

HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
10 February 2015

Subject: FINANCIAL STRATEGY 2015/16 TO 2024/25

All Wards
Portfolio Holder for Economic Development and Finance: Councillor P R Wilkinson

1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of the report is to consider the Financial Strategy 2015/16 to 2024/25.

Financial Strategy 2015/16 to 2024/25

1.2 The Financial Strategy 2015/16 to 2024/25 is set out in Annex A and Annex A(1). This provides an analysis of the estimated financial position and the direction of the Council's financial resilience over the next 10 years taking into consideration government funding, other resources, service pressures and priorities. It is divided into the following sections:-

- Benefits of and principles underpinning the Financial Strategy for 2015/16 to 2024/25;
- The national economic context;
- Government policy;
- Local Government Finance Settlement;
- New Homes Bonus;
- Local income position;
- Spending pressures;
- Financial risk analysis.

1.3 The key issues for the Financial Strategy are:-

- The impact of the continued reduction in funding for Local Government;
- Business Rate appeals lodged by businesses in Hambleton have a direct impact on the Council. For 2015/16 there is a collection fund deficit of over £500,000 as a result of past appeals, this should not be an issue in future years as legislation is now in place to prevent businesses back dating appeals.
- The potential income generated by the New Homes Bonus grant, the uncertainty around funding beyond 2017/2018 and the amount of money to be given to the Local Economic Partnership;
- The impact of the low Bank Base Rate on the ability of the Council to generate investment income from balances;
- The impact on collection rates of the localised Council Tax support scheme.
- Spending pressures as a result of inflation being above Government targets.
- Significant income receipt from the Council's loan to Broadacres Housing Association.

1.4 At the Audit, Governance and Standards Committee in September 2014, the Auditor, Deloitte, stated that the Council is in one of the best financial positions of any Council in the UK. Since that meeting the Council's Financial Standing has been improved significantly,

with anticipated balances in 2024/25 increasing by £6.780m from £13.309m to £20.089m, an increase of 50.9%. This places the Council in a remarkable and unique financial position which, unlike many other Councils, guarantees its financial viability well beyond the next decade.

2.0 LINK TO CORPORATE PRIORITIES:

2.1 One of the Council's priorities is to reduce costs and improve the productivity of services. A robust Financial Strategy can assist with this.

3.0 RISK ASSESSMENT:

3.1 There are no risks associated in approving the recommendation.

4.0 RECOMMENDATION:

4.1 It is recommended that Cabinet approves and recommends to Council the Financial Strategy 2015/16 to 2024/25 at Annex 'A' and 'A'(1).

JUSTIN IVES

Background papers: None

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FINANCIAL STRATEGY 2015/16 TO 2024/25

1.0 PURPOSE OF THE FINANCIAL STRATEGY 2015/16 TO 2024/25:

1.1 The Financial Strategy is a key aspect of the Council's Budget Policy Framework. It aims to ensure that resources are aligned to the Council's corporate aims as set out in the Council's Business Plan, as well as delivering customer focused outcomes and continual service delivery improvement. The Financial Strategy sets out the strategic financial position and the financial direction of the Council over the next 10 years taking into consideration the Council's strategic objectives, significant Government grant cuts, other resources and service pressures. The Strategy is regularly monitored and updated to reflect the relentless changes in public sector finance. The key objective of the Financial Strategy is to facilitate the strategic objectives of the Council whilst providing the assurance that the financial standing of the Council over the next 10 years maintains resilience.

2.0 BENEFITS AND PRINCIPLES UNDERPINNING THE FINANCIAL STRATEGY 2015/16 TO 2024/25:

2.1 The Benefits of preparing and maintaining the Financial Strategy include:-

- It provides financial parameters to assist with strategic planning to support the delivery of the Council's strategic objectives;
- It allows the Council to respond to internal and external financial pressures assisting with the development of a sustainable budget over the period of the Financial Strategy;
- It highlights financial risks and mitigating controls promoting the maximisation of resources and the delivery of value for money; and
- It reviews the Council's reserves policy to assist in planning against unforeseen events.

2.2 The principles underlying the Financial Strategy 2015/16 to 2024/25 are set out below:-

- The overall Financial Strategy will ensure the Council's resources are targeted towards meeting its strategic priorities;
- The Council's Business Plan and associated activities will inform a review of the Financial Strategy on an annual basis. The annual review will include an update of the 10 year financial forecast, expected developments within the Council together with the anticipated financial impact of any legislative changes;

- The Council undertakes to maintain its level of expenditure within the boundaries set in the Annual Revenue Budget. If, following monthly budget monitoring, expenditure is expected to exceed original estimates, plans will be prepared detailing the actions required to ensure that spending at the year end does not exceed the original estimate;
- The Council will maintain its General Reserve at an adequate level to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget without reliance on the use of the General Reserve;
- The Council will maintain earmarked reserves for specific priorities that are consistent with its strategic objectives. The use of these reserves will be consistent with the principles set out in the Financial Strategy and will be reviewed annually;
- The Council will balance the need to increase Council Tax with the delivery of its priorities, taking into account the economic challenges facing its communities;
- Opportunities for securing external funding will be sought. The implications of the cessation or withdrawal of funding will also be reviewed to ensure that options are considered prior to undertaking externally funded schemes.

3.0 NATIONAL ECONOMIC CONTEXT:

Deficit Reduction Plan

- 3.1 The Government's policy to eliminate public sector debt appears to be aiding the economic recovery of the UK. However, the fiscal outlook continues to remain very challenging for the medium to long term.

Inflation

- 3.2 The Consumer Price Index has now dipped below the Government's target level of 2% for the first time since December 2009, another sign that the UK economy is recovering.

- 3.3 The rate of Consumer Price Index is currently at a 12 year low of 1%. This is as a direct result of depressed global oil prices. The position will continue to be monitored.

Bank Base Rate

- 3.4 The Bank Base Rate remains at an all time low of 0.5% since March 2009. Despite the economic recovery, the Bank of England shows no sign of increasing the Bank Base Rate. Latest projections anticipate that an increase will not occur before the end of 2016. This has a significant impact on the Council's ability to generate investment income and will continue to be regularly monitored and revised.

4.0 GOVERNMENT POLICY AND IMPACT:

Spending Review 2010

- 4.1 The main emphasis of Spending Review 2010 was to significantly reduce public sector spending to facilitate a reduction in the UK's borrowing deficit. Based upon Spending Review 2010 the Local Government finance settlement

for 2011/2012 and 2012/2013 was announced on 11 January 2011. This resulted in a reduced finance settlement for the Council of over £1.6m or 29% across the period.

Spending Round 2013

- 4.2 Spending Round 2013 was announced in June 2013, this set out in broad terms the funding envelope for Local Government for 2014/15 and 2015/16. It was estimated that the Council would lose an additional 21% of its funding from Central Government over the 2 year period. However, further cuts have increased this to almost 25%.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT AND THE IMPACT OF BUSINESS RATE RETENTION:

- 5.1 On the 1 April 2013 a new funding mechanism was introduced for Local Government that replaced Formula Grant. The new Business Rate Retention funding model enables Councils to keep a proportion of the business rates collected locally, providing an incentive for Councils to grow their local economy.
- 5.2 The implications of the new scheme are that the Council is funded up to its base line level of funding (the 2012/13 formula grant adjusted for rural weighting). This base line position is then reduced in line with Government funding reductions. Latest estimates released by the Local Government Association suggest that these reductions could be up to a 43% reduction by 2020. This base line funding will be made up of a combination of retained business rates and new revenue support grant.
- 5.3 In 2014/15 the Council entered a Business Rate Pool with other Councils in North Yorkshire (excluding Selby District Council and Harrogate Borough Council). The effect of this pool is that any business rates collected by pool members above the Government's target will be retained by the pool, 50% will not be forfeited to Central Government. It is anticipated that in 2015/16 the Council will benefit from the pooling arrangement by approximately £140,000.
- 5.4 Under the Business Rate Retention System business rate appeals lodged by organisations in Hambleton have a direct impact on the Council. For 2015/16 there is a collection fund deficit of over £500,000 as a result of past appeals. This should not be an issue in future years as legislation is now in place to prevent organisations back dating appeals.

6.0 NEW HOMES BONUS GRANT SCHEME:

- 6.1 The new Homes Bonus Grant scheme is designed to create an effective fiscal incentive to encourage Councils to facilitate housing growth. The Grant is not a ring-fenced grant and is intended to be part of the Council's core funding, as such the CLG have stated that they intend New Homes Bonus Grant to be a 'permanent feature of the Local Government finance system'. However, commitment to the scheme has only been given until 2017/2018.

- 6.2 The scheme is designed to pay the Council the average annual value of Council Tax for a property from the year after its occupancy for a total of 6 years. For a Band D property this amount is £1,439 per year, these average amounts per Council Tax Band are set for the period of the scheme. In addition a grant of £350 per affordable home will be paid to the Council from the year after occupancy for a total of 6 years.
- 6.3 Similar to the Business Rate Retention scheme there is a split of this income, with 80% retained by the District Council, 18% to the County Council and 2% to the Fire Authority. New Homes Bonus represents an opportunity for the Council to generate significant levels of grant that can assist in dealing with the unprecedented levels of formula grant reductions facing the Council.
- 6.4 The funding for New Homes Bonus Grant comes from a top slice of Business Rates Retention monies paid to Central Government. The Government has stated that post 2017/2018 100% of Business Rates Retention will be used to fund Local Government services. The risk to the Council's Financial Strategy is if from 2017/2018 Government policy moves away from delivering housing to an area such as health, then there is the potential for this funding to be transferred to the County Council who deliver health services.

7.0 LOCAL INCOME POSITION:

Council Tax

- 7.1 The Localism Act 2011 gives a provision for a referendum to veto excessive Council Tax increases. This effectively places a limit on the level of Council Tax set by the Council. If the Council exceeds the Government's prescribed limits the public would be able to vote to agree or veto any considered 'excessive' increase.
- 7.2 The potential additional cost of a referendum and re-billing would be significant and negate the benefit from the Council Tax increase. Therefore increasing Council Tax above the prescribed limits would require careful consideration.
- 7.3 In the last three years the Council has taken the decision not to increase Council Tax and to accept the Government's Council Tax Freeze Grant. The Government has announced a 1% Council Tax Freeze Grant for 2015/16. The Financial Strategy assumes the Council will accept this Grant.

Interest on Balances

- 7.4 Given the continued low Bank Base Rate, the revenue budget for interest on balances has been set at a prudent level. The Financial Strategy has been prepared on the basis that this level of interest rates will continue until the end of 2016 at the earliest, with only small increases beyond that date. This is consistent with the latest projections on the Bank Base Rate from the Bank of England and other City Institutions.

Fees and Charges

- 7.5 Fees and charges levied by the Council provide a significant source of income and facilitate reinvestment in Council services, all fees and charges have been frozen in 2015/16. In future years the Council will give consideration to the impact on its services, local economic circumstances and the Financial Strategy in considering appropriate fees and charges.

Capital and Prudential Borrowing

- 7.6 All revenue implications associated with the Capital Programme are considered when setting the Capital Programme. The Council has taken the decision to fund the Capital Programme via reserves with the exception of a £25m to £35m loan to Broadacres Housing Association. The loan will be funded through a mix of using the Council's own resources and Prudential borrowing. This mix will ensure the maximum interest receipt return to the Council whilst maintaining a robust cashflow.

Reserves and Balances

- 7.7 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. In establishing reserves the Council must comply with the Code of Practice on Local Authority Accounting in the United Kingdom.
- 7.8 The provision of an appropriate level of reserves and balances is a fundamental aspect of prudent financial management. Their purpose is to provide for unexpected adverse changes in income and expenditure levels and to provide funding for specific initiatives. This is consistent with the Reserves and Balances Policy adopted by the Council in setting the 2014/15 Council Tax.
- 7.9 The detailed Financial Strategy Annex A(1) shows that the financial resilience of the Council is underpinned by a number of factors:-
- 1) The Council will seek to maximise the interest receipt from the loan to Broadacres Housing Association;
 - 2) New Homes Bonus Grant will continue beyond 2017/18 and will be used to support the revenue budget through the tax-payers reserve; and
 - 3) Revenue levels will be maintained to maximise interest income to support the revenue budget through the tax-payers reserve.
- 7.10 It is anticipated that at 1 April 2015 the Council will have Reserves and Balances of £19.243m. This provides the Council with a strong financial position to deal with the future financial challenges it is facing.

8.0 SPENDING PRESSURES:

Pay

- 8.1 Public Sector pay continues to be constrained, for the two year period of 1 April 2014 to 1 April 2016 a national award of 2.2% was negotiated. Given the economic recovery it is uncertain how long this constraint can be continued.

Pensions

- 8.2 The last actuarial review of the North Yorkshire Pension Fund was undertaken as at 31 March 2013. A prudent approach has been taken with stepped increases in the deficiency contributions for 2013/14 and beyond. The Council will continue to review the position on the deficiency payments

with regard the option of making a lump-sum contribution to reduce the annual revenue payments.

Energy prices

- 8.3 Energy and vehicle fuel prices continue to be particularly volatile. Prudent provision has therefore been included for continued annual increases in charges for gas, electricity and vehicle fuel for the period of the Financial Strategy.

Capital Programme

- 8.4 The Financial Strategy provides an estimate of the capital resources that will be required between 2015/16 and 2024/25. The programme has been constructed to ensure that expenditure is not only maintained within existing resources but that there is capital resources available at the end of the Strategy to provide for the future.

9.0 FINANCIAL RISK ANALYSIS:

- 9.1 The key financial risks and associated implications for the Financial Strategy are detailed below, a score of high, medium or low has been given to the likelihood of each risk occurring and the impact of risk on the Financial Strategy should it occur:-

Risk	Implication	Prob*	Imp*	Total	Preventative action
If the UK's economic position worsens then the Government may look to public sector spending for further reductions. This would reduce grant income to the Council further.	Loss of income	4	5	20	Lobby Government and respond to any consultations
Under the Business Rate Retention scheme failure to meet the target for business rate collection set by Government represents a cost to the Council. Also, under this scheme the Government has transferred the risk of business rate no payment to the Council.	Loss of income	3	5	15	Monitor business growth and reduction through collection rates. Act as an enabler with partners on economic development initiatives
New Homes Bonus grant is pivotal to the resilience of the Financial Strategy. Failure to increase the tax base year on year would significantly impinge on this resilience.	Loss of income	3	5	15	Use the Council's powers to encourage house building

Risk	Implication	Prob*	Imp*	Total	Preventative action
Post 2017/18 there is a risk of further grant reductions should Government priorities shift from increased housing provision to enhancing functions not undertaken by the Council.	Loss of income	3	5	15	Lobby Government and respond to any consultations
A continued low Bank Base Rate beyond 2016 would impact on the Council's ability to generate investment income from balances.	Loss of income	4	3	12	Look for other investment opportunities
Fees and charges should be set at a level to maintain a balance between service use and income generation.	Loss of income	4	3	12	Set fees and charges at a fair and reasonable level

Prob = Probability, Imp = Impact, Score range is Low = 1, High = 5

ANNEX A(1)

FINANCIAL STRATEGY

ASSUMPTIONS

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Inflation										
Council Tax base	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Government support	-10.00	-8.00	-8.00	-7.00	-7.00	0.00	0.00	0.00	0.00	0.00
Interest rates	0.50	0.75	1.50	1.50	2.00	2.00	2.00	2.00	2.00	2.00
Budget increase	2.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Council tax										
Retained business rate increase above RPI	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Council tax increase	0.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Council Tax per household	89.48	91.27	93.09	94.96	96.86	98.79	100.77	102.78	104.84	106.94
Number of band D properties	34,710	34,918	35,128	35,339	35,551	35,764	35,978	36,194	36,411	36,630
Increase in Band D Properties	689	208	210	211	212	213	215	216	217	218
Government Support										
Retained Business Rates - Additional	179,412	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Retained Business Rates - S31 grant	441,684	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000	350,000
Retained Business Rates	1,894,767	1,958,000	1,996,000	2,042,000	2,076,000	2,117,000	2,159,000	2,203,000	2,247,000	2,247,000
New RSG	1,602,272	1,394,000	1,066,000	824,000	589,000	589,000	589,000	589,000	589,000	589,000
Collection Fund Surplus / Deficite Transfer	-578,900	77,000	77,000	77,000	77,000	77,000	77,000	77,000	77,000	82,000
Council Tax	3,105,876	3,186,976	3,270,219	3,355,638	3,443,287	3,533,225	3,625,513	3,720,212	3,817,384	3,917,094
	6,645,111	7,113,976	6,929,219	6,796,638	6,685,287	6,816,225	6,950,513	7,089,212	7,230,384	7,335,094

REVENUE BUDGET and COUNCIL TAX

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2023/25
NET REVENUE BUDGET	6,918,280	7,056,646	7,197,779	7,041,734	7,182,569	7,326,220	7,472,745	7,622,200	7,774,644	7,930,136
External support	3,539,235	3,927,000	3,659,000	3,443,000	3,242,000	3,283,000	3,325,000	3,369,000	3,413,000	3,418,000
Council tax	3,105,876	3,186,976	3,270,219	3,355,638	3,443,287	3,533,225	3,625,513	3,720,212	3,817,384	3,917,094
Contribution (to)/from Council Taxpayer Reserve	273,169	(57,330)	268,559	243,097	497,282	509,995	522,231	532,988	544,260	595,043
	6,918,280	7,056,646	7,197,779	7,041,734	7,182,569	7,326,220	7,472,745	7,622,200	7,774,644	7,930,136

FINANCED BY :

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
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Resources brought forward	3,068,786	2,538,517	2,793,417	2,711,317	2,484,217	4,630,117	4,578,017	4,535,917	3,939,817	3,897,717
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PLUS : New Receipts

Sale of land - Learning Bar	373,000	312,000	0	0	0	0	0	0	0	0
Sale of Assets	250,000	100,000	0	0	2,500,000	0	0	0	0	0
Grants	320,000	107,900	107,900	107,900	107,900	107,900	107,900	107,900	107,900	107,900
	943,000	519,900	107,900	107,900	2,607,900	107,900	107,900	107,900	107,900	107,900

LESS : Capital Expenditure

Total resources available	1,473,279	2,793,417	2,711,317	2,484,217	4,630,117	4,578,017	4,535,917	3,939,817	3,897,717	3,855,617
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Revenue reserves

Council taxpayers	4,660,065	6,414,176	5,922,363	7,414,503	6,766,227	9,125,001	9,471,318	10,801,127	5,111,909	6,369,368
Repairs and Renewals Fund	2,666,958	2,169,958	2,666,958	2,176,958	1,635,958	1,088,958	1,502,958	875,958	1,264,958	677,958
Computer Fund	923,000	623,000	1,323,000	1,023,000	723,000	1,423,000	1,223,000	1,023,000	1,823,000	1,623,000
Grants Fund	320,508	220,508	120,508	0	0	0	0	0	0	0
Economic Development Fund	4,000,000	3,500,000	3,000,000	2,500,000	2,000,000	1,500,000	1,000,000	500,000	5,000,000	4,500,000
One Off Fund	1,343,322	1,343,322	1,343,322	1,343,322	1,203,322	1,203,322	1,203,322	1,203,322	1,063,322	1,063,322
	13,913,853	14,270,964	14,378,151	14,457,783	14,328,507	14,340,281	14,400,598	14,403,407	14,263,169	14,233,648

Capital Receipts

Resources available	2,538,517	2,793,417	2,711,317	2,484,217	4,630,117	4,578,017	4,535,917	3,939,817	3,897,717	3,855,617
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General Fund Working Balance

	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
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Total Balances

	16,452,370	19,064,381	19,089,468	18,942,000	20,958,824	20,918,288	20,836,515	20,343,224	20,160,906	20,089,265
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