**HAMBLETON DISTRICT COUNCIL**

**Report To:** Cabinet
11 February 2020

**Subject:** **FINANCIAL STRATEGY 2020/21 TO 2029/30**

**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 and approve the Financial Strategy 2020/21 to 2029/30 as well as the 2020/21 North & West Yorkshire 50% Business Rates Pool.

**Financial Strategy 2020/21 to 2029/30**

1.2 The Financial Strategy 2020/21 to 2029/30 is set out in Annex A and Annex A(1) and provides an analysis of the estimated financial position and the direction of the Council's financial resilience over the next 10 years. It takes into consideration Government funding, other funding resources, service pressures and priorities and is divided into the following sections:-

- Benefits of and principles underpinning the Financial Strategy for 2020/21 to 2029/30;
- The national economic context;
- Government policy;
- Local Government funding settlement 2020/21;
- New homes bonus;
- Business rates;
- Council tax;
- Income generating revenue streams;
- Local income position;
- Spending pressures;
- Financial risk analysis.

1.3 The key issues for the Financial Strategy are:-

- The implication of the new 75% Business Rates Retention Scheme to be introduced by Government in 2021/22 and how this will operate to potentially compensate for the loss of the Government funding settlement.

- The ongoing uncertainty of the Business Rate Retention Scheme to generate additional funding in relation to the Fair Funding Review which affects how funding is allocated and redistributed between local authorities from 2021 onwards.

- The calculation of the New Homes Bonus grant and the longevity of this scheme.

- Significant income streams to be generated by this Council from the commercial strategy, capital schemes and economic development projects across the council.

- The continued impact of the economic uncertainty on the Bank Base Rate; being low but volatile and the ability of the Council to generate investment income from balances.

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

1.4 The Council's financial standing significantly deteriorated as a direct result of the Government four year funding Settlement for 2016/17 to 2019/20 which was extended for a further year in the Settlement for 2020/21 due to the negotiations around BREXIT and the UK entering a period of minority government following the 8 June 2017 election where the Conservative Prime Minister was supported by a cooperation agreement.

1.5 Revenue support grant and rural services delivery grant are to reduce to zero by the end of 2020/21. New homes bonus grant paid by central government to local councils to reflect and incentivise housing growth in the local area hasn't resulted in the Government seeing the results of as many new homes being built as it would like and therefore 2020/21 is the final full year of New Homes Bonus and the government is clear that it wants to replace New Homes Bonus. The 10 year financial strategy models the assumption that this grant will reduce over the next three years and be zero in 2023/24.

1.6 The funding reflected in the financial strategy that Councils will rely on in future to support the delivery of services is local income generating revenue streams, Council tax, business rates.

1.7 With regards to Business rates, the Government did not provide a progress update within the Settlement on the Fair Funding Review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) or further business rates retention. With implementation of the business rates retention reform scheme being scheduled for April 2021, it is crucial for local authority financial planning that the Government provides early exemplifications and consults on proposals for reform and provides certainty to councils as soon as possible, preferably by the time of the final 2020/21 local government finance settlement.

1.8 The Government did announce that there are no new business rates pilots in 2020/21. In 2019/20 this Council had been in the North and West Yorkshire Business Rate 75% pilot due to the advantage of the Council potentially increasing business rates to support the funding position. The North and West Yorkshire 75% pilot pool was for one year only in 2019/20, this has been revoked by the Government and will therefore finish on 31 March 2020. Prior to 2019/20, this Council had been in a 50% business rates retention pool where increased business rates are received but not as great as the 75% pilot pool. As a result of the Government's announcement that the 2019/20 pilots would cease, one option available is to return to the rules governing 50% business rates retention. Previously, this Council has been a member of the North Yorkshire 50% pool from 2013/14 to 2018/19 which included Scarborough, Ryedale, Richmondshire, Craven and North Yorkshire.

1.9 For 2020/21, there is a further one year position where it remains financially beneficial for the Council to continue to be a member of a 50% business rate pool, rather than not. The Government confirmed on 19 December 2019 that the application of the North and West Yorkshire Pool submitted on 25 October 2019 was successful and therefore the Council is included in this pool. This is a hybrid pool model with all the North and West Yorkshire authorities, excluding Selby. Further information regarding the North and West Yorkshire 50% business rates pool is included in Annex A. The North and West Yorkshire 50% Pool will distribute the business rate funding ensuring that no authorities in the pool will receive less income than they would if they were not a member of the Pool.

1.10 Current thinking around business rates indicates that due to the pressure on adult social care and children's services in the local government sector that a potentially lower amount of business rates may be received by District Councils in future with the remaining amount being provided to County Councils. This position is still uncertain and the picture will become clearer during 2020/21.

1.11 Looking further into the future, the Queen's Speech on 19 December 2019 did promise a fundamental review of business rates. It is assumed that future changes will be made to "[protect] your high street and community from excessive tax hikes". This suggests further business rates reliefs/ discounts and may also lead to more fundamental change in the way that businesses are taxed. Further details are awaited.

1.12 To maintain a robust Financial Strategy it is vital that the Council generates income using the commercial strategy, capital schemes and economic development projects across the Council. £9,987,270 is required over 10 years to support the Financial Strategy, starting with £187,270 in 2020/21.

1.13 In achieving these income generating revenue schemes it is anticipated that balances will remain stable throughout the Financial Strategy at between £8,200,441 and £13,512,043 with the 10 year position showing a balance of £10,079,791.

## 2.0 LINK TO COUNCIL PRIORITIES:

2.1 The Financial strategy supports all the Council's priorities to ensure that all services can be delivered in a way that is affordable and sustainable.

## 3.0 RISK ASSESSMENT:

3.1 There are no risks associated in approving the recommendation.

## 4.0 FINANCIAL IMPLICATIONS:

4.1 The financial implications are detailed in the body of the 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

(a) the Financial Strategy 2020/21 to 2029/30 at Annex 'A' and 'A'(1) of the report.

(b) the 2020/21 North & West Yorkshire 50% Business Rates Pool

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**Background papers:** None

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**ANNEX 'A'**

**FINANCIAL STRATEGY 2019/20 TO 2028/29**

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## 1.0 PURPOSE OF THE FINANCIAL STRATEGY 2020/21 TO 2029/30:

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 20209/21 TO 2029/30:

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

- 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 2020/21 to 2029/30 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 to generate revenue and capital income streams will be sought, along with securing external funding. The implications of the cessation or withdrawal of funding will also be reviewed to ensure that options are considered prior to undertaking income generating and external funding schemes.

## 3.0 NATIONAL ECONOMIC CONTEXT:

**Bank Base Rate and Economic Environment**

3.1 The Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% in 2019/20 due to the ongoing uncertainty over Brexit (negotiations with the EU around trade) and the outcome of the general election. In its meeting on 7 November 2019, the Monetary Policy Committee (MPC) became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties became more entrenched, and for weak global economic growth. If those uncertainties were to materialise, then the Monetary Policy Committee (MPC) are likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a “gradual pace and to a limited extent”. Until the uncertainty is removed, it is unlikely that the Monetary Policy Committee (MPC) would raise Bank Rate.

3.2 The overall longer run future trend is for gilt yields, and consequently Public Works Loan Board (PWLB) rates, to rise, albeit gently. From time to time, gilt yields, and therefore Public Works Loan Board (PWLB) rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period 2020/21

3.3 The continued historically low interest rates have a significant impact on the Council’s ability to generate investment income from surplus funds and will continue to be regularly monitored and revised. With the expectation that rates will remain low this assumption has been included in eth financial strategy where over 10 years investment rates are only expected to rise to 2.25%. For borrowing rates there is volatility in the current market environment however on 9 October 2019, the Public Works Loan Board (PWLB), increased their borrowing rates by 100bps and therefore the borrowing rates range are now expected between 2.4% and 3.5% during 2020/21 depending on the time period. The borrowing rates will be monitored where the volatility can bring opportunities for the Council and alternative borrowing sources will also be investigated. The financial strategy currently includes interest costs in connection with borrowing around 3%.

**Brexit**

3.4 There are five areas with regards to Brexit that are most important to Local Government – Workforce, Devolution in the UK, EU Funding, The European Investment Bank and Customs and trading Standards – and information will become clearer in due course after the UK has left the European Union on 31 January 2020. The council continues to consider the impact of Brexit on the financial strategy and in line with the announcement from Ministry of Housing, Communities and Local Government in 2019/20 has received £51,000 as part of the share of the £56.5 million made available to Local Authorities to support planning at this time.

**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. The paragraphs in this section describe how Government funding for Local authorities has reduced and that the first real increase for 10 years is seen in 2020/21.

**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%.

**Four Year Settlement March 2016**

4.4 The announcement in the December 2015 autumn statement confirmed the Government would provide four year funding settlements for local authorities. This increases the certainty for Council's to plan for the medium term when there is continued deterioration in grant funding. The Financial Strategy estimated that this 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. In order to sign up for the four year funding settlement an Efficiency Plan had to be published by October 2016, this Council's Efficiency Plan was approved at Council in September 2016.

**Autumn statement 2018**

4.5 The funding settlement for the 2019/20 headlined that the Core Spending Power (government grant, business rates, new homes bonus and council tax) nationally was expected to increase by 2.8%, where the largest driver of this increase was the funding for the new adult social care grants. The Core Spending Power is the overall impact on local authorities of changes in funding including locally-raised council tax. The Core Spending Power for this Council in 2019/20 increased by 1% which is lower than the national average as the council didn't benefit from the adult social care grant. The 1% increase comes from new homes bonus grant, increase in council tax and the increase in the number of properties in the district.

**Spending Review 2019**

4.6 Financial austerity claimed by the Government to be over in September 2019 in the Chancellors statement has seen the grant funding from the 2020/21 Government's Settlement Funding Assessment to Local Authorities (a combination of the level of revenue support grant and rural service delivery grant received along with the expected business rates to be achieved) increase overall by 1.6%. This is the first increase in the Settlement Funding Assessment in over a decade. Over the last five years however, since the start of the four year funding assessment in 2016/17, the cut in the Settlement Funding Assessment has been 30.1% in cash terms, with the increase in 2020/21 changing the direction of travel but not replacing the massive cuts that have occurred in local government funding. The settlement Funding Assessment for this Council along with new homes bonus grant from Government has decreased by 2.57%.

4.7 The Core Spending Power is the overall impact on local authorities of changes in funding and locally-raised council tax. Overall Core Spending Power nationally is expected to increase by 6.3% in 2020/21, the highest increase in over a decade. The Core Spending Power for this Council in 2020/21 has increased by 0.71% from 2019/20 due to the increase in Council tax and the increase in the number of properties in the district.

## 5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT AND THE IMPACT OF THE NEW BUSINESS RATE RETENTION REFORM SCHEME:

5.1 The Settlement Funding Assessment in December 2019 provided details of the business rate baseline funding allocations for this Council for 2020/21 along with details of revenue support grant, rural services delivery grant, new homes bonus and an estimate of the amount of council tax which are collected locally. The Settlement is for one year only where at the end of 2020/21 revenue support grant and rural services delivery grant will cease, resulting in a further reduction of funding to the council.

5.2 The business rates that are collected locally, which are part of the business rate retention scheme, will become one of the main funding sources that support the Council's net budget in the future along with council tax and income generated locally. The business rate retention scheme was part of the new funding mechanism introduced for Local Government on 1 April 2013 and it 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 50% Business Rate Retention Scheme model was in relation to business rates growth above the Government target where 40% was retained by the District Council, 9% by the County Council, 1% by the Fire Authority and 50% was returned to Government.

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 Yorkshire. The effect of a business rates pool is that any business rates collected by pool members above the Government's target are retained by the pool, 50% is not forfeited to Central Government as described in the paragraph above.

5.5 Under the 50% Business Rates Retention Scheme local authorities can come together to form a 50% retention business rates pool and this pool is treated as one entity for the purposes of the scheme. This means that when authorities that are deemed to have more or less business rates income than they need (known as tariff and top up authorities respectively) and they combine, the resulting pool can reduce or eliminate completely the levy payments tariff authorities would otherwise have to pay to the Government.

5.6 Conversely, under 50% retention an individual authority would normally receive a safety net payment from the Government if its business rates income fell below 92.5% of its assessed needs. However, in a pool that safety net payment would be lost with the pool as a whole being expected to fund the losses.

5.7 In 2019/20 a 75% North & West Yorkshire Business Rates Pool existed for one year which includes 8 tariff authorities that could save levy payments under these pooling arrangements and one authority, Selby District Council, that is likely to require a safety net payment. This 75% pool operates in the same way as the 50% scheme described above however due to 75% business rates being retained there is sufficient funding available in the pool to enable Selby District Council to be a member where the 75% pool funds the safety net position for Selby District and still all Councils within the pool benefit from increased business rates and maximise their funding.

5.8 The Government announced in the 2019 Local Government Finance Settlement that there are no new business rates pilots in 2020/21 and therefore the North and West Yorkshire 75% pilot pool which was for one year in 2019/20 will finish 31 March 2020. As a result, these pilot pools return to the rules governing 50% retention.

5.9 In order to maximise resources retained in the region under the 50% pool discussions have taken place between the current pool members. Selby District Council has therefore withdrawn from the pool at the end of 2019/20 and thereby retained its safety net payment from the Government. This is because the 50% pool does not retain sufficient funding under the rules in which it operates to fund the losses associated with the safety net payment required.

5.10 In order for the North and West Yorkshire 50% business rates pool to be formed, Leeds City Council, as lead authority, informed the Secretary of State that the current 75% business rates pilot pool wished to be revoked at the end of 2019/20. The Secretary of State is obliged to revoke the Pool in these circumstances. Alongside this revocation the members of the current North and West Yorkshire business rates pool, excluding Selby District Council, applied for a new 50% pool to be designated with effect from the 1st April 2020. These remaining members will continue as a pool in 2020/21, thereby eliminating the levy payments that would otherwise have to be paid to the Government. It is intended these saved levy payments will benefit the individual members of the pool as well as being used to fund regional projects supporting economic growth and regeneration across the Pool area.

5.11 On 19th December 2019 the Secretary of State informed members of the new 2020/21 North & West Yorkshire Business Rates 50% Pool that this application, submitted on 25 October 2019 for designation, had been successful. As a consequence of this successful application the Secretary of State has revoked the designation of the 2019/20 North & West Yorkshire Business Rates Pilot Pool from the 31st March 2020 and the 2019/20 pilot pool will cease to exist. On the 1st April 2020 the new 50% retention pool will come into being for the remaining members of the North & West Yorkshire Business Rates Pool excluding Selby District Council.

5.12 The governance arrangements for 2020/21 North & West Yorkshire Pool are that a single-purpose joint committee will have specific responsibility for leading the new North & West Yorkshire 50% Pool where this will comprising of the Leaders (or their nominees) of the five member Authorities from West Yorkshire and five of the member Authorities from North Yorkshire. Scarborough and Harrogate Borough Councils represent all the other Districts across North Yorkshire, including Hambleton.

5.13 The governance arrangements also set out the Memorandum of Understanding and Terms of Reference which will be formally ratified at the first meeting of the 2020/21 North & West Yorkshire Pool Joint Committee. This Memorandum of Understanding addresses how the Pool proposes to share and use the saved levy payments although it stresses that the principle that 'no member authority will receive less income than they would if they were not a member of the Pool shall be maintained'. Further, it explains how member authorities will work together to manage risk and how any residual benefits or liabilities would be dealt with.

5.14 Once any losses arising from the principle that no member Authority should have less income than they would outside the Pool have been met and the costs of any projects agreed to by the Joint Committee paid, any residual benefits or liabilities arising from the Pool will be shared amongst all members of the Pool in proportion to their share of the income received from the Pool.

5.15 Finally, current thinking around business rates indicates that due to the pressure on adult social care and children's services in the local government sector that a potentially lower amount of business rates may be received by District Councils in future with the remaining amount being provided to County Councils. This position is still uncertain and the picture will become clearer during 2020/21.

5.16 With regards to business rates after 2020/21 the council is increasingly dependent on this funding source but the Government did not provide a progress update within the Settlement on the Fair Funding Review (the Review of Relative Needs and Resources of Councils and the potential change in the way funding is allocated) or further business rates retention. The fair funding review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. A wide range of options for developing an updated funding formula are being considered by looking again at the factors that drive costs for local authorities and the approaches to measure the relative needs of local authorities. The Council over the last year or so has completed consultations that have been available and emphasised the need for consideration of the weighting towards rurality in the formula funding. This is key if this Council is to maintain its level of resources required through the allocation of business rates in the future.

5.17 With implementation scheduled for April 2021, it is crucial for local authority financial planning that the Government provides early exemplifications and consults on proposals for reform and provides certainty to councils as soon as possible, preferably by the time of the final 2020/21 local government finance settlement. In the development and changes of the business rate retention reform scheme there will always be individual winners and losers.

5.18 The Financial Strategy attached at Annex A1 comprises the information provided by the 2019 Settlement Funding Assessment, the 2020/21 50% business rate pool and also makes prudent assumptions with regards to the Business Rates Retention Reform scheme for 2021/22 and beyond. From 2021/22 it is currently assumed that the Council's position will be fiscal neutral with increased responsibilities and burdens being somewhat matched with business rates retention funding; growth to business rates has been estimated to decrease by 20% in 2020/21 due to the 75% business rate pilot scheme being replaced again by the 50% business rate pool scheme but then increases by 15% in 2021/22 when business rates becomes the main source of funding disbursed by Government after Government Grants cease and an increased proportion of business rates may be distributed to County Councils for adult social care and also children's services. Business rates then increase by around 2% on average each year with a fall in years 4 and 5 due to the potential baseline rest by Government. More will be known about this during the finalisation of the business rate retention reform scheme in 2020/21.

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

6.1 The New Homes Bonus grant scheme was introduced in 2011/12 and 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 Ministry for Housing, Communities & Local Government intended the New Homes Bonus grant to be a 'permanent feature of the Local Government finance system'.

6.2 The Government then published a consultation paper in December 2015 "New Homes Bonus: Sharpening the Incentive" in order to make changes to the scheme from a system with few controls to one that is cash-limited each year. Key changes introduced from 2017/18 have remained for 2020/21 and are as follows:

- A move to 4-year payments in association with housing growth in 2018/19 for both existing and future new homes bonus allocation which was a reduction from 5 years in 2017/18 and 6 years previously;
- Introduction of a national baseline of 0.4% of housing growth from 2017/18, below which allocations will not be made.
- Government will also retain the option of making adjustments to the baseline in future years to reflect significant and unexpected housing growth. No changes were made in 2020/21 and the baseline remains at 0.4%
- Allocations will continue to be un-ringfenced grant

6.3 New Homes Bonus has up to 2019/20 represented an opportunity for Councils to generate significant levels of grant that can assist in dealing with the unprecedented levels of formula grant reductions facing the Council. For 2020/21 no changes were made to the new homes bonus calculation where the Government continued to provide financial grant for those local authorities supporting housing growth, although the Government very clearly intends to phase it out by 2023/24.

6.3 in line with the comments in the Chancellor's Autumn statement in September 2019 that the scheme has not promoted growth in house building as it had hoped, the major change in NHB for 2020/21 is that the new amounts earned in Year 10 will only attract an NHB reward for this one year (2020/21). In the following year 2021/22, rewards will only be paid in respect of years 8 and 9, and in year 2022/23 only for year 9. New Homes Bonus will effectively end by 2023/24

6.5 The government is very clear that it wants to replace New Homes Bonus with something that is more "targeted". Any replacement is unlikely to distribute as much funding as the current Scheme does, or to be distributed in the same way. The Chancellor has indicated at the time of the Local Government Settlement in December 2019 that it is not clear the New Homes Bonus in its current form is focussed on incentivising homes where they are needed most and therefore the government will consult on the future of the housing incentive in the spring. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes needed, and align with other measures around planning performance.

6.6 Allocations regarding New Homes Bonus in the Financial Strategy for 2020/21 is as detailed in the funding settlement at £1,630,901. There after it has been assumed that over the life of the 10 year strategy the new homes bonus grant will finish in 2023/24 and this is reflected in the Financial Strategy at Annex A1.

## 7.0 INCOME GENERATING REVENUE STREAMS:

7.1 In 2020/21, due to the reduction of Government grants foreseen in future from 2021/22 onwards, the council needs to look for other sources of funding to support the future revenue budget and the ongoing financial sustainability of the 10 year financial strategy. Therefore to continue to support services the financial strategy details from 2020/21 onwards that external income will be generated. It should be noted that plans are in place to ensure the Council's future level of reserves with developments such as Treadmills phase 1, the commercial property portfolio and the crematorium, along with other future ideas being progressed. It is vital that these new income streams are generated as it is this source of income which enables the 10 year financial strategy to be sustainable.

## 8.0 LOCAL INCOME POSITION:

**Council Tax**

8.1 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.

8.2 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.

8.3 The Government has currently prescribed, in the Settlement Review in December 2019, an overall limit for the increase in Council Tax Band D at below 2% (i.e. 1.99%); this is lower than the maximum threshold in the two previous years (2.99% in 2018-19 and 2019-20). However, shire district councils, of which this Council is one, will be able to increase Band D by the higher of 1.99% or £5. A £5 increase continues for this Council in 2020/21 which is an increase of 4.6%. 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**

8.4 Given the continued low Bank Base Rate, the revenue budget for interest on balances has been set at a prudent level and assumes an average of 0.75% over the year. The Financial Strategy has been prepared on the basis that the Bank Base Rate will rise to 1.00% during 2020/21 with the level of interest rates remaining low but continuing to rise to 2.25% over the 10 year strategy to 2029/30. This is consistent with the latest projections on the Bank Base Rate from the Bank of England, other City Institutions and the Council's treasury management advisors Link Asset Services.

**Fees and Charges**

8.5 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 together increase by 5.91% in 2020/21 mainly due to increases in green waste and car parking charges and then 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**

8.6 All revenue implications associated with the capital programme are considered when setting the capital programme and revenue budget 2020/21. To control the Councils level of capital expenditure there is a measure in place called the Authorise Limit for external Debt' at £90m which is approved by Council as the maximum amount to be borrowed in 2020/21 where the associated costs are included in the revenue budget. The Council has taken the decision to fund the Capital Programme through a mix of internal and external borrowing, where internal borrowing is the use of the Council's reserves and external borrowing is from a variety of loan sources e.g. local authorities, Public Works Loan Board, the market etc. This mix will ensure the maximum interest receipt return to the Council whilst maintaining a robust cash flow.

**Reserves and Balances**

8.7 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.

8.8 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 2020/21 Council Tax in February 2020.

8.9 The detailed Financial Strategy Annex A(1) shows that the financial resilience of the Council is underpinned by a number of factors:-

1) maximising income generating projects to generate significant income streams - the interest receipt from the loan to the local Housing Association, charging for green waste, increase in car park income, net income generated from Treadmills phase 1 and the potential investment in the £40m commercial portfolio;
2) revenue levels being maintained as far as possible to maximise interest income and maintain borrowing at low levels to support the revenue budget through the tax-payers reserve;
3) the New Homes Bonus Grant being paid to 2023/24 albeit at a reducing level;
4) the business rate retention scheme estimating a consistent level of business rates to be retained over 10 years;
5) a prudent increase in Council Tax of £5 on a Band D equivalent property per annum for the duration of the Strategy

8.10 It is anticipated in the Financial Strategy for 2020/21 the Council will have Reserves and Balances of £13,512,043. This provides the Council with a strong financial position to deal with the future financial challenges it is facing.

## 9.0 SPENDING PRESSURES:

**Pay**

9.1 The National Employers, who negotiates pay on behalf of 350 local authorities, have confirmed on 23 January 2020 that “The Employers are committed to engaging with the unions in a meaningful way in order to achieve a pay deal that is fair to hard working employees and affordable for councils. There is no suggestion at this stage that there will be anything other than a one-year pay deal for 2020/21, although it is very unlikely that a deal can be agreed in time for implementation on 1 April. However, councils should be mindful of the Government’s £10.50 NLW target for 2024 which presents a huge challenge to the sector and will no doubt dominate pay negotiations from 2021 onwards”. With this in mind the Council has included a 2.5% increase in this Council’s Financial Strategy and 2% for the next 10 years.

**Pensions**

9.2 The 3 year triennial actuarial review valuation of the North Yorkshire Pension Fund has been undertaken at 31 March 2018 by Aon (the pension fund actuary) which provides the pension cost information for three years from 2020/21 to 2022/23. The purpose of the valuation is to set out a ‘contribution’ plan to secure the solvency and long-term cost efficiency of the Pension Fund as required by the Local Government pension scheme regulations. In practice this means calculating the funding position and setting out the contributions payable of each employer in the Pension Fund. The 2019 valuation leads to contributions being certified for employers over the period from 1 April 2020 to 31 Match 2023. The total valuation of the fund is currently at 115.4% for Hambleton District Council with the past contribution calculation being reduced to zero and the current contribution rate increasing to 19.1% from 16.5%. Overall there is a net nil effect on the budget. This has been included in the financial strategy.

**Recycling Contract**

9.3 The recycling contract was renewed in 2019/20 with the result from the overall tender being a reduction to the budget of £201,000 per annum and the recycling occurring within the UK. This has been included in the financial strategy along with consideration of the volatile position of the recycling market which affects the 'basket' price associated with monthly income / expenditure claims through the contract. The quarterly movement of the recycling market is continually being reviewed and the effect taken into account during quarterly financial monitoring reports.

**Energy prices**

9.4 Energy and vehicle fuel prices continue to be 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**

9.5 The Financial Strategy provides an estimate of the capital resources that will be required between 2020/21 and 2029/30. 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.

## 10.0 FINANCIAL RISK ANALYSIS:

10.1 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 | Gross Prob | Gross Imp | Gross Total | Preventative action | Net Prob | Net Imp | Net Total |
|---|---|---|---|---|---|---|---|---|
| Reduction in Government Funding | Loss of income | 4 | 5 | 20 | Lobby Government and respond to any consultations. Budget planning and efficiency savings. | 4 | 5 | 20 |
| Central Government Policy changes e.g. changes to New Homes Bonus Grant, and Business rate Retention and Fair Funding review for local government. | Loss of income | 4 | 5 | 20 | Engagement in consultation and Government policy creation. Communicate to senior management and members the financial impact of changes via the Financial strategy. | 4 | 5 | 20 |
| 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. | 3 | 5 | 15 |

| Risk | Implication | Gross Prob | Gross Imp | Gross Total | Preventative action | Net Prob | Net Imp | Net Total |
|---|---|---|---|---|---|---|---|---|
| New Homes Bonus grant ceases to be distributed by Government and the Council does not benefit from future Government housing schemes. | Loss of income | 3 | 5 | 15 | Use the Council's powers to encourage house building. | 3 | 5 | 15 |
| Council Tax income levels are not as projected and linked to Government referendum limits. | Loss of income | 3 | 5 | 15 | Monitor Government policy and lobby as required. Financial Strategy seminar to Members so they are clearly informed regarding the impact of alternative decisions. | 3 | 5 | 15 |
| Implications of Devolution and Combined Authority – deal not finalised. | Loss of income | 3 | 5 | 15 | Engage in all discussions, be aware of current thinking. | 3 | 5 | 15 |
| Inability to find new income generating revenue streams. | Loss of Income | 3 | 5 | 15 | Work started already to find alternative income sources. Future changes built into the Financial Strategy. | 3 | 5 | 15 |
| A continued low Bank Base Rate beyond 2019 would impact on the Council's ability to generate investment income from balances. | Loss of income | 4 | 3 | 12 | Look for other investment opportunities. | 4 | 3 | 12 |
| 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 | 4 | 3 | 12 |
| Inflationary pressures | Increase in Expenditure | 4 | 3 | 12 | Budget reporting process | 4 | 3 | 12 |