HAMBLETON DISTRICT COUNCIL

Report To: Cabinet
7 February 2017

Subject: **FINANCIAL STRATEGY 2017/18 TO 2026/27**

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. The financial strategy was last approved in September 2016 in order for the Council to sign up to the four year funding settlement and approve the Efficiency Plan that needed to be notified to Government and published by October 2016.

Financial Strategy 2017/1 to 2026/27

1.2 The Financial Strategy 2017/18 to 2026/27 is set out in Annex A and Annex A(1) and is being reported at this time to inform the Council's estimated financial position prior to the beginning of the new financial year and include the Government's revised funding position for 2017/18.

1.3 The Efficiency Plan that included the four year funding settlement approved by Council in September 2016 remains current and is not included as part of this report.

1.4 The four-year funding settlement 2016/17 to 2019/20 was the first time that Government had provided longer term funding information to improve the Council's financial planning and aid the medium term financial stability. However this funding position has changed slightly for 2017/18, with the reduction of New Homes Bonus grant of £308,177.

1.5 The Financial Strategy shows the Council's financial resilience over the next 10 years taking into account Government funding, other resources, service pressures and priorities. The financial strategy is divided into the following sections and is consistent with the information approved by Council September 2016:-

- 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 the Financial Strategy that remain consistent with the strategy approved in September 2016 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 approved by Council in September 2016 confirmed the reduction in Revenue Support Grant to zero in 2019/20 and now the funding settlement for 2017/18 includes a further reduction in funding with the reduction in new homes bonus.

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 in future. At this stage, the financial strategy assumes that the Council's funding position and services to be provided, although may alter with increased or decreased service burdens matched with increased or decreased funding, overall will remain constant.

1.9 In accordance with the Financial Strategy the Council will be required to find £1.4m of savings or income generating schemes in the next four years to ensure its financial position remains robust.

1.10 In achieving these savings or generated income it is anticipated that balances will remain stable throughout the Financial Strategy at between £9.1m and £11.9m, 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 the Financial Strategy 2017/18 to 2026/27 at Annex 'A' and 'A'(1) of the report.

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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 UK economy appears to have weathered the initial shock of the Brexit vote, although the value of the pound remains near a 30-year low. Opinion is sharply divided over the long-term effects of leaving the EU. Some major firms such as Easyjet and John Lewis have pointed out that the slump in sterling has increased their costs. Britain also lost its top AAA credit rating, meaning the cost of government borrowing will be higher. But share prices have recovered from a dramatic slump in value, with both the FTSE 100 and the broader FTSE 250 index, which includes more British-based businesses, trading higher than before the referendum. The Bank of England cut interest rates from 0.5% to 0.25% after the vote and there has not been the economic slump or recession that some had predicted.

Inflation

3.2 The Consumer Price Index is currently below the target level of 2% however the recent fall in the value of sterling is likely to result in an increase in Consumer Prices Index over the next 3 to 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 from 0.5% in August 2016 to 0.25%. This is a record low and the first cut since 2009. Quantitative easing was also approved in August 2016 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 estimated that the next time the bank Base rate will rise is in 2019/20. 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. Department of Local Government and Communities in March 2016 stated that for Councils to sign up to the four year settlement an Efficiency Plan needed to be published by October 2016, this was approved at Council in September 2016.

Autumn statement 2016

4.6 It was expected that the changes in the Local Government Finance settlement for 2017/18 would be minimal due to the 4 Year funding settlement provided by Government from 2016/17 to 2019/20. The headline reduction was 12.46% mainly due to the expected cut in Revenue Support Grant. Overall, 'core spending' available to local authorities was estimated at 1.14% due to the cut in Revenue Support Grant being offset by an expected increase in council tax, 5.60%.

4.7 That said, the reduction to funding in 2017/18 was higher than anticipated due to the significant changes announced to New Homes Bonus grant. Reduction in 'spending power' was greatest national for district council's at 5.19%. The reduction in new homes bonus grant for this Council in 2017/18 was £308,177, a loss of 6.2%.

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

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.

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 will be clarified over the next couple of years.

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 in 2020/21,

6.2 The news Homes bonus has been reduced in 2017/18 by £308,177 to £1,533,620, following the Government Consultation at the beginning of 2016. This was not announced in the Autumn 2016 statement, instead it was clarified in the Local Government Finance Settlement in 15 December 2016. This is in contrast to the Four Year finance settlement where the New Homes Bonus had been stated at £1,841,797.

6.3 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.

6.4 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.

6.5 The cessation of New Homes Bonus Grant by 2020/21 represents a further reduction to the Council of £1.0m per year for two years. These assumptions are reflected in the Financial Strategy at Annex A1.

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 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 or income generating schemes will be found during the period of the Strategy
2) maximise income generating projects - the interest receipt from the loan to the local Housing Association and charging for green waste;
3) revenue levels will be maintained to maximise interest income to support the revenue budget through the tax-payers reserve;
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 £11.1m. 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 in the budget for 2017/18.

Pensions

8.2 The actuarial review of the North Yorkshire Pension Fund has been undertaken at 31 March 2016 and provides the pension cost information for three years to 2019/20. The Pension Fund has appointed a new actuary – Aon - for the recent actuarial review whereby assumptions for contributions in the past and for current contributions to be made have changed. The approach taken has reduced the deficiency contribution payments which are necessary to be made for the past but also the current contribution rate has increased. Overall, taking deficiency payments and current contributions into consideration, the budget position for the Council and financial strategy have not changed. With the completion of actuarial triennial review of the North Yorkshire Pension Fund in December 2016, the Council has also made the decision to make a lump-sum contribution with regards to deficiency payments which will reduce the annual revenue payments over the next three years by a total of £36,000.

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
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

Risk	Implication	Prob*	Imp*	Total	Preventative action
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