advisers, where appropriate, in order to access specialist skills and resources. Sector Treasury Services are currently appointed in this role.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

## B Policy on Delegation

All executive decisions on borrowing, investment and financing shall be delegated to the Head of Finance and Asset Management and through him to the Finance Officers who are required to act in accordance with CIPFA's Code for Treasury Management in Public Services, and other relevant regulations.

The Section 151 Officers treasury management role is:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

## C Treasury Management Practices

The Head of Finance and Asset Management will maintain Treasury Management Practices (TMPs), which will set out the manner in which the Council will seek to achieve and control its treasury management policies, objectives and activities. The TMPs are working documents which assist in the identification, monitoring and control of the risk associated with treasury management activities.

## D Review and Reporting Arrangements

The system and procedures for Treasury Management will be assessed and reviewed on a regular basis. Any significant amendment will be reported to the Cabinet as appropriate.

**APPENDIX E3**

# Adoption of the revised CIPFA Treasury Management Code of Practice 2009

## INTRODUCTION

The CIPFA Code of Practice on Treasury Management in Local Authorities was last updated in 2001 and has been revised in 2009 in the light of the default by Icelandic banks in 2008. The revised Code requires that a report be submitted to the Full Council setting out four amended clauses which should be formally passed in order to approve adoption of the new version of the Code of Practice and Cross-Sectoral Guidance Notes.

The revised Code also includes an amended version of the treasury management policy statement (TMPS) incorporating just three clauses and a revised definition of treasury management activities. The Code does not require this statement to be approved by the Council, although for information it is attached in Appendix E2.

The revised Code has also set out various requirements which have been summarised in paragraph 1 of the latest Treasury Management Strategy Statement.

## RESOLUTIONS

CIPFA recommends that all public service organisations adopt, as part of their standing orders, financial regulations, or other formal policy documents appropriate to their circumstances, the following four clauses.

1. This organisation will create and maintain, as the cornerstones for effective treasury management:

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code’s key principles.

2. This organisation (i.e. full council/cabinet) will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year

review and an annual report after its close, in the form prescribed in its TMPs.

3. This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury management decisions to Head of Finance and Asset Management, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

4. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

**Appendix E4**

## Long Term Credit Rating Definition

There are many grades of long term ratings, below are the Investment Grades only. These ratings generally cover maturities upto five years and thus is an assessment of the ongoing stability of the institution's prospective financial condition.

| Investment Grade | Definition |
|---|---|
| AAA | Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. |
| AA | Very high credit quality. 'AA' ratings denote expectations of very low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. |
| A | High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings. |
| BBB | Good credit quality. 'BBB' ratings indicate that there are currently expectations of low credit risk. The capacity for payment of financial commitments is considered adequate but adverse changes in circumstances and economic conditions are more likely to impair this capacity. This is the lowest investment grade category. |

## Short Term Ratings Definition

A short-term rating is based on the liquidity profile of the rated entity and relates to the ongoing capacity to meet financial obligations with a relatively short time horizon generally less than 13 months. Below are the top three ratings.

| Short term rating | Current Definition |
|---|---|
| F1 | Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature. |
| F2 | Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings. |
| F3 | Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non investment grade. |

## ANNUAL STATEMENT ON MINIMUM REVENUE PROVISION (MRP) IN RESPECT OF CAPITAL EXPENDITURE FINANCED BY BORROWING

### BACKGROUND

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life.

Local authorities are required each year to set aside some of their revenues through an annual Minimum Revenue Provision in respect of capital expenditure financed by borrowing.

The Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2008 (the Regulations) make it the responsibility of each authority to decide upon the most appropriate method of making a prudent provision. The Regulations also recommend that an annual statement on the policy to be adopted is submitted to Full Council for approval.

The Regulations explain that the ‘aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant (RSG), reasonably commensurate with the period implicit in the determination of that grant’. Four optional methods for calculating MRP are set out in the Regulations.

### OPTIONS

#### Capital Financing Requirement (CFR) Method

MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial year.

#### Regulatory Method

MRP is equal to the amount determined in accordance with the former 2003 Regulations. The calculation in this method is based on the CFR as in Option 1 above, but with an adjustment that ensures that the MRP liability is not higher as a result of the 2003 Regulations.

#### Asset Life Method

MRP is determined by reference to the life of an asset that can be identified as financed wholly or partly by borrowing. There are two usual methods by which this can be achieved:

(a) Equal instalment method

An equal amount is charged each year based on the asset expenditure financed by borrowing and the life of the asset on which the expenditure is incurred.

(b) Annuity method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

**POLICY**

The Council implemented the new Minimum Revenue Provision (MRP) guidance in 2009/10. The Asset Life Method was adopted as it was anticipated that borrowing could be matched with long life assets while fitting in with the council's debt profile.

Expenditure reflected within the debt liability at 31$^{st}$ March 2010 will, under delegated powers, be subject to MRP under the Asset Life Method*,* which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

**FINANCE LEASES**

Upon the commencement of the lease term finance leases are recognised as assets and liabilities in the balance sheet. These are subsequently measured at the lower of fair value or the net present value of the future minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.

The MRP requirement would be regarded as met by a charge equal to the element of the charge that goes to write down the balance sheet liability.

**RECOMENDATION**

The recommended option is to link MRP to the capital charge element of finance lease transactions. Although calculations are more complex the Asset Life (Annuity Method) reconciles these values ensuring the combined impact on the General Fund is neutral.

**APPENDIX F**

# PRUDENTIAL INDICATORS

Under the Prudential Regime, which has operated since April 2004, the Council has the responsibility to demonstrate that its capital investment programme is affordable, prudent and sustainable. The Prudential Code requires that this is done by calculating specific affordability indicators for capital expenditure and financing and by setting borrowing limits and indicators for treasury management.

**Affordability Indicators**

The indicators of affordability address the revenue implications of the Council's capital investment programme. These indicators, recommended for approval, are set out in Bold in the following table.

| | 2009/10 Revised Estimate £000s | 2010/11 Estimate £000s | 2011/12 Estimate £000s | 2012/13 Estimate £000s |
|---|---|---|---|---|
| Opening Capital Finance Requirement | 13,881 | 15,945 | 18,643 | 18,073 |
| **a) Capital Expenditure** | **11,488** | **13,860** | **2,073** | **1,625** |
| Sources of finance: | | | | |
| Grants/other contributions | (3,315) | (7,589) | (421) | (321) |
| Capital receipts & reserves set aside | (5,735) | (3,004) | (1,652) | (1,304) |
| Minimum Revenue Provision | (374) | (570) | (570) | (570) |
| **b) Net Borrowing Indicator and Closing Capital Finance Requirement** | **15,945** | **18,643** | **18,073** | **17,503*** |
| **c) Ratio of Financing Cost to Net Revenue Stream** | **1.68%** | **2.87%** | **2.95%** | **2.91%** |
| **d) Incremental impact on the Council Tax** | | **-£0.01** | **-£0.01** | **£0** |

* Borrowings undertaken in relation to the Open Air Theatre are to be repaid in 2013/14 through receipts from the Sands development. This will result in a reduction in net borrowing of £3,540k.

**a) Capital Expenditure Indicator**

The total amount of capital expenditure is the initial driver behind the cost of the capital programme for Council Tax payers. This is therefore given as the first indicator. Capital expenditure has increased significantly from the estimates provided last year, largely due to the inclusion of the Open Air Theatre and Spa Redevelopment, which were approved during the 2009/10 year.

The total cost falling on the Council Tax Payer is dependent on capital expenditure after taking account of grants and contributions. The Capital Expenditure Indicator does not therefore by itself, indicate the cost of the Capital Programme to Council Tax payers either in one year or over the course of the Financial Strategy.

**b) Net Borrowing and Capital Financing Requirement Indicators**

Capital expenditure in excess of the financing provided by external grants or the set-aside of reserves or capital receipts, increases the underlying need to borrow. This underlying need is shown by the indicator, the Capital Financing Requirement. The Capital Financing Requirement in turn determines the minimum provision required in the Revenue Budget for repayment of borrowing.

During 2009/10 approval has been given to fund the Spa redevelopment (£2m) and the Open Air Theatre (£3.54m) from unsupported borrowing. This is reflected in the increase in the Net Borrowing Indicator over the 2009/10 and 2010/11 year.

The Open Air Theatre will be funded from receipts generated on the Sands Development. It is anticipated that the Council will receive these receipts in 2013/14 and use the receipt to repay the outstanding borrowing on the scheme. The Net Borrowing Indicator will therefore reduce by £3.135m in 2013/14.

It is likely that the Council will need to make use of short term unsupported borrowing to progress some of its larger capital projects in the next few years. Examples include the proposed relocation of the Council depot in Scarborough, whereby the Council will incur expenditure on purchasing / constructing a new depot prior to the capital receipt being generated on the sale of the current site. The progression of these schemes will be predicated on the basis that capital receipts will more than cover the costs of relocation, therefore the borrowing will be repaid in full once the capital receipts are generated. The net borrowing indicator will not therefore increase over the medium term period.

It is not anticipated that the Council will use unsupported borrowing for any schemes during 2010/11 that do not meet the above or the Invest to Save criteria.

**c) Ratio of Financing Cost to Net Revenue Stream Indicator**

The costs of borrowing and also the interest received from investments, except where these are affected by short-term cash fluctuations, are determined by decisions on past and future capital investment. The proportion of revenue grant and council tax that is required to cover this net cost is measured by the Prudential Indicator: Ratio of Financing Costs to Net Revenue Stream. It is anticipated that this ratio will increase gradually as cash investments erode, and borrowing increases, as a consequence of recent capital investment and treasury management decisions. Recent reductions in interest rates have also affected this indicator.

**d) Incremental impact on the Council Tax Indicator**

The Council's capital strategy supports capital investment by identifying matching financing from reserves and capital receipts. The incremental effect of this updated strategy compared with the resources previously identified is insignificant. The Incremental Impact on the Council Tax Indicator which measures this in terms of the resulting additional cost each year to Council Tax (Band D) therefore shows a negligible decrease.

**Borrowing Limits**

The level of external debt is determined with reference to the net borrowing indicator (as above), but also by treasury and operational management decisions. Borrowing Limits are set as a means of reviewing and controlling the amount of borrowing that can be afforded at any time.

The Council is required to set an authorised limit, which is a self-imposed maximum borrowing limit, and an operational boundary, which is an indicator to focus day-to-day treasury management and ensure that the authorised limit is not breached. The Authorised Limit reflects a level of borrowing which, while not desired, could be afforded but might not be sustainable. The operational boundary is a key management tool for in-year monitoring. A separate limit is set for 'other long term liabilities' to recognise the other alternatives to borrowing, such as finance leases, that, although not currently used, could be used to finance capital expenditure in future. The Authorised Limit and Operational Boundary for borrowing previously advised were £18m and £15m respectively. The recommended limit and operational boundary proposed for the next three years are increased by £2m as follows:

| Limits and Boundaries for 2010/11 – 2012/13 | Authorised Limit | Operational Boundary |
|---|---|---|
| Borrowing<br>Other long term liabilities | 20.0m<br>0.5m | 17.00m<br>0.45m |
| Total | 20.5m | 17.45m |

**Treasury Management Indicators**

The Treasury Management Indicators are set as a means of aiding a prudent borrowing and investment strategy. The predominant indicator is that the Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The new Code is being adopted as part of this Financial Strategy. The Prudential Code further requires three specific indicators to be calculated each year to set limits to the exposure to risk of additional costs that might arise from treasury management. These indicators are outlined below.

**Upper limits for interest exposure from use of fixed and variable interest rates**

The Council's borrowing is all at fixed rate. The risk from exposure to variable interest rates is therefore currently limited to investments and any short term cash flow borrowing that may be necessary. Fixed rate investments reduce uncertainty but the flexibility arising from variable rate investments is advantageous and necessary for at least part of the investment portfolio. The proposed upper limits for exposure calculated with respect to projected interest receivable are:

| Upper Limits for interest rate exposure for 2010/11 –2012/13 | % |
|---|---|
| Upper limit - fixed rate | 100 |
| Upper limit - variable rate | 30 |

**Upper and lower limits for the maturity structure of the Council's debt for the forthcoming year**

The risk associated with the maturity structure of debt is dependent on whether that structure might require an Authority to refinance debt at a time of volatile interest rates. The risk associated with the present debt structure is low since no borrowing is due to mature within 10 years. However, the following upper and lower limits for maturity structure are proposed, to allow for some flexibility in refinancing should this be a favourable option, while limiting maturity structure risk.

| Maturity structure of debt for | **Upper** | **Lower** |
|---|---|---|

| forthcoming year | **Limit** | **Limit** |
|---|---|---|
| Under 12 months | 50% | 0% |
| 12 months and within 24 months | 50% | 0% |
| 24 months and within 5 years | 75% | 0% |
| 5 years and within 10 years | 75% | 0% |
| 10 years and above | 100% | 0% |

**Upper Limit for Total Principal Sums Invested Over 364 Days**

The risk involved in being forced to realise an investment before maturity increases with the investment term. The Council presently limits this risk by limiting the term of any investment to under 364 days. It is, however, proposed to keep the present upper limit of £3m on sums invested over 364 days in order to give some investment flexibility whilst limiting risk exposure. This headroom is unlikely to be used in 2008/09.

| | |
|---|---|
| Total principal sum invested over 364 days | |
| Limit for 2010/11 – 2012/13 | £3.0m |

**APPENDIX G**

# RESERVES AND BALANCES

## Introduction

The Council's reserves and balances underpin the sustainability of both the revenue and capital financial plans. This appendix provides guidance on what is considered to be best practice for the level and utilisation of reserves and balances

## Guidance on Local Authority Reserves and Balances

When calculating their budget requirement the Local Government Finance Act 1992 requires Councils to have regard to their level of capital and revenue reserves needed for meeting estimated future expenditure.

The Head of Finance and Asset Management, being the appointed Section 151 Officer, is required to advise the Council on the level of reserves it should hold in order to ensure a sound financial standing, and also ensure that clear protocols exist for their establishment and use. Clearly a well-managed Council, with a prudent approach to budgeting, should be able to operate with a relatively low level of General reserve. The Audit Commission is in turn required to review the level of reserves and financial performance over a period of time. However, it is not the responsibility of the auditor to prescribe an optimum or minimum level of reserves.

The introduction of the Prudential Code for Capital Finance (The Code) reinforces the safeguards for financial planning. The Code emphasises the requirement to consider affordability when making decisions about the Council's future capital programme. The development of five-year revenue forecasts and long term capital programme focus greater attention on the levels and application of the Council's Balances and Reserves.

A key issue of the Use of Resources Assessment, which the Council undergoes on an annual basis, is how the Council reviews and prioritises the use of its reserves.

## Adequacy of the Council's Reserves and Balances

In order to assess the adequacy of unallocated reserves the Council must take into account the strategic, operational and financial risks that it will face in both the long and short term.

In recent years the Council has set a high-risk budget, characterised by the need to budget being balanced by high levels of savings, significant reductions in the workload for trading accounts, and budgets that include large levels of seasonal income that are heavily weather dependant. A reasonably high level of reserves was preserved to mitigate these risks.

The development of the Financial Strategy and embedding of the Medium Term Financial Plan and Risk Strategy allows the Council to be less cautious when prescribing its minimum level of retained balances. The 2010/11 budget is, however, particularly high risk due to the current economic conditions and, although we have budgeted for the anticipated effects, it is proposed that the criteria for the main corporate reserves remain unchanged to last year, as set out below:

| | |
|---|---|
| **General Fund Balance** | the balance be maintained within the range of £1.5m to £2.0m. |
| **Capital Contingency** | The balance to be maintained within the range of £0.5m to £1.5m over time |
| **Insurance Reserve** | A minimum balance to be maintained in the medium term of £1.350m |
| **Pension Reserve** | the balance be maintained within the range of £0.1m to £0.5m |
| **Capital Development** | The approved expenditure from the fund will match its resources over a 10 year planned period. |

Any variance to these limits will be reported to Cabinet, who will consider the required action. However, through effective management of resources the intention is not to breach these criteria.

**Summary of Reserves and Balances**

To aid understanding of the many Council reserves they have been summarised into the following three categories:

(a) General Fund Balance
(b) Corporate Reserves
(c) Operational Reserves and Balances

(**a) General Fund Balance**

This Fund represents an accumulated working balance to meet future contingencies. Members previously approved that the balance of this fund should be maintained within the range £1.5m to £2.0m, plus an additional sum to mitigate the transitional costing arising from the loss of the Property Services Tender with Yorkshire Coast Homes (YCH).

The current balance on the General Fund is £1.867m including £0.031m in respect of the agreed transitional costs for mitigating the loss of the Property Services contract. The costs associated with the loss of the contract have now been fully accounted for therefore the remaining balance has been earmarked to fund any unforeseen costs associated with the Highways and Property Trading units in 2009/10.

The 2010/11 budget does not require a draw from General Fund Balances and therefore the net balance of £1.836m is within the predetermined criteria.

The Medium Term Financial Plan does not plan to draw any further monies from the General Fund balance.

**(b) Corporate Reserves**

**Capital Development Reserve**

The Capital Development Fund underpins the Capital Strategy. It unifies all capital resources with the intention of focusing investment into priority areas over the medium term. The table below shows how the Capital Development Fund will match resources to investments over the 10-year period from 2009/10 to 2019/20.

**Capital Development Fund 2009/10 to 2019/2020**

| | **£ 000's** | **£ 000's** |
|---|---|---|
| Balance Brought Forward | | 582 |
| | | |
| **Transfers In** | | |
| Disabled Facility Grant | 3,210 | |
| Contributions from Revenue and Other Reserves | 23,007 | |
| Anticipated Capital Receipts | 3,399 | |
| | | 29,616 |

| | | |
|---|---|---|
| **Anticipated Net Expenditure** | | |
| Asset Management (2009 to 2019) | 2,520 | |
| IT Replacement / Development (2009 to 2019) | 2,880 | |
| Vehicle Plant and Equipment (2009 to 2019) | 10,546 | |
| Disabled Facility Grants (2008 to 2019) | 8,950 | |
| Capital expenditure approved prior to 1 April 2009 (net of external grants and contributions) | 5,364 | |
| Expenditure funded from Borrowing | (3,267) | |
| | | (26,993) |
| **Resources available if capital receipts are achieved *** | | 3,205 |

**Capital Contingency Reserve**

The Capital Contingency reserve is essential in the management of Capital Resources.

There are two likely uses for the Capital Contingency Reserve.

(iii) it will provide a flexible and responsive resource to fund **small-scale** ad hoc capital schemes.

(iv) It will provide contingency funding for potential additional costs incurred on the existing capital programme.

Members previously approved that the balance of this reserve be maintained within the range £0.5m to £1.5m. The uncommitted balance on the Reserve for 2010/11 currently stands at £0.774m. This balance includes a revenue contribution of £150,000 which is transferred to the reserve each year.

**Insurance Fund**

The Insurance fund covers risks that are by their nature difficult to insure such as cliff slippage and certain storm damage and risks that are generally uneconomic to insure such as damage due to leakage from water pipes and the theft of small items of equipment. The fund also meets the cost of some insurance excesses.

During July 2007 Filey suffered from a severe storm blocking access roads, which affected approximately 100 properties. Cabinet exercised its right to endorse emergency powers and approve the use of the Insurance Fund to meet essential repairs and emergency works not covered by the Bellwin Scheme. The report to Cabinet clearly pointed out that such a decision would breach the minimum balance of the Fund.

In addition, Cabinet on the 18 December 2007 recommended to Full Council the use of the Insurance Fund (£85,000) to undertake remedial landslip works at the rear of the Scarborough Spa and a further £100k was recommended for approval on 15 December 2009.

The balance on the reserve stood at £1.679m at 31 March 2009. £0.523m of this balance is committed to the Spa and Filey flooding remedial works therefore the uncommitted balance is £0.194m below the predetermined level.

It is anticipated that savings on the cost of insurance premiums will accrue in 2009/10. The balance of this reserve will therefore be reviewed at year end.

**Pension Fund**

The pension reserve is used to meet the upfront costs associated with the added years element of employees' pensions and redundancy costs.

The uncommitted balance on the Reserve for 2010/11 currently stands at £0.425m therefore is within the pre-determined range.

**Value for Money**

The Value for Money Reserve was established to provide a resource to support the efficiency agenda and to help deliver more effective services. The reserve receives an annual revenue contribution of £50,000. A further £100,000 was contributed to the reserve in 2009/10, which was funded from the 2008/09 revenue budget underspend.

The unallocated balance on the reserve currently stands at £133,000. The Council has an established Value for Money Group, which assesses bids that meet the Council's Value for Money criteria. The following bids have been approved by the group:

**Sustainability Officer to support the requirements of CAA - £21,180**

Sustainable development is about long term social and economic benefit and respecting environmental limits. It is about building a strong healthy and just society.

Councils use energy in their day to day activities. The main environmental impact of producing and using energy is the emission of carbon dioxide. Local government is a major consumer of natural resources i.e. Energy, water, fuel, land, soil, plant, animal products, metals and minerals and waste.

Sustainability is a cross cutting issue which needs to be driven centrally with links made to the Councils corporate systems, business and service planning processes.

As part of CAA the Audit Commission will examine sustainability and will look for evidence of genuinely integrated outcomes. The Council will be tested to see whether we know what natural resources we consume through our own operations and what strategic approach is in place to reduce the use of the natural resources i.e. Land and buildings we occupy, goods services, works and utilities, plant equipment and vehicles and the employment practices we adopt for our staff

In its role as community leader, a Council is expected to set a good example to others and to ensure a corporate approach to sustainability. This post will be responsible for developing this corporate approach.

The total cost of this post will be £35k in 2010/11 however £13,820 has been identified from the Area Based Grant allocations for climate change.

**Asset Management Health Check - £22,000**

Asset Management will be reviewed as part of the Audit Commission’s CAA inspections in 2010/11. It is acknowledged that this review may identify some shortfalls therefore it is considered beneficial to review processes in preparation for these inspections.

This funding will provide for a temporary member of staff in the asset management section to perform a health check in preparation for the inspection. If specific areas are identified they must be addressed urgently therefore the appointed employee will then work with SBC officers to make the necessary improvements.

**Local Development Framework - £50,000**

Fundamental changes introduced in the Planning and Compulsory Purchase Act 2004 require Local Plans to be replaced, over time, by a portfolio of planning documents known collectively as the Local Development Framework (LDF).

Initial work undertaken by Scarborough Borough Council has focussed on the preparation of 2 key documents – the Core Strategy and Housing Allocations Development Plan. Over time these plans will need to be augmented with other plans to ensure that a comprehensive policy framework exists to cover all aspects of development.

This funding will resource an additional post within the Forward Planning section, allowing the production of the other documents in the LDF to be significantly accelerated. The use of additional resources will enable the LDF to effectively be in a position to have replaced much of the ageing Local Plan, and thereby truly reflect the Borough’s growth agenda by 2011.

The funding will be match funded by the planning service (from Planning Delivery Grant monies) therefore will provide 2 years funding for the post.

The uncommitted balance on the Value for Money Reserve stands at £40,000 for 2010/11.

**Revenue Development**

The Revenue Development Reserve was established to fund small, one off revenue items. The reserve usually receives an annual revenue contribution of £50,000, however this contribution will not be made in 2010/11 due to funding pressures. The balance on the fund is fully allocated.

**One off Funding Sources**

The following one off sources of funding will be available in 2010/11:

**Area Based Grant** – The Council has received notification that its provisional Area Based Grant allocation for 2010/11 will total £103,819. £319 of this amount is for environmental damage regulations, £75,000 is for cohesion, £6,000 is for the economic assessment duty and £22,500 is for climate change.

**LABGI (Local Authority Business Growth Incentives)** funding for 2008/09 and 2009/10 was earmarked to fund budget pressures associated with the economic climate. £128,160 of the amounts awarded have not yet been allocated. The Council has established a contingency in its 2010/11 base budget to fund these costs, therefore it is proposed that the unallocated LABGI balance now be directed towards areas of priority spend.

The total one off funding available for investment is therefore £231,979. This funding will be used as follows:

| Bid | £ | Local / National Priority Growth Bid |
|---|---|---|
| Muston & Yedingham Drainage | 8,680 | Creating Quality Environments |
| Barrowcliff Blueprint | 10,000 | Healthy & Vibrant Communities |
| Area Forum Support Costs | 35,000 | Cohesion |
| Allotments | 10,000 | Creating Quality Environments |
| Economic Assessment Duty | 6,000 | New Burden |
| Environmental Damage Regulations | 319 | New Burden |
| Sustainability Officer | 13,820 | Creating Quality Environments |
| Benefits – additional workload | 20,000 | Mitigate impact of the |

| | | |
|---|---|---|
| | | recession |
| Benefits – publicity | 10,000 | Mitigate impact of the recession |
| Citizens Advice Sessions | 10,000 | Mitigate impact of the recession |
| Benefits overpayments – additional workload | 35,000 | Mitigate impact of the recession |
| Anti social behaviour officer | 22,500 | Safer & Stronger Communities |
| Night Marshalls | 31,200 | Safer & Stronger Communities |
| Seafest | 8,000 | Building Prosperous Communities |
| Neighbourhood Regeneration | 18,000 | Healthy & Vibrant Communities |
| | **238,519** | |

This one off funding will be managed through the Revenue Development Reserve. The funding shortfall of £6,540 will be found from one off savings identified in the 2010/11 revenue budget.

Further details of these schemes are provided in Appendix G1 of this report

**Operational Reserves**

There are no changes proposed to Operational Reserves. These reserves are held for each Head of Service. The reserves primarily relate to accumulated under spending that has been carried over to support known future operational requirements, and to provide a working balance to equalise fluctuations in seasonal income and expenditure.

All transactions to and from these reserves are subject to the approval and review of the Section 151 Officer, in accordance with the Council's Financial Regulations, and the broad Policy Framework. Any proposed use of the reserves not within the overall Policy Framework would be reported to Cabinet/Council.

APPENDIX G1

## PRIORITY AREAS TO BE FUNDED FROM THE ONE OFF FUNDING SOURCES

| Priority Area | Details | Amount £ |
|---|---|---|
| Muston & Yedingham Drainage | The M&YDB have approached the Council to part fund a Channel Management Pilot Project. The goals of the project are to test management strategies for improving the maintenance of the main rivers (Hertford and Derwent) for the purposes of land drainage, flood risk management and ecosystem biodiversity. The project will greatly benefit future efforts to manage land drainage issues.<br><br>The Council's Local Development Framework housing allocations will rely on the Internal Drainage infrastructure. This is one off funding and the EA (Envt Agency) and Ryedale District Council have also been asked to contribute. The management strategies will be undertaken by the EA. | 8,680 |
| Barrowcliff Blueprint | This would fund the planning stage of the Barrowcliff Blueprint. If the project goes ahead it would comprise a combination of training and employment schemes with environmental and open space improvements in Barrowcliff. The scheme, which would be delivered by Groundwork, would include a programme of individual projects such as allotments and healthy eating, play areas, wildlife areas, cycle tracks, traffic calming and carbon reduction initiatives. The £10k contribution towards the planning stage of the scheme would come from RSLs (YCH and Sanctuary housing). The bid would demonstrate partnership working and Groundwork would be willing to run it as a participatory budgeting scheme therefore it would provide good links with CAA. Groundwork officers believe that external funding bids to deliver the scheme would have a good chance of success | 10,000 |
| Area Forum Support Costs | The Borough Council currently employs 2 Area Forum Support Officers who provide a valuable source of community development support across the Borough. The Area Forums have a key role to play in the delivery of the corporate priority to develop “stronger communities”, and specifically encourage | |

| | | |
|---|---|---|
| | community participation.<br><br>The funding for these 2 posts is currently provided 50% by the County Community Fund and 50% by the Borough Council. The Borough Council also contributes in kind office accommodation, management costs and printing and publicity. This £35k will extend the funding of the posts until March 2011. | 35,000 |
| Allotments | The Parks and Countryside service are in the process of taking over responsibility for managing and maintaining allotments. An annual maintenance budget of c. £5k is transferring but this is not deemed to be adequate to maintain them to an adequate standard. This one off funding would allow the Parks service to employ a part time officer to review the provision of allotments in the Borough. The post holder would review the possibility of levering in external funding to improve the service and increase the number of plots. | 10,000 |
| Economic Assessment Duty | The council's Area Based Grant allocation was increased by £6k in recognition of the new burden imposed by the economic assessment duty, which requires upper tier and unitary authorities – in consultation with other key partners, including district authorities – to carry out an assessment of the economic conditions of the local area. Officers from regeneration are considering the best options for spending the additional monies to ensure that the Council fulfils its requirements in respect of this duty. | 6,000 |
| Environmental Damage Regulations | The Council's Area Based Grant allocation was increased by £319 in recognition of the new burden imposed by the Environmental Damage (Prevention and Remediation) Regulations 2009 which requires local authorities to cover costs of enforcing the regulations where they cannot be recovered from polluters. | 319 |
| Sustainability Officer | The Council's Area Based Grant allocation included £22,500 for climate change. £8,680 of this allocation has been earmarked for the Muston and Yedingham Drainage Board funding (see above), leaving £13,820 for other climate change themed expenditure. It is proposed that this remaining funding be earmarked for the sustainability officer post. | 13,820 |
| Benefits – additional workload | The recession has resulted in a continuous increase in benefits caseload throughout 2009/10. The most flexible means to address this short-term 'spike' in workload is either to buy in agency staff (£25 - £35 per hour), or an enhancement payment scheme (weekend working). The enhancement scheme is the preferred | |

| | | |
|---|---|---|
| | method. The staffing budget would need to be increased by £20,000 in 2010/11. A similar budget was approved by Cabinet in April 2009 for the 2009/10 year | 20,000 |
| Benefits – publicity | To promote the initiatives (including existing Benefit Take-up sessions) it would be appropriate to advertise in the media – Borough News, local supermarkets (Morrisons), Area Health Directory, Yorkshire Coast Radio as well as Area Committees & Area Forums at an outline cost of £5,000. A similar budget was approved by Cabinet in April 2009 to promote the service in the 2009/10 year | 10,000 |
| Citizens Advice Sessions | The Citizens Advice Bureau is best placed to provide the specialist debt & money advice that people hit by the recession need. An additional 2 weekly half day surgery sessions at Scarborough & Whitby would cost £10,000 to run. A similar budget was approved by Cabinet in April 2009 to run the sessions in 2009/10 | 10,000 |
| Benefits overpayments – additional workload | Overpayments are spiralling due to the recession and the introduction of direct payments through Local Housing Allowance (LHA). The level of outstanding overpayments was recognised in the recent Benefits KLOE consultancy exercise as needing prompt action. Temporary staff were employed on one year fixed term contracts in 2009/10 and it is proposed that the funding for these posts be extended by a further 12 months. The cost would equate to approximately £35,000. | 35,000 |
| Anti Social Behaviour Officer | The funding for the Anti-Social Behaviour Officer runs out in March 2010. This £22.5k will extend the funding until March 2011. North Yorkshire Police have agreed to fund the remaining 25% of the post.<br><br>As this post meets the Council's top priority of reducing crime and disorder permanent funding for the post will be provided in the 2011/12 budget. | 22,500 |
| Night Marshalls | This funding would support the costs of 4 marshalls per night on Thursday and Friday and 6 on Saturdays throughout the year, plus 6 marshalls on 12 additional nights to cover bank holidays and key events. The marshalls would patrol from 10pm to 4 am. 50% match funding will be provided by NYP however this has not yet been secured. The service has been operating since December 2008 and this would allow continuation of the service in 2010/11<br><br>As this post meets the Council's top priority of reducing crime and disorder permanent funding for the post will be provided in the 2011/12 budget. | 31,200 |

| | | |
|---|---|---|
| Seafest | This funding will allow the festival to go ahead in 2010/11. This will be a guarantee against loss therefore. It is agreed that the festival needs to become self financing therefore this guarantee against loss will reduce to £4k in 2011/12, £2k in 2012/13 and become nil in future years. | 8,000 |
| Neighbourhood Regeneration | The Council has had a Neighbourhood Regeneration Team since January 2002, which was principally funded by Yorkshire Forward and ERDF. The team is now down from 6 officers to 1 and funding for the post ceases in September 2010.<br><br>This one off funding will extend the post to March 2011<br><br>The Council's Corporate Plan and the Community Strategy identify community leadership and increased engagement as priorities for the Council. The work of this post involves trying to create stronger and more prosperous communities, improve service delivery to better meet the needs of residents, and improve skills and employment opportunities in the local community. It is therefore proposed that permanent funding will be provided for this post in the 2011/12 budget. | 18,000 |
| **TOTAL** | | **238,519** |

**APPENDIX H1**

# THE CAPITAL PROGRAMME 2009-2020

| | Expenditure Profile | | | | | |
|---|---|---|---|---|---|---|
| | up to 31/03/09 £000's | 2009/10 £000's | 2010/11 £000's | 2011/12 £000's | 2012 onwards £000's | Total Cost £000's |
| **Building Prosperous Communities** | | | | | | |
| Rotunda Museum Implementation | 3,887 | 13 | | | | 3,900 |
| Sandside Environmental Improvements | 2,394 | 10 | | 3 | | 2,407 |
| Creative Industries Centre - Phases 1 & 2 | 5,853 | 25 | | | | 5,878 |
| Whitby Upper Harbour Phase 2 | 45 | 845 | | | | 890 |
| Scarborough Spa Redevelopment | 301 | 239 | 6,000 | | | 6,540 |
| Middle Deepdale Planning Application Work | 255 | 223 | | | | 478 |
| Futurist Lease | | 532 | | | | 532 |
| Open Air Theatre | | 2,301 | 1,267 | | | 3,569 |
| Whitby Ice Plant | | 22 | | | | 22 |
| Shellfish Holding Facility (Whitby) | 377 | 14 | | | | 391 |
| Investment Management Plan | | 50 | | | | 50 |
| West Pier Feasibility | 8 | 2 | | | | 10 |
| Total | 13,121 | 4,275 | 7,267 | 3 | 0 | 24,666 |
| | | | | | | |
| **Creating Healthy & Vibrant Communities** | | | | | | |
| Bankside Play Area Improvements | | 41 | | | | 41 |
| Beach Walk Play Area Improvements | 2 | 68 | 0 | | | 70 |
| St Peter's Play Area Improvements | | 90 | | | | 90 |
| Whitby Golf Club | | | 150 | | | 150 |
| North Bay Play Area | | | | 250 | | 250 |
| Purchase of the Scarborough Football Ground | 1,430 | 8 | | | | 1,438 |
| Overdale/Eastway | 41 | 51 | | | | 92 |
| Children's Play | | 150 | | | | 150 |
| Disabled Facilities Grants (from 09/10) | | 756 | 640 | 790 | 7,520 | 9,706 |
| Housing Grants and Energy Grants | 231 | 273 | | | | 504 |
| Filey Shelter | | 10 | | | | 10 |
| New Play Area through Byland Rd land sale | | | 50 | | | 50 |
| Total | 1,704 | 1,447 | 840 | 1,040 | 7,520 | 12,551 |
| | | | | | | |
| **Creating Quality Environments** | | | | | | |
| Glen & Crescent Gardens | 68 | 16 | | | | 84 |
| Toilet Improvements | 28 | 22 | | | | 50 |
| Northstead shops parking bays | 1 | 34 | | | | 35 |
| Ravenscar Landslip | 19 | 91 | | | | 110 |
| Scarborough Marina – onshore/pontoons | 90 | 410 | 1,625 | | | 2,125 |
| Pannett Park | 148 | 1,545 | 19 | 17 | 35 | 1,764 |
| Royal Albert Park - Phase 2 | 373 | 352 | | | | 726 |
| Royal Albert Park - Phases 3 & 4 | | 139 | | | | 139 |
| Sainsbury's Park Improvement Scheme | 138 | 8 | | | | 147 |
| The Dell, Eastfield | | 61 | 111 | 51 | | 223 |
| Station Square Feasibility | 18 | 57 | | | | 75 |
| Trafalgar Square Railings | 41 | 4 | | | | 44 |
| Falsgrave Park Entrance Improvements | | 5 | | | | 5 |
| Trafalgar Square Improvement Scheme | | 33 | | | | 33 |
| Centrurion Way | | 40 | | | | 40 |

**APPENDIX H1**

## THE CAPITAL PROGRAMME 2009-2020

| | Expenditure Profile | | | | | |
|---|---|---|---|---|---|---|
| | up to 31/03/09 £000's | 2009/10 £000's | 2010/11 £000's | 2011/12 £000's | 2012 onwards £000's | Total Cost £000's |
| Peasholm Park (winter repairs) | 107 | 33 | | | | 140 |
| Old Railway Line | | 62 | | | | 62 |
| Crematorium Mercury Abatement | | | 128 | 128 | 384 | 640 |
| Foreshore Wall Investigations | 34 | 171 | | | | 205 |
| Olivers Mount/The Mere (Section 106) | 50 | 2 | | | | 52 |
| Total | 1,114 | 3,087 | 1,883 | 196 | 419 | 6,699 |
| | | | | | | |
| **Creating Safer & Stronger Communities** | | | | | | |
| Cemetery Safety | | | 141 | | | 141 |
| Eastfield Community Café | 89 | 1 | | | | 89 |
| Rafters Refurbishment | | 85 | | | | 85 |
| Total | 89 | 86 | 141 | 0 | 0 | 316 |
| | | | | | | |
| **Improving the Council** | | | | | | |
| Disability Discrimination Act Works | 153 | 236 | 65 | | | 454 |
| Recycling: Alternate weekly collection | 530 | 1 | | | | 531 |
| Whitby Depot Facilities | | | 250 | | | 250 |
| Projects and Partnership Support | | | 25 | 25 | | 50 |
| Capacity Building Reserve | | | 250 | | | 250 |
| Power Perfector | 27 | 21 | | | | 48 |
| Scarborough Joint Depot development costs | | 25 | | | | 25 |
| Total | 710 | 284 | 590 | 25 | 0 | 1,609 |
| | | | | | | |
| **Asset Management** | | | | | | |
| Peasholm Lighting Columns | 132 | 3 | | | | 135 |
| Spa - Energy Management | | 100 | | | | 100 |
| Scarb. Mkt/Whitby Pavilion - Roof & Stone Restoration | 49 | 351 | | | | 400 |
| Spa - emergency works | 434 | 15 | | | | 449 |
| Spa Building Refurbishment - Reception completion | | 34 | | | | 34 |
| Repairs and Redecoration to Commercial Properties | | 50 | | | | 50 |
| South Cliff Lift Health & Safety Equipment | | 50 | | | | 50 |
| Legionella Inspection of Public Conveniences | | | 40 | | | 40 |
| Repairs to Stoneworks in Council Chamber | | | 35 | | | 35 |
| South Cliff Lift Health & Safety Works | | | 16 | | | 16 |
| Filey Evron Centre | | | 34 | | | 34 |
| Filey Pre Season Works | | | 26 | | | 26 |
| Whitby Pre Season Works | | | 24 | | | 24 |
| Total | 616 | 603 | 175 | 0 | 0 | 1,393 |
| | | | | | | |
| **Vehicle & Equipment Replacement** | | | | | | |
| IT replacement | | 1,017 | 343 | 370 | | 1,730 |
| Vehicles, Plant & Equipment Fund (Gross) | | 1,259 | 1,116 | 531 | 8,899 | 11,805 |

**APPENDIX H1**

## THE CAPITAL PROGRAMME 2009-2020

| | Expenditure Profile | | | | | |
|---|---|---|---|---|---|---|
| | **up to 31/03/09 £000's** | **2009/10 £000's** | **2010/11 £000's** | **2011/12 £000's** | **2012 onwards £000's** | **Total Cost £000's** |
| Total | 0 | 2,276 | 1,459 | 901 | 8,899 | 13,535 |
| | | | | | | |
| **Invest to Save** | | | | | | |
| Filey TIC/Cash office amalgamation | | 21 | | | | 21 |
| LED Strip Lighting - Peasholm Park | 10 | 4 | | | | 14 |
| Recycling bins | 51 | 14 | | | | 65 |
| LED Strip Lighting - Scarborough, Whitby and Filey | | 92 | 93 | | | 185 |
| Glass Recycling | 0 | 80 | | | | 80 |
| Whitby Beach Chalets | | | 9 | | | 9 |
| Whitby Pavilion Notice Boards | | | 21 | | | 21 |
| Evron Centre Cash Office | | | 20 | | | 20 |
| Endevour Wharf | | | 92 | | | 92 |
| Improvement of Vacant Commercial Properties | | | 55 | | | 55 |
| Whitby Pavilion Stage | | | 5 | | | 5 |
| Scarborough Sports Centre Reception | | | 7 | | | 7 |
| Total | 62 | 211 | 302 | | 0 | 574 |
| | | | | | | |
| **Coast and Flood Protection and Repair** | | | | | | |
| Scarborough Strategy: Holbeck to Scalby Mills Review | 190 | 24 | | | | 215 |
| East Pier, Castle Headland & The Holms | | 56 | | | | 56 |
| Whitby Coastal Defence Strategy Phase 2 | 300 | 29 | | | | 329 |
| NECAG Strategic Coastal Monitoring | 141 | 185 | | | | 326 |
| Robin Hoods Bay Coastal Defence Strategy | 43 | 137 | 59 | | | 239 |
| Strategic Regional Coastal Monitoring 2008-2011 | 194 | 605 | 611 | | | 1,410 |
| Cayton Bay (Knipe Point) Cliff Instability Investigation | 298 | 127 | | | | 425 |
| Spa Landslip | 28 | 172 | | | | 200 |
| Filey Flood Remedial Works | 124 | 351 | | | | 475 |
| Filey Flood Alleviation Study | 58 | 168 | | | | 226 |
| Scarborough Harbour - Steel Sheet Piling | | 48 | | | | 48 |
| Whitby Harbour - Steel Sheet Piling | | 72 | | | | 72 |
| Local Coast Monitoring | | 200 | 100 | | | 300 |
| Pathfinder – Knipe Point | | | 1,023 | | | 1,023 |
| Filey Coastal Slope and Outflanking Defence Studies | | 317 | | | | 317 |
| Spa Coast Feasibility Study | 1 | 559 | | | | 560 |
| Whitby East Pier Urgent Works | | 300 | 1,556 | | | 1,856 |
| | 1,379 | 3,349 | 3,349 | 0 | 0 | 8,077 |
| | | | | | | |
| Total | 18,794 | 15,618 | 16,006 | 2,166 | 16,838 | 69,421 |

* The expenditure for IT Schemes and Asset Management is not shown after the 2011/12 year. As the spend in these areas can fluctuate from year to year the budgets are allocated over a ten year period and as yet cannot be profiled into specific years beyond 2011/12. The budgets available for allocation over the 10 year period are £2.167million for IT Schemes and £2.120million for Asset Management.

**APPENDIX H1**

# THE CAPITAL PROGRAMME 2009-2020

| | Funding Profile | | | | | |
|---|---|---|---|---|---|---|
| | up to 31/03/09 £000's | 2009/10 £000's | 2010/11 £000's | 2011/12 £000's | 2012 onwards £000's | Total Funding £000's |
| **External Grants and Contributions** | | | | | | |
| ERDF | 2,993 | | | | | 2,993 |
| Yorkshire Forward | 3,948 | 688 | 5,625 | | | 10,261 |
| Government Departments | 1,428 | 3,181 | 3,670 | 321 | 2,568 | 11,168 |
| Other Non Dept Public Bodies | 226 | 92 | | | | 318 |
| Lottery (various bodies) | 1,977 | 1,616 | 93 | 44 | | 3,730 |
| Private & Other Local Authorities | 1,795 | 521 | 50 | 100 | | 2,466 |
| Total | 12,368 | 6,098 | 9,438 | 465 | 2,568 | 30,936 |
| Capital Development Reserve and Revenue Contributions | 6,381 | 5,744 | 3,300 | 1,701 | 14,269 | 31,396 |
| Other Reserves | 45 | 1,336 | | | | 1,381 |
| Unsupported Borrowing | | 2,438 | 3,267 | | | 5,705 |
| Total | 18,794 | 15,618 | 16,006 | 2,166 | 16,838 | 69,421 |

**APPENDIX I**

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

| Risk | Likelihood | Seriousness | How we will manage the risk |
|---|---|---|---|
| Non achievement of income targets | Medium | High | • See sensitivity analysis below for high risk areas. |
| Fluctuations in inflation, Government Grants and changes in legislation | Medium | High | • Reviewed through the Financial Strategy and monitored throughout the year.<br>• Any changes in legislation fully considered.<br>• Ensure that the minimum level of reserves is maintained to mitigate against risks.<br>• Ensure that authorities interests are represented through the LGA and other groups. |
| Budgets are overspent | Medium | High | • Robust budget setting process<br>• Regular monitoring with corrective action<br>• Develop a culture of awareness<br>• Ensure budget holders have ownership of their budgets<br>• Effective project planning and management<br>• Ensure sufficient contingency sums<br>• See sensitivity analysis below for high risk areas |
| Savings are not achieved | High | High | • Regular budget monitoring to identify issues at an early stage<br>• Where savings are not achieved alternative savings must be identified<br>• Incorporation of a contingency sum within the budget<br>• Establishment of reserves to mitigate against non achievement of savings |
| Reserves are inadequate | Medium | High | • Minimum levels of reserves are set and reviewed each year with consideration given to budget risks.<br>• Reserve balances are reported to Cabinet on a quarterly basis and any breaches of minimum levels are highlighted |
| Changes in usage and demand | Medium | High | • Regularly monitor income |

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

| Risk | Likelihood | Seriousness | How we will manage the risk |
|---|---|---|---|
| affects revenue streams | | | • Review trends<br>• Take appropriate action to mitigate downward trends<br>• Ensure income budgets are not too demanding |
| Budget does not reflect corporate priorities | Low | High | • Ensure corporate involvement in the budget process<br>• Early consideration of budget pressures and changes in legislation<br>• Regular reporting to CFSG<br>• Approved scoring criteria for prioritising capital and revenue bids |
| The capital programme is not affordable | Low | High | • All schemes are monitored through the 10 year Capital Development Reserve<br>• Capital contingency reserve provides a balance to mitigate against overspends on capital schemes<br>• Budget growth provided to increase revenue contributions to capital<br>• Schemes are monitored and reported on a regular basis |
| Poor planning with decisions being made without proper consideration / consultation | Low | High | • Develop a long term Financial Strategy<br>• Set out a clear budget timetable<br>• Regular updates to Members<br>• Effective consultation process |
| Budget does not consider the full impact of sustainability | Medium | Medium | • The Council has developed a sustainability policy which contains principles and measures that are to be implemented over the coming years |
| The Budget does not assess equalities impact on its population and community groups | Medium | Medium | • The impact of the budget on social and community needs is provided in a separate note in Section 11 of this Strategy |
| There are insufficient resources to | High | High | • A specific budget has been allocated to asset management |

**RISK ASSESSMENT AND SENSITIVITY ANALYSIS**

| Risk | Likelihood | Seriousness | How we will manage the risk |
|---|---|---|---|
| meet the needs of asset management | | | over a 10 year period<br>• All schemes are prioritised<br>• The Council is undertaking a review to rationalise its assets<br>• A budget has been established to demolish unused assets<br>• A revised asset management strategy is being developed |

**APPENDIX I**

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

The following budgets have been highlighted as being particularly high risk due to their size or nature. The following table shows a sensitivity analysis which demonstrates the budgetary effect if variations arise and how the risk of unfavourable variations will be reduced or mitigated.

| Budget Area | Budget 2010/11 £ | 1% Variation | 3% Variation | 5% Variation | Likelihood | How we will / have managed the risk |
|---|---|---|---|---|---|---|
| Employee Costs | 24,226,000 | 242,000 | 727,000 | 1,211,000 | Low | • Salary budgets include a provision for the pay award of 0.75%<br>• The budget is monitored on a monthly basis and history shows that the Council has adopted a prudent approach to budgeting<br>• Salaried posts will only be filled if adequate budget provision exists |
| Car Parking Income | 4,727,000 | 47,000 | 142,000 | 236,000 | Medium | • Income is monitored on a weekly basis during the peak seasonal period<br>• Income equalisation reserve established to offset fluctuations in car parking income.<br>• Car parking charges increased to encourage the use of Park and Ride whilst still maintaining income levels at car parks.<br>• Fees and charges increased to maximise income and create a fund for replacement machines. Machine purchase dependent on generating sufficient income |
| Catering Income | 1,580,000 | 16,000 | 47,000 | 79,000 | Medium | • Monthly management reports produced and monthly monitoring meetings held with budget holders.<br>• Reduce costs if income falls |

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

| Budget Area | Budget 2010/11 £ | 1% Variation | 3% Variation | 5% Variation | Likelihood | How we will / have managed the risk |
|---|---|---|---|---|---|---|
| | | | | | | • Reviewed trends in previous years to ensure budgets are prudent<br>• Reduced income targets to reflect the refurbishment works at the Spa in 10/11 |
| Trading Accounts - External Income | 3,026,000 | 30,000 | 91,000 | 151,000 | Medium | • Budget growth provided in previous years to reduce income and profits down to a realistic levels<br>• Staffing levels will be reviewed if external income levels fall.<br>• Highways Agency project team and board established to plan for the loss of agency work<br>• Establishment of an equalisation reserve for trading accounts |
| Rental Income | 2,916,000 | 29,000 | 87,000 | 146,000 | Medium | • Monthly monitoring statements produced<br>• Corporate efficiency review set up to rationalise and review the asset base to ensure that minimum rental returns are received from assets retained<br>• Resources brought in to the estates section to undertake overdue rent reviews to maximise rental income |
| Seasonal Leisure Sites | 896,000 | 9,000 | 27,000 | 45,000 | High | • Monthly monitoring statements produced<br>• Look into potential invest to save opportunities which will maximise and maintain income streams |

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

| Budget Area | Budget 2010/11 £ | 1% Variation | 3% Variation | 5% Variation | Likelihood | How we will / have managed the risk |
|---|---|---|---|---|---|---|
| | | | | | | • Reduce risk by reviewing outsourcing opportunities where possible |
| Planning Fee Income | 422,000 | 4,000 | 13,000 | 21,000 | Medium | • Budget growth provided in 2009/10 to reduce income down to a realistic level<br>• Staffing utilised to undertake work on Local Development Framework therefore reducing revenue costs in the short term<br>• Consideration of charging for pre-planning advice to maximise income |
| Local Land Charge Income | 160,000 | 2,000 | 5,000 | 8,000 | Medium | • Budget growth provided in 2009/10 to reduce income down to a realistic level<br>• Local land charges budget must break even over a medium term period therefore any shortfall should be balanced in future years through increases in fees. |
| Interest Receivable | 491,000 | 5,000 | 15,000 | 25,000 | Medium | • Review the Treasury Management Policy and ensure that Financial Institutions satisfy strict criteria before investing funds with them.<br>• Reduced the budgets for interest receivable in 2009/10 to reflect the reductions in interest rates.<br>• Restructure borrowing to repay fixed rate interest debt whilst interest rates available for investments are low and to minimise the costs of borrowing on the revenue budget. |

APPENDIX I

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

| Budget Area | Budget 2010/11 £ | 1% Variation | 3% Variation | 5% Variation | Likelihood | How we will / have managed the risk |
|---|---|---|---|---|---|---|
| Recycling Credits / Sales | 984,000 | 10,000 | 30,000 | 49,000 | Medium | • Monitor tonnages and sales prices on a monthly basis to ensure targets are achieved<br>• Invest to save scheme for glass recycling implemented during 2009/10 |
| Harbour Income | 986,000 | 10,000 | 30,000 | 49,000 | Medium | • Income monitored on a monthly basis<br>• Introduce harbour boards to oversee the harbour operations and run the harbours in a commercial manner to maximise income and business opportunities<br>• Progress business opportunities that arise at the harbours |
| Capital Expenditure | 16,006,000 | 160,000 | 480,000 | 800,000 | Medium | • Capital contingency reserve provides a balance to mitigate against overspends on capital schemes<br>• Capital budgets include an amount for contingencies<br>• Schemes are monitored and reported on a regular basis |
| Expenditure on bed and breakfast accommodation for homeless | 254,000 | 3,000 | 8,000 | 13,000 | Medium | • Homelessness service brought back inhouse therefore more control over the levels of expenditure incurred<br>• Homelessness prevention methods such as the bonds scheme introduced to minimise expenditure where possible<br>• Procurement exercise being undertaken to |

## RISK ASSESSMENT AND SENSITIVITY ANALYSIS

| Budget Area | Budget 2010/11 £ | 1% Variation | 3% Variation | 5% Variation | Likelihood | How we will / have managed the risk |
|---|---|---|---|---|---|---|
| | | | | | | ensure costs are minimised |
| Concessionary Fares expenditure | 3,268,000 | 33,000 | 98,000 | 163,000 | Medium | • Usage and reimbursements to operators monitored by the North Yorkshire Concessionary Fares Partnership<br>• Appealed to DfT in relation to insufficient funding for the scheme. |
| Capital Salaries in traffic and capital and procurement sections | 287,000 | 3,000 | 9,000 | 14,000 | Medium | • Review capital programme to monitor where staff will charge time<br>• Workforce planning linked with capital programme<br>• Review staffing if schemes do not require staffing resources |

APPENDIX J

## OUTCOMES FROM PREVIOUS YEAR INVESTMENT IN PRIORITY AREAS

### Ongoing Investment

| Investment | Amount | Outcomes |
|---|---|---|
| Take the housing options team back inhouse | £45k | • Homelessness in the Borough has decreased from 200 to 105 households<br>• The use of bed and breakfast and all other non self contained temporary accommodation for homeless families has been ended<br>• Youth Homelessness has decreased |
| Transfer of the responsibility for stray dogs to local authorities | £16k | • In the last financial year a total of 320 dogs were seized or handed in to the Council. Of these, 200 were returned to their owner, 80 were rehomed, 39 were put down and 1 died whilst in the kennels. |
| Improvements in the dog warden service | £30k | • Funding enabled the reinstatement of an in-house service based on 2 wardens.<br>• Service became fully operational in November 2009 and has so far been prioritising the enforcement of dog fouling and control legislation. Patrols of known problem areas have been increased including out of hours visits. A number of offences have been reported and of these 12 are currently been processed for legal proceedings – of these 5 relate to dog fouling.<br>• Service has administered the statutory duties on the council in respect of stray dogs. Work has been undertaken jointly with Customer First to make this aspect more efficient to both officers and the public.<br>• Formed relationships and worked in partnership with a number of other organisations and community groups to promote responsible dog ownership and reduced dog fouling. Examples are joint patrols with Police Community Support Officers, participation in the Area Forum/community led dog awareness campaigns and work with Friends groups.<br>• A number of further initiatives are planned or being investigated, including the employment of a seasonal Dog Control Enforcement Officer (additional funding source), use of biodegradable pavement stencils and the use of a bicycle to patrol difficult to access areas. |
| Implementation of a demolition policy and creation of a budget to demolish | £50k | • XL Training building in Whitby will be demolished by 31 March 2010<br>• Annual savings in rates - £23,500<br>• The structure was dangerous therefore removed |

## OUTCOMES FROM PREVIOUS YEAR INVESTMENT IN PRIORITY AREAS

| | | |
|---|---|---|
| old and unused buildings | | potential health and safety implications<br>• Clear site increases redevelopment potential<br>• Environmental improvements through removal of a derelict building |
| Sale of land at Mitford Street Filey to facilitate the development of affordable housing | £12k | • Scheme was given full planning permission in December.<br>• Due to start on site (phase 1) this spring - with 6 affordable housing completions in 10/11<br>• Phase 2 to start on site late summer with 11 affordable housing completions 11/12<br>• Scheme has drawn down £1M investment/match funding from Homes and Communities Agency |

**One off investment in 2009/10**

| Investment | Amount | Outcomes |
|---|---|---|
| Neighbourhood Regeneration | £70k | Stagecraft - a community-based project designed to introduce children / young people to a broad range of topics in the field of performing arts (dance, drama, rap, magic skills, singing). The project tackles many issues often associated with social and economic disadvantage and provides participants with positive outcomes of increased confidence, improved self-esteem, raised aspirations, promotion of positive attitudes and behaviour, self respect and respect for others. So far Stagecraft has operated in 2 Wards and has successfully engaged over 90 children / young people.<br><br>Job Match - Job brokerage: providing employers with recruitment support and helping people out of work find a job<br>- Outputs achieved so far:<br>• 50 Employers supported<br>• 533 Individuals assisted<br>• 108 Individuals into employment |
| Neighbourhood Management | £30k | These monies have not yet been spent and the scheme is unlikely to go ahead due to lack of funding form partners.<br><br>It is likely that the funding will be used to develop an Eastfield Blueprint (similar to the Barrowcliff Blueprint identified in Appendix G1) in partnership with Groundwork. |
| Anti Social Behaviour Officer | £14k | • Pilot of the Scarborough night marshals- 74% of people surveyed thought that Scarborough as a safe place on a night |

## OUTCOMES FROM PREVIOUS YEAR INVESTMENT IN PRIORITY AREAS

| | | |
|---|---|---|
| | | out and 72% believed the Night Marshall scheme had made a difference to night time safety.<br>• Place Survey shows people believing antisocial behaviour to be a problem to have reduced from 29% to 16% |
| Wi-fi / wi-fi max | £5k | Monies not spent. Scheme was not deemed to be deliverable. Funding will be allocated to another priority area. |
| Area Forum support costs | £33k | Examples of some of the outcomes achieved during 09/10 include:<br>• Delivery of 14 area forum events on topics as wide ranging as dog fouling, traffic and transport, community cohesion and information for older people and associated follow up to address issues raised.<br>• In March 2010 a special question time forum will be held in the northern area as part of the wider requirement to promote community access to key decision makers.<br>• Development of community action plan for each forum area, with actions to address issues raised. Also support provided to 3 Parish/Town Councils to review their Parish/Town Plans (Filey, Osgodby and Hunmanby).<br>• Establishment (in partnership with 4Youth and NY Police) 2 youth forums in the southern and northern area. Monthly youth page in the Whitby Gazette.<br>• Work to secure funding and deliver of a series of community led projects to address issues raised including intergenerational projects in the urban area (x3), northern area (x1), LGBT project (x1). Ongoing support for community led County Market in Staintondale.<br>• Promotion of community involvement in influencing decisions through area forum input into overview and scrutiny (dog fouling). Representation on range of other partnerships.<br>• Support provided to enable minority groups to have a voice including the LGBT forum, formation of the new “Gay Scarborough” group and assistance with |

## OUTCOMES FROM PREVIOUS YEAR INVESTMENT IN PRIORITY AREAS

| | | |
|---|---|---|
| | | delivery of the first Gay Pride event in the Borough. The Urban area is developing a range of initiatives that help to bring diverse communities together and promote community cohesion. These will be delivered through 2010 as part of the Forum's "Scarborough Together" theme. This links directly with NI1 (% of people who think people from different backgrounds get on well together). |

Full details of the above investments in priority areas are provided in the 2009-2019 Financial Strategy

Appendix I

## Utility Energy Targets

### Top 10 Gas Sites

| | 2008/9 CO2 Actual | 2009/10 LAA Target | 2010/11 LAA Target |
|---|---|---|---|
| Swimming Pool, Scarborough | 364 | 360 | 349 |
| The Spa | 286 | 283 | 274 |
| Spa Pavilion Whitby | 260 | 257 | 249 |
| Whitby Leisure Centre | 252 | 249 | 241 |
| Crematorium & Cemetery | 190 | 187 | 181 |
| Town Hall | 148 | 146 | 141 |
| Manor Road Nursery | 148 | 146 | 141 |
| Sports Centre | 98 | 97 | 94 |
| Scarborough Borough Council Offices | 61 | 60 | 58 |
| The Art Gallery | 41 | 40 | 39 |

### Top 10 Electric Sites

| | 2008/9 CO2 Actual | 2009/10 LAA Target | 2010/11 LAA Target |
|---|---|---|---|
| Town Hall | 376 | 372 | 361 |
| The Spa | 335 | 331 | 321 |
| The Spa Pavilion Whitby | 259 | 256 | 249 |
| Swimming Pool , Scarborough | 163 | 161 | 156 |
| Country Park Caravan Park | 123 | 121 | 118 |
| Scarborough Borough Council Workshop | 93 | 91 | 89 |
| Warehouse, Market Hall | 82 | 80 | 78 |
| Miniature Railway | 73 | 72 | 70 |
| Newburn House | 67 | 66 | 64 |
| Amenity Centre, Wykeham | 46 | 45 | 44 |