HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
6 September 2016

Subject: **FINANCIAL STRATEGY 2017/18 TO 2026/27 AND EFFICIENCY REPORT**

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 2017/18 to 2026/27 and also the Efficiency Plan that has been developed so the council can qualify for the four-year funding settlement from Government. In order for Councils to sign up to the four year settlement an Efficiency Plan needs to be published by October 2016.

1.2 The four-year funding settlement 2016/17 to 2019/20 is the first time that Government has provided longer term funding information and this four-year settlement will improve financial planning and aid the medium term financial stability of the Council.

Financial Strategy 2017/1 to 2026/27 and Four Year Efficiency Plan

1.3 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.

1.4 The four year Efficiency Plan attached at Annex B is based on the medium-term Financial Strategy and specifically addresses how the Council plans to balance its budget, where it will find savings and efficiencies and how it will use its reserves.

1.5 The Financial Strategy is divided into the following sections:-

- Benefits of and principles underpinning the Financial Strategy for 2017/18 to 2026/27;
- The national economic context;
- Government policy;
- Local Government Finance Settlement;
- New Homes Bonus;
- Business Rates
- Local income position;
- Spending pressures;
- Financial risk analysis.

1.6 The key issues for both the Financial Strategy and the Efficiency Plan are:-

- The impact of the continued reduction in funding for Local Government from Central Government.

- The implication of the new 100% Business Rates Retention Scheme and how this will operate to potentially compensate for the loss of the Government funding settlement.

- The impact of the low Bank Base Rate on the ability of the Council to generate investment income from balances.

- Significant income streams generated from capital schemes and economic development projects across the council.

- Ongoing spending pressures and the need to realise savings, whilst continuing to provide a good level of services.

1.7 The Council's financial standing significantly deteriorated as a direct result of the funding settlement announced in December 2015. The four year funding settlement for 2016/17 to 2019/20 confirms the reduction in Revenue Support Grant to zero in 2019/20 but does provide the certainty as to the funding position over the next four years, which allows the Council to better manage its financial future through the Efficiency Plan.

1.8 The introduction of the 100% Business Rate Retention scheme after 2019/20 leaves it uncertain as to the level of funding available to support Council's services. At this stage, it looks like the scheme will be run on a similar basis to the current scheme except that no business rates will be retained by the government, 100% business rates will be retain by all local authorities as a whole.

1.9 Currently the 100% Business Rate Retention scheme is out to consultation with a closing date of 26 September 2016. Included in the consultation is more detail about the existing funding and also new services / responsibilities that could be transferred to local government in return for the additional rate retention. At this stage most Council are of the opinion that any rational review will provide more funding. In such a system there will also be the requirement for redistribution of funding and this will certainly bring winners and losses. Further information on the 100% Business Rate Retention Scheme is attached at Annex C.

1.10 In accordance with the Financial Strategy, the Efficiency Plan and the forecast of the impact of the 100% Business Rate Retention scheme, the Council will be required to find £1.4m of savings in the next four years to ensure its financial position remains robust.

1.11 In achieving these savings it is anticipated that balances will remain stable throughout the Financial Strategy at between £9.1m and £12.1m, with the 10 year position showing a balance of £10.4m

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:

(1) the Financial Strategy 2017/18 to 2026/27 at Annex 'A' and 'A'(1);

(2) the Efficiency Plan 2016/17 to 2019/20 at Annex B; and

(3) to note the 100% Business Rate Retention Consultation for 26 September 2016.

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Background papers: None

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ANNEX ‘A’

FINANCIAL STRATEGY 2017/18 TO 2026/27

1.0 PURPOSE OF THE FINANCIAL STRATEGY 2017/18 TO 2026/27:

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 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 2017/18 TO 2026/27:

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 2017/18 to 2026/27 are set out below:-

- the overall Financial Strategy will ensure the Council’s resources are targeted towards meeting its strategic priorities;
- the Council 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:

Brexit

3.1 The Governor of the Bank of England, Mark Carney, has warned that the vote for to leave the European Union is likely to cause a slowing in growth of the UK economy, particularly from a reduction in business investment, due to the uncertainty of whether the UK will have continuing full access to the EU single market. He has also suggested that the Government will need to help growth by increasing investment expenditure and possibly using fiscal policy tools.

Inflation

3.2 The Consumer Price Index is currently below the target level of 2% however the recent 10% fall in the value of sterling is likely to result in a 3% increase in Consumer Prices Index over a time period of 3-4 years. There is therefore likely to be acceleration in the pace of increase in inflation which is interesting when the Monetary Policy Committee which wants to help promote growth in the economy by keeping Bank Rate low. The positon will continue to be monitored.

Bank Base Rate

3.3 Following the vote to leave the European Union, in order to support growth in the economy, the Bank Base Rate has been cut by 0.25% in August 2016 to 0.25%. Quantitative easing has also been approved to support growth. Projections anticipate that no further action on Bank Base Rate will take place in 2016 or 2017 as it is expected the pace of recovery of growth to be weak during this period of uncertainty. It is not expected for the Bank Rate to start rising until quarter 2 2018 and for further increases then to be at a slower pace than before. 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:

4.1 Government policy for the provision of funding for local authorities has significantly changed since 2010 with the focus being on reduced Government grant funding, the drive for increased efficiencies and the development of alternative funding methods.

Spending Review 2010

4.2 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

4.3 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

4.4 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.

Four Year Settlement March 2016

4.5 The announcement in the December 2015 Autumn statement confirmed that four year funding settlements for local authorities would be provided by the Government. This provides increased certainty for Council's to plan for the medium term when there are continual changes in grant funding. Further guidance has been provided by the Department of Local Government and Communities in March 2016 which states that in order for Councils to sign up to the four year settlement an Efficiency Plan needs to be published by October 2016.

5.0 <u>LOCAL GOVERNMENT FINANCE SETTLEMENT AND THE IMPACT OF THE NEW 100% BUSINESS RATE RETENTION SCHEME:</u>

5.1 The indicative four year funding settlement released by the Government in December 2015 provides details of the baseline funding which supports local authorities – a combination of business rates to be collected locally and Revenue Support Grant and Rural Services Grant provided by Government. The provisional financial settlement indicates that by 2020 Revenue Support Grant and Rural Services Grant will cease. In reality this means that the Council will, over the next 4 years, lose a further £1.6m in funding. This does not include New Homes Bonus Grant which is detailed in the paragraphs below.

5.2 The business rates that are collected locally and are one of the funding sources (along with Government Grants and council Tax) that support the Council's net budget was part of the new funding mechanism introduced for Local Government on 1 April 2013 that replaced formula grant. The 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.

5.3 The proportion of income retain under the Business Rate Retention funding model was 50% was returned to Government, 40% retained by the District Council, 18% by the County Council and 2% to the Fire Authority.

5.4 The scheme has developed since 2013 with the Government allowing the Council to enter a Business Rate Pool with other local 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 continues to operate in 2016/17.

5.6 In future, with the loss of grant funding from Government, the business rate retention scheme has further developed and currently the Government is out to consultation until 26 September 2016 on the 100% Business Rate Retention Scheme. This will mean that the whole of local government will retain 100% business rates but with increased funding will come the responsibility of increased burdens. Council's will have increased responsibilities to provide additional services locally. Further information on 100% Business Rate Retention Scheme is provided in Annex C of this report.

5.7 In the main, with the introduction of the 100% Business Rate Retention Scheme, local authorities believe that they will be no worse off overall than the current financial position. New burdens will be provided by councils, savings and efficiency will need to be made and 100% business rates will be retained. In the development and changes of the scheme there will always be individual winners and loses, but this is currently unknown.

5.8 The Financial Strategy attached at Annex A1, incudes the information provided by the provisional four year funding settlement and also makes prudent assumptions with regards to the 100% Business Rates Retention scheme. From 2020/21 it is currently assumed that the Council receives no new responsibility burdens and that business rates increase at 4%.

6.0 <u>NEW HOMES BONUS GRANT SCHEME:</u>

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 Department of Communities and Local Government 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. These assumptions are reflected in the Financial Strategy at Annex A1.

7.0 <u>LOCAL INCOME POSITION</u>:

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 Government has currently prescribed a limit for the increase in Council Tax at below 2% or £5. 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 2017 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. The Financial Strategy assumes all fees and charges increase overall by 2% for the duration of Strategy. In future years the Council will give consideration to the impact on its services, local economic circumstances and the Financial Strategy in applying 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 borrowing £25m to £35m to finance the funding provided to a local Housing Association and also borrowing £1.2m to finance the funding provided to the Business Improvement District as part of the development of the Dalton Bridge Scheme. The borrowing will be funded through a mix of using internal borrowing - the Council's own resources - and external prudential borrowing. This mix will ensure the maximum interest receipt return to the Council whilst maintaining a robust cash flow.

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 2016/17 Council Tax in February 2016.

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) £1.4m of efficiencies will be found during the period of the Strategy
2) revenue levels will be maintained to maximise interest income to support the revenue budget through the tax-payers reserve;
3) the Council will seek to maximise income generating projects - the interest receipt from the loan to Broadacres Housing Association;
4) the New Homes Bonus Grant will continue to be paid until 2020/21;
5) the provisional four year funding settlement provided in December 2015 is used;
6) a prudent increase in Council Tax of £5 on a Band D equivalent property per annum is included for the duration of the Strategy

7.10 It is anticipated in the Financial Strategy for 2017/18 the Council will have Reserves and Balances of £12.5m. 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 and is also considered in the budget for 2017/18.

Pensions

8.2 The last actuarial review of the North Yorkshire Pension Fund was undertaken as at 31 March 2013 and provides the pension cost information for three years to 2016/17. A prudent approach has been taken with stepped increases in the deficiency contributions for 2014/15 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. The three year actuarial review is currently underway, where the revised pension cost requirement will be known in December 2016 for the budget in 2017/18 to 2019/20.

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. The quarterly movement of the recycling market is continually being reviewed and the effect taken into account during quarterly monitoring reports. The Financial strategy has assumed that this position will not worsen in the foreseeable future.

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 2017/18 and 2026/27. 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:-

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

Risk	Implication	Prob*	Imp*	Total	Preventative action
The four year funding settlement from Government reduces grant funding sooner than expected in 2019/20.	Loss of Income	3	5	15	Approve the Efficiency Plan to qualify for provisional four year funding settlement detailed in December 2015
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
100% Business Rate Retention Scheme currently under consultation for 2019/20 does not provide fairly for all council's – rural v urban or Devolution Arrangements receive increased funding	Loss of income	3	5	15	Lobby Government and respond to any consultations
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 2017 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 £1.4m 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

FINANCIAL STRATEGY **ANNEX A(1)**

ASSUMPTIONS

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2025/27
Inflation											
	%	%	%	%	%	%	%	%	%	%	%
Council Tax base	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Government support	-22.30	-7.80	-3.00	-0.30	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Interest rates	0.25	0.25	0.50	0.50	0.75	1.25	1.50	2.00	2.75	2.75	2.75
Budget increase	2.00	2.00	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	1.00
Council tax increase £	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Council Tax per household £	94.48	99.48	104.48	109.48	114.48	119.48	124.48	129.48	134.48	139.48	144.48
Number of band D properties	35,088	35,474	35,865	36,259	36,658	37,061	37,469	37,881	38,298	38,719	39,145
Increase in Band D Properties	378	386	390	395	399	403	408	412	417	421	426
Government Support											
Additional BR	457,200	207,068	210,825	240,000	249,600	259,584	269,967	280,766	291,997	303,677	315,824
Retained Business Rates	1,910,000	1,950,000	2,010,000	2,070,000	2,360,000	2,454,400	2,552,576	2,654,679	2,760,866	2,871,301	2,986,153
Revenue Support Grant	1,020,748	620,000	370,000	90,000	0	0	0	0	0	0	0
Rural Grant Funding	624,753	504,627	388,175	504,627	0	0	0	0	0	0	0
Collection Fund Surplus / Deficit Transfer	-77,188	-124,000	68,000	118,000	68,000	-50,000	150,000	-40,000	120,000	-70,000	100,000
New Homes Bonus	1,832,136	1,841,797	1,157,137	1,110,259	804,000	400,000		0	0	0	0
Council Tax	3,315,158	3,528,997	3,747,139	3,969,653	4,196,609	4,428,078	4,664,132	4,904,843	5,150,285	5,400,533	5,655,664
	9,082,807	8,528,489	7,951,276	8,102,539	7,678,209	7,492,062	7,636,675	7,800,288	8,323,148	8,505,511	9,057,640

REVENUE BUDGET and COUNCIL TAX

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2025/27
Operational budget	8,111,370	8,375,597	7,354,809	7,062,179	7,146,281	7,268,799	7,400,801	7,547,577	7,547,577	7,698,529	7,698,529
	8,111,370	8,375,597	7,354,809	7,062,179	7,146,281	7,268,799	7,400,801	7,547,577	7,547,577	7,698,529	7,698,529
Less :											
Additional Income			(31,104)	(56,021)	(20,008)	(13,112)	(1,215)	0	0	0	0
Investment Income	(300,000)	(165,000)	0	0	0	0	0	0	0	0	0
Budget Savings	0	(1,000,000)	(400,000)	0	0	0	0	0	0	0	0
NET REVENUE BUDGET	7,811,370	7,210,597	6,923,705	7,006,158	7,126,273	7,255,687	7,399,586	7,547,577	7,547,577	7,698,529	7,698,529
FINANCED BY :											
External support	5,767,649	4,999,492	4,204,137	4,132,886	3,481,600	3,063,984	2,972,543	2,895,445	3,172,863	3,104,977	3,401,977
Council tax	3,315,158	3,528,997	3,747,139	3,969,653	4,196,609	4,428,078	4,664,132	4,904,843	5,150,285	5,400,533	5,655,664
Contribution (to)/from Council Taxpayer Reserve	(1,271,437)	(1,317,891)	(1,027,571)	(1,096,381)	(551,936)	(236,376)	(237,090)	(252,711)	(775,571)	(806,982)	(1,359,112)
	7,811,370	7,210,597	6,923,705	7,006,158	7,126,273	7,255,687	7,399,586	7,547,577	7,547,577	7,698,529	7,698,529

STATEMENT of RESERVES

Council Taxpayer	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Opening balance	3,165,355	4,436,792	4,477,505	5,005,076	4,801,457	5,053,393	3,989,769	2,926,858	2,879,569	3,355,139	2,862,121
Add : New homes bonus	0	0	0	0	0	0	0	0	0	0	0
Add : Interest on balances	0	0	0	0	0	0	0	0	0	0	0
	3,165,355	4,436,792	4,477,505	5,005,076	4,801,457	5,053,393	3,989,769	2,926,858	2,879,569	3,355,139	2,862,121
Less: Transfers to support Council Tax	(1,271,437)	(1,317,891)	(1,027,571)	(1,096,381)	(551,936)	(236,376)	(237,090)	(252,711)	(775,571)	(806,982)	(1,359,112)
Less: Transfers to One Off Fund	0	600,000	0	0	0	0	0	0	0	0	0
Less: Transfers to /(from) R&M Fund	0	(1,200,000)	0	0	0	1,000,000	0	0	0	0	0
Less: Transfers to Computer Fund	0	0	0	1,000,000	0	0	1,000,000	0	0	1,000,000	0
Less: Transfers to Grants Fund	0	0	0	0	0	0	0	0	0	0	0
Less: Transfers to Economic Development Fund	0	0	0	0	0	0	0	0	0	0	0
Less: Transfers to capital	0	1,877,178	500,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
	4,436,792	4,477,505	5,005,076	4,801,457	5,053,393	3,989,769	2,926,858	2,879,569	3,355,139	2,862,121	3,921,233
Repairs and Renewals Fund											
Opening balance	2,980,511	2,409,767	1,077,767	964,767	812,767	700,767	1,559,767	1,387,767	1,247,767	1,131,767	1,015,767
Add: Transfers (to)/from Taxpayers Reserve	0	(1,200,000)	0	0		1,000,000		0		0	0
Add: Transfers to Computer Fund											
	2,980,511	1,209,767	1,077,767	964,767	812,767	1,700,767	1,559,767	1,387,767	1,247,767	1,131,767	1,015,767
Less : Repairs	421,000	22,000	22,000	22,000	26,000	26,000	26,000	30,000	30,000	30,000	30,000
Less: Renewals - Housing and Planning	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Less: Renewals - Leisure	0	24,000	0	44,000	0	24,000	0	24,000	0	0	0
Less: Renewals - Corporate	99,744	36,000	41,000	36,000	36,000	41,000	96,000	36,000	36,000	36,000	36,000
	2,409,767	1,077,767	964,767	812,767	700,767	1,559,767	1,387,767	1,247,767	1,131,767	1,015,767	899,767
Computer Fund											
Opening balance	1,198,017	718,971	616,971	514,971	1,153,141	1,051,141	949,141	1,847,141	1,745,141	1,644,141	2,544,141
Add: Transfers from Council Taxpayers Reserve	0	0	0	1,000,000	0	0	1,000,000	0	0	1,000,000	0
Add: Transfers from Repairs and Renewals Fund											
	1,198,017	718,971	616,971	1,514,971	1,153,141	1,051,141	1,949,141	1,847,141	1,745,141	2,644,141	2,544,141
Less : Payments in year - CAPITAL & REVENUE	479,046	102,000	102,000	361,830	102,000	102,000	102,000	102,000	101,000	100,000	100,000
	718,971	616,971	514,971	1,153,141	1,051,141	949,141	1,847,141	1,745,141	1,644,141	2,544,141	2,444,141
Grants Fund											
Opening balance	364,012	264,012	164,012	84,012	15,250	15,250	15,250	15,250	15,250	15,250	15,250
Add: Transfers from Council Taxpayers Reserve	0	0	0	0	0	0	0	0	0	0	0
	364,012	264,012	164,012	84,012	15,250	15,250	15,250	15,250	15,250	15,250	15,250
Less : Payments in year	100,000	100,000	80,000	68,762	0	0	0	0	0	0	0
	264,012	164,012	84,012	15,250	15,250	15,250	15,250	15,250	15,250	15,250	15,250
Economic Development Fund											
Opening balance	3,237,979	606,679	274,778	274,778	2,034,778	1,594,778	1,154,778	714,778	274,778	274,778	274,778
Add: Capital Receipt from Sale of Prison Site	0	0	0	2,200,000	0	0	0	0	0	0	0
Repaid borrowing from Business Improvement District		300,000	300,000	300,000	300,000	300,000					
	3,237,979	906,679	574,778	2,774,778	2,334,778	1,894,778	1,154,778	714,778	274,778	274,778	274,778
Less :Payments	2,631,300	631,901	300,000	740,000	740,000	740,000	440,000	440,000			
	606,679	274,778	274,778	2,034,778	1,594,778	1,154,778	714,778	274,778	274,778	274,778	274,777
One Off Fund											
Opening balance	1,383,167	176,339	545,235	458,110	226,923	526,923	526,923	526,923	386,923	386,923	386,923
Add: Transfers	0	600,000	0	0	0	0	0	0	0	0	0
Less: Trsf to Capital Funding		(200,000)									
Add: fee refund from Sale of Prison site					300,000						
	1,383,167	576,339	545,235	458,110	526,923	526,923	526,923	526,923	386,923	386,923	386,923
Less : Payments in year	1,206,828	31,104	87,125	231,187	0	0	0	140,000	0	0	0
	176,339	545,235	458,110	226,923	526,923	526,923	526,923	386,923	386,923	386,923	386,923
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	2,000,000

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2025/27
Resources brought forward	2,438,256	597,570	1,044,205	1,057,991	1,019,109	982,560	1,007,346	511,468	507,428	517,728	536,369
PLUS : New Receipts											
Add: Transfers from Council Taxpayers Reserve	0	1,877,178	500,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Add: Transfers from One-off Fund	0	200,000	0	0	0	0	0	0	0	0	0
Sale of land	138,500	820,000	0	0	0	0	0	0	0	0	0
Sale of Assets	241,500	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Waste Reciprical Cont.	65,629	65,957	66,286	66,618	66,951	67,286	67,622	67,960	68,300	68,641	0
Grants	554,821	113,500	113,500	116,500	113,500	113,500	116,500	100,000	100,000	100,000	100,000
	1,000,450	3,086,635	689,786	493,118	490,451	490,786	494,122	477,960	478,300	478,641	410,000
LESS : Capital Expenditure	2,841,136	2,640,000	676,000	532,000	527,000	466,000	990,000	482,000	468,000	460,000	460,000
Total resources available	597,570	1,044,205	1,057,991	1,019,109	982,560	1,007,346	511,468	507,428	517,728	536,369	486,369

Revenue reserves	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2022/24	2022/25	2022/25	2022/26
Council taxpayers	4,436,792	4,477,505	5,005,076	4,801,457	5,053,393	3,989,769	2,926,858	2,879,569	3,355,139	2,862,121	3,921,233
Repairs and Renewals Fund	2,409,767	1,077,767	964,767	812,767	700,767	1,559,767	1,387,767	1,247,767	1,131,767	1,015,767	899,767
Computer Fund	718,971	616,971	514,971	1,153,141	1,051,141	949,141	1,847,141	1,745,141	1,644,141	2,544,141	2,444,141
Grants Fund	264,012	164,012	84,012	15,250	15,250	15,250	15,250	15,250	15,250	15,250	15,250
Economic Development Fund	606,679	274,778	274,778	2,034,778	1,594,778	1,154,778	714,778	274,778	274,778	274,778	274,777
One Off Fund	176,339	545,235	458,110	226,923	526,923	526,923	526,923	386,923	386,923	386,923	386,923
	8,612,560	7,156,268	7,301,714	9,044,316	8,942,252	8,195,628	7,418,717	6,549,428	6,807,998	7,098,980	7,942,091
Capital Receipts											
Resources available	597,570	1,044,205	1,057,991	1,019,109	982,560	1,007,346	511,468	507,428	517,728	536,369	486,369
	597,570	1,044,205	1,057,991	1,019,109	982,560	1,007,346	511,468	507,428	517,728	536,369	486,369
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	2,000,000
Total Balances	11,210,130	10,200,473	10,359,705	12,063,425	11,924,812	11,202,974	9,930,185	9,056,856	9,325,726	9,635,349	10,428,460

ANNEX 'B'

EFFICIENCY PLAN 2016/17 TO 2019/20

1.0 Introduction

1.1 This efficiency plan has been developed so that the Council can qualify for a four year funding settlement from Government. A four year settlement will improve financial planning and will aid the medium term financial stability of the Council.

1.2 This efficiency plan summarises appropriate sections of the Council's Financial Strategy 2017/18 to 2026/27 and identifies how efficiencies and savings will be delivered, along with increased generated income. The risk and uncertainties associated with the efficiency plan are identified and included in the Financial Strategy.

1.3 The Financial Strategy was last approved in February 2016 prior to the beginning of the 2016/17 financial year and in this report presented to Cabinet on 6 September 2016, the Financial Strategy has further been developed for approval in light of the four year funding settlement and the consultation on 100% business rate retention consultation.

1.4 In line with available Government guidance, this efficiency plan covers the four-year period (2016-17 to 2019-20) and includes the following themes:

- The council's approach to deliver efficiencies savings and generate income of £1,400,000 over the 4 years.
- The connection between the four year settlement and the other strategies across the Council

- key partnerships and transformation projects

1.5 This strategy will be reviewed annually and progress updated with the Financial Strategy.

2.0 Deliver Efficiencies and Generate Income

2.1 Over the next four years the Council will deliver efficiencies of £1,400,000 by 2018/19, although the strategy remains robust and sustainable if a proportion of these savings or generated income is made in 2019/20. The use of the Council's reserves to invest in economic development and other projects, so providing growth in business rates, allows some flexibility in delivering these savings.

2.2 The focus on economic development generates extra income for 2016/17 from the growth in business rates since April 2013 of £570,000 and from growth in the council tax base (which excludes council tax increase) of £147,250.

2.3 The medium term Financial Strategy will focus on a transformational approach across all areas of the council to deliver the required savings, ensuring that the capacity to invest is a key part of budget deliberations. This along with income generating projects will deliver the required £1,400,000:

- The Council reducing its senior management team in February 2016, delivers savings for 2017/18 of around £150,000;

- Directorates will develop plans for 2018/19 to change the way services are provided to deliver £400,000 to £500,000 of efficiency savings, including in this schemes that invest to save for the future.

- Charging for green waste will generate approximately £800,000 of income by 2018/19. Further information is available in the Cabinet report from June 2017.

2.4 Directorate plans will be developed which will change the way services are provided to deliver budget reductions and generate income. The directorate approach will be to protect priority areas and safeguard key statutory services whilst continuing to provide all services to the district that are currently available.

3.0 Strategies across the Council

3.1 The efficiency plan connects with other plans and strategies across the council to ensure the Council's strategic aims, objectives and overall vision are achievable. The Financial Strategy ensures that it builds and supports priorities as detailed in the Council Plan 2015-2019.

3.2 The Economic Development Strategy plays a key role in the formation of the Financial Strategy which allocates £5,000,000 of reserves to economic projects across the districts. The council through the capital programme has promoted the building of the new bridge at Dalton Industrial Estate providing investment of £1,200,000 which will be paid from the businesses within the Businesses Improvement District. This will result in attracting businesses to the area and increasing growth.

3.3 The Local Plan is also a key development currently with the Governments aim for every area in England to have an adopted Local Plan. The Local Plan sets out local planning policies and identifies how land is used, determining what will be built where. Adopted local plans provide the framework for development and local peoples' views are vital in shaping this and helping determine how their community develops. The Local Plan is being finalises for 2018 and contributes to the Financial Strategy in ensuring the growth to the Council tax base and attracting developers to the area.

3.4 The capital programme provides ongoing development funding to support infrastructure across the district as part of the Asset Management Plan which also reviews all assets for transferring to communities for their benefit and considers asset sales for transformation purposes.

3.5 The Capital Programme is funded by use of the council's reserve's and also borrowing. The Treasury Management Strategy includes Prudential Indicators which ensure that the Council's borrowing is affordable, sustainable and prudent in the medium to long term. The Capital Programme, Treasury Management Strategy alongside the Financial Strategy form part of the overall financial planning of the Council.

3.6 Council strategies drive the Financial Strategy and Efficiency Plan to ensure that savings and income generating projects are focused in areas to best benefit the district as a whole.

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4.0 Key Partnerships and Transformation Projects

4.1 The four year funding settlement provides certainty of the reduced grants that will be received from central government to support ongoing expenditure and therefore the Council reviews other sources of funding to support the 10 year Financial Strategy, which are detailed in the paragraphs below:

- Income generating projects;
- Partnership working;
- Devolution arrangements;
- Greater flexibility for the use of capital receipts for transformation projects

4.2 Income generating projects are of key importance to the Council to ensure that the district continues to be a place to grow, be healthy and prosperous. Projects that the council is developing include:

- Loan to the local Housing Association
- Green Waste Charging
- Development of the former Northallerton prison Site

4.3 Partnership working occurs across the district within Housing and Economic Development where Officers meet and discuss regularly with others to share and gain knowledge. Partnership working is also currently occurring across North Yorkshire for the Government Consultation on the 100% Business Rate Retention Scheme. It is vital that rural areas ensure that funding from business rates is distributed fairly to urban and rural areas alike.

4.4 Devolution arrangement discussions are ongoing in the North Yorkshire area. The 100% Business Rate Retention consultation details the potential for increased funding to be allocated to Combined Authorities for the devolved power granted to their areas. This has not yet been modelled in the Financial Strategy as it is too soon to acknowledge that areas without a devolution arrangement will have less funding.

4.5 Greater flexibility for the use of capital receipts on transformation projects was announced in the local government funding settlement for 2016/17. Currently the money received when an asset such as a building is sold is only allowed to be spent on further capital projects. However the Government announced and provided guidance in March 2016 that Council's have greater flexibility as to how this money is spent for the years 2016/17 to 2018/19. Expenditure can be funded by the capital receipts flexibility where it is forecast to generate ongoing savings to an authorities' net service expenditure. Director Plans, as detailed above, will review capital receipts flexibility.

ANNEX 'C'

100% BUSINESS RATES RETENTION SCHEME

1.0 Introduction

1.1 The Government has launched the process for implementing 100% business rates retention later in this parliament. The legislation to introduce 100% retention will be the Local Growth and Jobs bill, which will be introduced in early 2017. The process will also encompass a review of the way the retained rates system works and also a review of the assessment of council needs to deliver services.

1.2 The timetable is unclear and in the short term the 100% Business rate Retention Consultation has been issued with a closing date of 26 September 2016 which focuses on legislative changes that are required. Policy development will take longer at least into the autumn. Other elements – such as the review of needs – will take much longer and might not conclude much before the end of this parliament.

2.0 Business Rates Scheme and Review of Needs

2.1 Currently, it does not look like Department for Communities & Local Government (DCLG) will make radical changes to the way the fundamental retained-rates system works. There is the emphasis that 100% retention should be used to support longer-term investment, and an acknowledgement that some aspects of the current retained rates system – particularly around appeals – has undermined this objective. 100% business rate retention will continue to support the main service needs delivered by Council's along with locally raised Council tax.

2.2 The root-and-branch review of needs is also starting, and the potential for changes in distribution between authorities from this review is profound. We are potentially returning to service allocations and to identifying service drivers. There is a consensus that future needs assessment should be based on something other than past spending patterns.

2.3 The main services delivered by councils will be assessed to ensure the amount of business rates allocated to individual Local Authorities meets their needs but also new responsibilities will have to be transferred to local government so that the increase in retention rate from 50% to 100% will be fiscally neutral. The exact amount is not confirmed as yet. Government ministers are looking for all local government services to be funded locally as far as possible, and for the solution to be sustainable.

3.0 Changes to the 100% Business Rate Retention scheme

3.1 New **tax responsibilities** are proposed to be devolved to Local Authorities both for reductions in business rates in the form of changes to the multiplier and then the resultant increases to return rates to their previous levels. There is no proposal to directly devolve authority to increase rates. This is to provide local authorities with increased controls. That said, it is potentially problematic to neighbouring authorities where rates may be lowered in one district and attract all business from surrounding Council's. Other issues discussed: who pays for a reduction in multiplier (in two-tier areas), how quickly an authority can increase the multiplier after a reduction and the period of time the multiplier can be reduced for.

3.2 There is also the discussion with regards **changes to reliefs** so that local authorities can control them more to suit the local economy and businesses. Ideas would include giving authorities more discretion over charitable relief and empty property relief. Under 100% retention, local authorities would pay for 100% of any increase in reliefs or perhaps grant could be provided from central government.

3.3 The local **area list of hereditaments** is being reviewed to see if larger or volatile hereditaments could move from the local to the central List. The reasons for this is to leave local government with a reasonable balance between risk of whether business rates will be received and the incentive to still want to increase growth in business rates.

3.4 An intriguing new element to the review is the potential to **use different geographies**, such as combined authority or regional-level allocations. Such changes could encompass retained rates, some risk (e.g. appeals), distribution of funding, or types of devolved funding. This presents opportunities to devolved areas, but runs the risk of getting very complicated, and of creating local clashes over how resources should be shared. It also creates the issue in areas where combined authorities do not exist that they potential could receive less funding.

3.5 The **power to increase the multiplier** (by 2p) as an "infrastructure levy" would be available to Combined Authority Mayors. 8. The definition of infrastructure for the infrastructure levy would be similar to that used for the CIL (roads and transport; flood defences, educational facilities, medical facilities, sporting/ recreational facilities, and open spaces) but could be widened to include promoting economic development in the area.

4.0 Changes to Services provided and responsibilities

4.1 More detail is provided about the new services and new responsibilities that could be transferred to local government in return for the additional rate retention.

4.2 This is at a very early stage and the consultation is gaining opinion from local government as to what is feasible. Current suggestions are listed as follows.

New services:

- Highways maintenance, integrated transport block.
- Housing benefit admin subsidy and council tax support admin subsidy.
- Public Health grant.
- Better Care Fund.
- Independent Living Fund. Good fit.
- Dedicated Schools Grant early years block.

New responsibilities:

- Skills, including adult education, careers and further education.
- Welfare, including benefits that are additional to core national benefits and focussed on helping people back to work.
- Older people and disabled people.
- Improving communities.
- Youth Justice Boards.
- Housing, particularly affordable housing.
- Bus Services Operator Grant.

4.2 The above list of additional burdens in a two tier region will be split between county and district responsibility. District councils currently retain 40% of the rates (with counties 9%, fire 1% and central share 50%). An increase in the retention rate for district councils will depend on:

- Services that are devolved and whether they are for district or upper tier (or another purpose such as infrastructure).
- Whether business rates risk for district councils is already too high and whether it can be increased further.
- More broadly, Government view about who has responsibility locally for business development, infrastructure etc.

4.3 The general view is that there is likely to be some increase in the share for districts but the main share of the increase in retention will be for upper tier authorities, as demonstrated above in the type of additional burden being considered for local authority control. A doubling of the retention rate for districts (to 80%) seems very unlikely. There is even a risk that districts' retention rate could reduce if Government decides to match retained rates with new and existing responsibilities. This would have no effect in single-tier areas (Metropolitan, Unitaries or Boroughs).

4.4 There is general acknowledgement that attention should be on adult social care (largest block of expenditure; greatest future cost pressures) and there are concern that past spending data will not accurately represent future demographic shifts (in "county areas" where number of older people is growing) and costs in larger geographic areas.

4.5 There is agreement that there should be a more simple funding system but not at the expense of "fairness"; that "un-met need" should be recognised and to do so might require judgements to be made where reliable statistics do not exist; and that allocations should not be based on past spending patterns. A simplified model might be one which is based on population with 'top-ups' for additional need where this can be demonstrated. This process is ongoing.

5.0 The consultation – Self Sufficient local government: 100% Business Rates Retention

5.1 The consultation is out for 12 weeks and closes on 26 September 2016. The Council is reviewing the 36 questions and will provide a response to the Department for Communities and Local Government. The Council is currently in discussing with other district, county and unitary authorities in the local Yorkshire region to expand knowledge and work with others across finance, revenues and economic development to ensure the contribution that the Council makes provides the best outcome for the local area.

For information – a copy of the consultation is located at the following link:
https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention