Hambleton District Council

Report To: Cabinet

Date: 9 February 2021

Subject: **Financial Strategy 2021/22 to 2024/25**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

1.1 The purpose of this report is to consider and approve the Financial Strategy 2021/22 to 2024/25.

1.2 The Financial Strategy is provided over a 4-year period rather than the 10 years that has occurred in the past, due to the Council responding to the covid-19 pandemic and the potential changes in the North Yorkshire area from local government reorganisation.

Financial Strategy 2021/22 to 2024/25

1.3 The Financial Strategy 2021/22 to 2024/25 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 4 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 2021/22 to 2024/25;
- The national economic context and the impact of the covid-19 pandemic
- Government policy;
- Local Government finance settlement 2021/22;
- New homes bonus;
- Business rates;
- Council tax;
- Income generating revenue streams;
- Local income position and efficiency savings;
- Spending pressures;
- Financial risk analysis.

1.4 The key issues for the Financial Strategy are:-

- The effect of the covid-19 pandemic and the impact on reserves
- The reduction in government grant funding through the local government finance settlement and the implications of the replacement new Business

Rates Retention Scheme to compensate, potentially being introduced by Government in 2022/23

- 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 2022 onwards
- The increased reliance on council tax as a source of funding to support the Council
- The removal of the New Homes Bonus grant which currently reflects and incentivises housing growth in local areas and also the rural services delivery grant, along with the ambiguity of their replacement as to if similar funding levels will be attracted
- Significant income streams to be generated by this Council from capital schemes and economic development projects across the district
- 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 whilst taking opportunities to lock into attractive long-term borrowing.
- Ongoing spending pressures and the need to realise efficiency savings, whilst continuing to provide a good level of services.

1.5 The Council's financial standing has significantly deteriorated as a direct result of the covid-19 pandemic. Reserves are forecast to be used by £1.8m in 2020/21 mainly to support the loss of income that the council has incurred from the leisure centres and car parking. In 2021/22, the revenue budget has been set with the intention that 2021/22 will see the Council operating as usual, however £1.5m of reserves have been set aside to cover any eventualities.

1.6 The impact from the non-collection of council tax and business rates due to the pandemic in 2020/21 is estimated to be about 1% lower than usual and collection is forecast to be around 97%. The government is supporting Councils with regards to the reduction in businesses rates and council tax through the Local Tax Guarantee Scheme which, at a high level, provides 75% compensation to authorities for irrecoverable losses that have been incurred. The estimate of Business rates and council tax for 2021/22 have been forecast in the usual way with allowance being made for the impact of covid-19 through the collection of bad debt and for business rates increased provision for appeals has been included and in council tax the increased use of the local council tax reduction scheme, which reduces the council tax base and therefore the council tax collected.

1.7 The Local Government Finance Settlement announced on 17 December 2020 for 2021/22 stated that the nationally Core Spending Power (the overall impact on local authorities of changes in grant funding, business rates and locally raised council tax) is expected to increase by 4.5%. Projected council tax increases represent 86% of the increase in Core Spending Power. This Council's Core Spending Power has decreased by 2.1% which is mainly in connection with the proposed freeze in council tax at the same level that it was in 2020/21 at £114.48.

1.8 It is estimated that the Council loses 19.6% of its core spending power over the 4-year strategy by 2024/25 even if council tax is increased by £5 every year from 22/23. When excluding council tax, funding support estimated from grants and business rates (including grant support from the ‘dampening effect’) shows a fall of 23.5% by 2023/24. Some “damping” or transitional support is expected, so that no authority is faced with unmanageable reductions in resources in any one year. The Government has not explained how “damping” will actually work but our forecasting assumption is that it will ensure that Hambleton’s overall resources, including council tax, do not fall by more than 5% in any one year.

1.9 The loss in funding described is in relation to the proposed new Business Rate Retention Scheme and the Fair Funding Review which is how local authorities will be funded in future. The consultation is due early in 2021/22. The new Business Rate Retention Scheme and Fair Funding Review was originally expected to be in place for 2021/22, however due to the covid-19 pandemic this has been delayed.

1.10 This Council has a major concern about the methodology that the Government proposes to use to distribute funding in future and will be proactive in its consultation with government. The estimates in the Council’s current financial strategy show that 25% of funding in the first year 22/23 is supported from the ‘dampening’ effect. Hambleton’s funding losses are likely to be from a number of sources: the phasing-out of New Homes Bonus, the business rates baseline reset, and the Fair Funding Review. The Fair Funding Review moves the sparsity indicator and replaces it with three new indicators within the Area Cost Adjustment (dispersal, traversal and remoteness). This will reduce the share of funding received by very sparse authorities, such as Hambleton. The Council also receives grant funding through the Rural Services Delivery Grant which will be transferred into the main formula in 2022-23; there is a risk that Hambleton loses this funding.

1.11 In addition, it is possible that the local share in the Business Rate Retention Scheme will increase from 50% to 75%, and that county councils will receive a higher share to help fund (they currently only retain 9%) adult social care and children’s services. There is a risk that the share retained by district councils will fall (from the current 40% share). This might result in district councils having a lower share of future business rates gains. Looking further into the future there may be more fundamental changes in the way that businesses are taxed and this whole position is still very uncertain, and the picture will become clearer during 2021/22.

1.12 The other areas to note that support the financial strategy are the required efficiency savings and the income to be generated. The efficiency savings plan will be progressed during 2021/22 and will be borne out of providing services in a more effective way whilst the income generated will be from local economic development projects including the benefits realised from providing a crematorium to the local area and also regenerating the former prison site, now designates as Treadmills.

1.13 In accordance with the Financial Strategy the Council will be required to find £1.2m of savings or income generating schemes in the next four years to ensure its financial position remains robust.

1.14 In achieving these savings or generated income it is anticipated that balances will be maintained and remain stable at £5,052,188 or above over the 4-year strategy.

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 Recommendation

7.1 It is recommended that Cabinet approves and recommends to Council the Financial Strategy 2021/22 to 204/25 at Annex 'A' and 'A'(1) of the report

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Background papers: None

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Annex 'A'

FINANCIAL STRATEGY 2021/22 TO 2024/25

1.0 PURPOSE OF THE FINANCIAL STRATEGY 2021/22 TO 204/25:

1.1 The Financial Strategy is a key aspect of the Council's Budget Policy Framework. It aims to ensure that resources are aligned to the Council's corporate aims as set out in the Council Plan, as well as delivering customer focused outcomes and continual service delivery improvement.

1.2 The Financial Strategy sets out the strategic financial position and the financial direction of the Council over the next 4 years taking into consideration the Council's strategic objectives, significant Government grant cuts, other resources and service pressures. the relentless changes in public sector finance. The Financial Strategy has been reduced from 10 years to 4 years due to the COVID-19 pandemic and the requirement for the Council to be more reliant on reserves. The Strategy is regularly monitored and updated to reflect

1.3 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 4 years maintains resilience.

2.0 BENEFITS AND PRINCIPLES UNDERPINNING THE FINANCIAL STRATEGY 2021/20 TO 2024/25:

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 2021/22 to 2024/25 are set out below: -

- the overall Financial Strategy will ensure the Council's resources are targeted towards meeting its strategic priorities;
- the Council 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 4 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 AND COVID-19 PANDEMIC:

Bank Base Rate and Economic Environment

3.1 The impact of the COVID-19 Pandemic has been managed in the Budget for 2021/22 and also included in the Financial strategy. It is estimated that the effect from collecting Council tax and business rates in 2021/22 will be around a similar level to usual with maybe a 1% fall in collection. This has been taken into account when estimating the levels of funding to be received.

3.2 In addition, there maybe an effect on the level of income to be received from the pandemic with reduced fees and charges being obtained from leisure centres and car parking charges; reserves have been set aside of £1,500,000 to cover all eventualities.

3.3 The Bank of England base rate will remain low at 0.1% throughout 2021/22. It is likely that the base rate will remain low for the foreseeable future until 2023/24 as the Monetary Policy Committee is unlikely to dampen growth prospects, (i.e. by raising Bank Rate), during the recovery from the COVID-19 pandemic and the uncertainties of the impact of leaving the European Union (EU) on 31 December 2020. This will impact on the ability of the Council to generate investment income from balances and opportunities will be taken of low borrowing rates.

3.4 Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England; indeed, gilt yields up to 6 years were on negative yields during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served this Council well over the last few years. The unexpected increase of 100 bps in Public Works Loan Board rates on top of the then current margin over gilt yields of 80 bps in October 2019, required the Council to choose the times when the market was volatile and provided opportunities for borrowing to be taken.

3.5 However, in March 2020, the Government started a consultation process for amending the margins over gilt rates for Public Works Loan Board borrowing for different types of local authority capital expenditure. On 25 November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for Public Works Loan Board rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

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 2021/22.

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.

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 increased by 5.1% in 2020/21, the highest increase in over a decade. The Core Spending Power for this Council in 2020/21 was an increase of by 0.71% due to the increase in council tax and the increase in the number of properties in the district.

Autumn Statement 2020

4.8 The funding received in the Local Government Finance Settlement to support budgets in the 2021/22 across local authorities is an average Core Spending Power increase of 4.5% (£2.2bn), where Core Spending Power is a combination of council tax, business rates, revenue support grant, new homes bonus, rural service delivery grants and other grants.

4.9 At Hambleton District Council, however, it is estimated that Core Spending Power is a decrease of 2.1%. This is due to the overall national Settlement having increased reliance on council tax of 86% and this is accompanied by relatively low increases in grant funding from government. This Council is proposing not to increase council tax by £5 or 1.99% in 2021/22 so it can further support residents by keeping the district council tax at the same level as it was in 2020/21, it is proposing to freeze council tax. This impacts on the funding available to support the budget, however the Council's financial position can sustain this.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT, IMPACT OF THE NEW BUSINESS RATE RETENTION SCHEME AND THE FAIR FUNDING REVIEW:

5.1 The Settlement Funding Assessment on 17 December 2020 provided details of the business rate baseline funding allocations for this Council for 2021/22 along with details of revenue support grant, rural services delivery grant, new homes bonus, other one-off grants to support the impact of COVID-19 and an estimate of the amount of council tax collected locally. The Settlement due to the impact of COVID-19 is for one year only where at the end of 2021/22 revenue support grant and rural services delivery grant will cease, with new homes bonus scheme reduces and finishes 2022/23. This results 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. Business rates received from the business rate retention scheme to support the Councils funding position are estimated at a lower level than 2020/21 due to the risk associated with the impact of the COVID-19. Provision for bad debt and the provision for appeals have been estimated at a higher level so reducing the amount of business rates. Also, the North Yorkshire Business Rate Pool, which would have attracted increased business rate funding where reduced business rate income would have been passed to government, has been discontinued for 2021/22; this was approved by Council in December 2020.

5.5 The Business Rate Retention Scheme does enable the Council to keep a proportion of the business rates growth collected locally which provides an incentive for all councils to grow their local economy and if business rates income falls below 92.5% of the Councils assessed needs then a safety net payment from the Government is received to ensure the Councils funding position remains sustainable.

5.7 With regards to business rates after 2021/22 the proposed new Business Rate Retention Scheme and the Fair Funding Review is how local authorities will be funded in future. The consultation is due early in 2021/22. This Council has a major concern about the methodology that the Government proposes to use to distribute funding in future and will be proactive in its consultation with government. Further information regarding business rates is provided in the body of the main report at paragraphs 1.08 to 1.11.

5.18 The Financial Strategy attached at Annex A1 comprises the information provided by the 2020 Settlement Funding Assessment, the 2021/22 business rate position, and the council tax freeze. From 2022/23 it is forecast that there is a 3.2% reduction in overall resources, followed by 9.4% in 2023/24 and 4.9% in 2024/25, this includes some “damping” or transitional support that is expected. It is unknown yet how “damping” will work but our forecasting assumption is that it will ensure that Hambleton’s overall resources, including council tax, do not fall by more than 5% in any one year. It is yet to be seen therefore if further funding will be provided from Government in 23/24 when the current calculation shows a loss of 9.4%, but this is a prudent position to currently portray where the Financial Strategy remains sustainable over the 4 years.

6.0 NEW HOMES BONUS GRANT SCHEME:

6.1 The New Homes Bonus 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 through supporting housing growth and it assisted in dealing with the unprecedented levels of formula grant reductions facing the Council. For 2020/21 and 2021/22 no changes were made to the New Homes Bonus calculation, however the main difference is the reduction year on year in funding provided with the phasing-out of New Homes Bonus.

6.4 In line with the comments in the Chancellor’s Autumn statement in September 2019, which continued in November 2020, 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, which was again support in the December 2020 Settlement, 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 2021. 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 2021/22 is as detailed in the funding settlement at £1,414,630. It then decreases in 2022/23 to £337,028 and ceases in 2023/24; this is reflected in the Financial Strategy at Annex A1.

7.0 INCOME GENERATING REVENUE STREAMS:

7.1 In 2021/22, due to the reduction of Government grants in future and the potential impact of reduced funding from the Fair Funding Review and new Business Rate Retention Scheme as described above, the council will look to maximise income from economic development projects and regeneration schemes.

7.2 In previous years, the council had looked to generate income from commercial investment, however in September 2020 the Commercial Investment Strategy was suspended by Council due to the

- increase in Public Works Loan Board interest rates on borrowing in October 2019 resulting in the income to be generated from commercial investments being marginal;
- consultation paper from HM Treasury on 'Public Works Loan Board: future lending terms' in March 2020 where the Government has confirmed in December 2020 that the Public Works Loan Board will not lend to a local authority if they plan to buy investment assets primarily for yield anywhere in their capital plans with the aim solely to generate an income stream and
- current Covid-19 environment where receipt of rental income is uncertain.

The commercial investment income streams have been removed from the 2021/22 4 year Financial Strategy.

7.3 The Financial Strategy at Annex A(1) includes the income to be received from the regeneration of the Treadmills site, the income earned from the loan to Broadacres Housing Association and the economic development of the crematorium.

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 Local Government Finance Settlement, an overall limit for the increase in Council Tax Band D at below 2% (i.e. 1.99%) and also for Shire District Councils, of which this Council is one. There is the option to increase Council Tax Band D at £5.

8.4 The Financial Strategy assumes that there will be no increase to Council Tax by £5 or 1.99% in 2021/22 and Council Tax will remain at £114.84 the same level as in 2020/21. This freeze on Council Tax in 2021/22 reduces the funding available to the Council however it helps support the residents in the area during this COVID-19 pandemic and the financial position of the Council can sustain this.

Interest on Balances

8.5 The interest rate market environment remains at a very low level with Bank Rate at 0.10% due to the uncertainty of leaving the European Union and the impact of the COVID-19 pandemic. The Financial Strategy has been prepared on the basis that the Bank Base Rate will remain at 0.1% for the next 4 years. 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. The 2021/22 budget assumes an average of 0.75% over the year with opportunities to invest core cash for longer terms and use some short term borrowing for cash purposes if required. The borrowing rate to support the capital programme has been estimated at an average of 1.6% and if short term borrowing is taken to support the movement on balances then rates are expected to be around the base rate at 0.1%

Fees and Charges

8.6 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 1.77% in 2020/21 mainly due to increases in car parking charges and the demand on leisure services where collection of green waste and planning fees have remained the same. However due to the COVID-19 pandemic and the continued potential loss of income from some fees & charges £1,500,000 of reserves have been set aside in this Financial Strategy to cover all eventualities. The Council give consideration to the impact on its services, local economic circumstances and the funding position within the Financial Strategy when applying appropriate fees and charges.

Capital and Prudential Borrowing

8.7 All revenue implications associated with the capital programme are considered when setting the capital programme and revenue budget 2021/22. To control the Councils level of capital expenditure there is a measure in place called the Authorised Limit for External Debt' at £90m which is approved by Council as the maximum amount to be borrowed in 2021/22 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 that advantage is taken of the lowest interest rates available when borrowing and it is estimated average borrowing for the year will be 1.6%. It also allows the maximum interest receipt return on surplus funds when available to the Council and maintains a robust cash flow.

Reserves and Balances

8.8 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.

8.9 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 2021/22 Council Tax in February 2021.

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

1) reserves have been set aside to provide for any continuing adverse effect from the COVID-19 pandemic in 2021/22
2) fees and charges have been set at 3.79% rising by 2% thereafter
3) maximising income generating projects to generate significant income streams from economic development in the district - the interest receipt from the loan to the local Housing Association, net income generated from Treadmills and the crematorium;
4) council tax freeze in 2021/22 with further increases in council tax of £5 on a Band D equivalent property per annum for the duration of the Strategy
5) the Business Rate Retention Scheme estimated at a consistent level of business rates including 'dampening' support though due to the forecast change in the Scheme and the Fair Funding Review where reduced business rate income is forecast over the next 3 years;
6) government grants included in 2021/22 but deemed not to exist after this (except New Homes Bonus) as it is expected that the government will put in place the Fair Funding Review and the new Business Rate Retentions Scheme, further information is waited
7) the New Homes Bonus Grant being paid to 2023/24 albeit at a reducing level;
8) reserve and balance levels being maintained as far as possible to maximise investment interest income and maintain borrowing at low levels to support the revenue budget through the tax-payers reserve

8.11 It is anticipated in the Financial Strategy for 2021/22 the Council will have Reserves and Balances of £11,505,204. This provides the Council with a strong financial position to deal with the future financial challenges it is faces where reserves remain stable at £5,052,188 or above over next the 4-years.

9.0 SPENDING PRESSURES:

9.1 **Pay** - A provision of 0.57% salary increase has been included in 2021/22 in line with the nationally proposed pay award announced by the Chancellor in the November Autumn Statement where £250 will be provided to everyone earning less than £24,000. It is yet to be seen as to whether there will be a further increase but 2% has been included in 2022/23 and each year thereafter.

9.2 **Pension** - 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 'employer 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 from 1 April 2020 to 31 March 2023. The employer contribution has seen an increase in 2020/21, 21/22 and 22/23 form 2019/20 but there is a net nil effect on the budget as the past contribution calculation was reduced to zero, therefore compensating for the rise in the current contribution rate which rose to 19.1% from 16.5%. This has been included in the financial strategy.

9.3 **Energy Prices** - Energy and vehicle fuel prices continue to be volatile where the energy contract was locked into in December 2020 when prices were forecast lower. Provision has been included for continued annual increases in charges for gas, electricity and vehicle fuel however to ensure a prudent approach for the period of the Financial Strategy.

9.4 **Capital programme -** The Financial Strategy provides an estimate of the capital resources that will be required between 2021/22 and 2024/25. The Programme has been constructed to be affordable, sustainable, and prudent where expenditure is funded from existing resources, external funding and borrowing. The costs of borrowing are including in the budget in 2021/22 and in the following 3 years of the financial strategy; capital resources are also available at the end of the Strategy to provide for the future.

9.5 **Savings** – the Financial Strategy includes savings in 2022/23 £200,000, 2023/24 £350,000 and 2024/25 £500,000 where the savings plan will be drawn together in the near future which will also address other areas of income that can contribute. This is an affordable and sustainable approach for the Council's Financial Strategy.

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
Impact of COVID-19 is greater that the Council forecasts	Loss of Income	3	5	15	Reserves set aside in 2022/23 to support the Council's financial position	3	5	15
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 Tot al
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 savings and income generating revenue streams.	Loss of income	3	5	15	Savings plan drawn up to raise awareness across the council and economic development projects / regeneration projects already started to find alternative income sources.	3	5	15

Risk	Implication	Gross Prob	Gross Imp	Gross Total	Preventative Action	Net Prob	Net Imp	Net Total
A continued low Bank Base Rate for 4 years at 0.1% impacts 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