

## **HAMBLETON DISTRICT COUNCIL**

**Report To:** Cabinet  
9 February 2016

**Subject:** FINANCIAL STRATEGY 2016/17 TO 2025/26

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

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### **1.0 PURPOSE AND BACKGROUND:**

1.1 The purpose of this report is to consider the Financial Strategy 2016/17 to 2025/26.

#### **Financial Strategy 2016/17 to 2025/26**

1.2 The Financial Strategy 2016/17 to 2025/26 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 2016/17 to 2025/26;
- 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 2016/17 there is a collection fund deficit of £77,188 as a result of past appeals and the Government's decision to give Business Rate exemptions to doctors' surgeries, this should not be an issue in future years as legislation is now in place to prevent businesses back dating appeals.
- Reductions in New Homes Bonus Grant to fund Adult Social Care and the current consultation that suggests the scheme will end in 2020/21.
- The impact of the low Bank Base Rate on the ability of the Council to generate investment income from balances.
- Significant income receipt from the Council's loan to Broadacres Housing Association.

1.4 The Council's financial standing has significantly deteriorated as a direct result of the funding settlement announced in December 2015. To maintain a robust Financial Strategy the Council will be required to find £1m of savings in the period of the current Council.

1.5 In achieving these savings it is anticipated that balances will remain stable throughout the Financial Strategy at between £13.6m and £11.4m.

**2.0 LINK TO COUNCIL 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 FINANCIAL IMPLICATIONS:**

4.1 There are no direct financial implications associated with this report.

**5.0 LEGAL IMPLICATIONS:**

5.1 There are no legal implications associated with this report.

**6.0 EQUALITY/DIVERSITY ISSUES**

6.1 There are no equality and diversity implications associated with this report.

**7.0 RECOMMENDATIONS:**

7.1 it is recommended that Cabinet approves and recommends to Council the Financial Strategy 2016/17 to 2025/26 at Annex 'A' and 'A'(1)

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**Background papers:** None  
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**FINANCIAL STRATEGY 2016/17 TO 2025/26**

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**1.0 PURPOSE OF THE FINANCIAL STRATEGY 2016/17 TO 2025/26:**

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 2016/17 TO 2025/26:**

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 2016/17 to 2025/26 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 increased this to almost 25%.

#### **Autumn statement 2015**

- 4.3 The funding settlement announced in December 2015 has significantly deteriorated the Council's financial standing. Within the Financial Strategy it is estimated that the Council will lose 22.4% of its grant funding from Central Government excluding New Homes Bonus Grant over the 4 year period 2016/17 to 2019/20.

## **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. This base line funding will be made up of a combination of retained Business Rates and new Revenue Support Grant. The provisional financial settlement released in December 2015 indicates that by 2020 Revenue Support Grant will cease. In reality this means that the Council will, over the next 4 years, lose a further £1.6m in funding not taking into account any reduction in New Homes Bonus 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. The Business Rate Pool will continue to operate in 2016/17.
- 5.4 Under the Business Rate Retention System Business Rate appeals lodged by organisations in Hambleton have a direct impact on the Council. For 2016/17 there is a collection fund deficit of over £77,188 as a result of past appeals and the Government's decision to give Business Rate exemption to doctors' surgeries. 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, recent consultation suggests that the grant will be significantly reduced, tapering off to zero by 2020/21.
- 6.2 The scheme is designed to pay the Council the average annual value of Council Tax at Band D for a property from the year after its occupancy for a total of 6 years. 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 cessation of New Homes Bonus Grant by 2020/21 represents a further reduction to the Council of £1.8m per year.

## **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 The Financial Strategy assumes a prudent increase in Council Tax of £5 on a Band D equivalent property per annum for the duration of the Strategy.

### **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 increased overall by 2% in 2016/17. 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 to be paid in line with the recent consultation;
- 3) £1m of efficiencies will be found during the period of the Strategy;
- 4) 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 2016 the Council will have Reserves and Balances of £13.620m. 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, however, a 1% increase has been offered for 2016/17.

### **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.

### **Recycling Contract**

8.3 The recycling market is currently depressed costing the Council an additional £0.5m per annum. There is a risk that this could deteriorate further which would increase the required efficiency savings.

### **Energy prices**

8.4 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**

8.5 The Financial Strategy provides an estimate of the capital resources that will be required between 2016/17 and 2025/26. The Programme has been constructed to ensure that expenditure is not only maintained within existing resources but that there are 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:-

<b>Risk</b>	<b>Implication</b>	<b>Prob*</b>	<b>Imp*</b>	<b>Total</b>	<b>Preventative action</b>
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

<b>Risk</b>	<b>Implication</b>	<b>Prob*</b>	<b>Imp*</b>	<b>Total</b>	<b>Preventative action</b>
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
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
Inability to find the £2m required efficiency savings	No reduction in expenditure	3	5	15	Work started already to find required savings

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