Harrogate
BOROUGH COUNCIL

Working for you

Medium Term Financial Strategy

2017/18 – 2021/22

Introduction

1. The Medium Term Financial Strategy (MTFS), for the years covering 2017/18 to 2021/22, sets out how we plan to manage our finances over the next five years and how we can more closely align resources to the priorities set out in the Council's other key strategic documents, the Corporate Plan and Our Strategy for Success. This strategy builds on the refresh agreed by Council in October 2014.

2. In an era of austerity, councils have to be more self-reliant, demonstrate longer term approaches to planning and be more outward looking. Harrogate is in a strong position and this strategy will seek to ensure that this continues to be the case in the coming years.

3. The MTFS encompasses:

   - An introductory overview of the Council's current financial position, both from an individual standpoint and in the wider context of other English district councils.
   - The aim of continuing to be a thriving district against the backdrop of reducing Government support.
   - Integrating Medium Term Financial Planning more fully into the Corporate Planning process.
   - Setting out a longer term approach to managing our assets.
   - The key considerations in the Council's financial planning over the next five years.
   - Introduction to DCLG Efficiency Plans.

Introductory Overview

4. During a period of once in a generation funding reductions, as the government continues to rein in the national deficit, and as other councils across the country face uncertain futures, Harrogate has continued to maintain its valued frontline services. This is a testament to the council's strong record of financial management before and during the current "age of austerity".

5. Since the 2010 Comprehensive Spending Review (CSR), total local government funding in England has been reduced by approximately 46%. At the same time, there have been significant changes in the way Local Government services are funded including the introduction of localised business rates and the abolition of council tax benefit.

6. Harrogate has not been immune to the funding reductions and since 2010, its general grant allocation has reduced by £6.9m (69%). The table below shows that during the same period, our net spend has reduced by £7.2m.

	Net Budget £000's
2010/11	24,872
2011/12	22,037
2012/13	21,221

2013/14	20,982
2014/15	19,718
2015/16	17,991
2016/17	17,637
Total Reduction	**-7,235**

7. However, against the backdrop of funding reductions, Harrogate had maintained its position nationally as a well-resourced council. As the 13th most populous of England's 201 shire districts, in 2015/16 (2016/17 data not yet available) Harrogate had:

    - The 4th highest net spend (services funded by council tax, revenue support grant (RSG) from government and localised business rates).
    - The 12th highest tax base (the number of band D equivalent properties council tax is levied on), reflective of the district's high property values. All of the districts above Harrogate are situated in southern England.
    - However, a net spend per head considerably lower at 25th out of 201 councils, reflective of the high population of the district.

8. Most importantly, under the localised business rates funding regime, 91% of Harrogate's net spend is now locally generated (77% council tax, 14% business rates), with the residual 9% coming via RSG.

9. Each Council has a unique split of funding which is based on past decisions related to council tax, the size of its tax base and previous funding allocations.

10. Whereas previously the government's approach to funding allocations has been broadly based on blanket percentage reductions, from 2016/17 funding has been determined by equal percentage cuts in "settlement core funding" which is the sum of RSG, Business Rates and Council Tax. As Council Tax and Business Rates income is locally determined, the cut can only be applied to each council's RSG allocation. As a council with a high Council tax base and yield, a healthy business rates income, and an inflated RSG allocation as a result of previous Council Tax freeze grants, Harrogate has been hit particularly hard.

11. As the pattern of funding reductions continues during the new parliament as the government aims to bring the national budget into surplus, the national headline in the Spending Review was that RSG would be removed within five years. The 2016/17 MTFS assumed removal in four years, whereas the finance settlement resulted in us being without any Central Government support in 2018/19. Furthermore the illustrative figures from the Government indicate that there will be further increases to our business rate tariff in 2018/19 and 2019/20 that will further reduce our retained business rate income. This will most likely lead to a situation where some districts thrive and others decline.

12. A thriving district council will demonstrate:

    - self-reliance on income sources,
    - investment in facilities and infrastructure,
    - innovative and effective service provision,
    - a long term approach to planning.

13. The thriving district's fortunes will be underpinned by steady increases in their council tax base and business rates yields, increases from other income sources such as planning and car parks, as well as falling local welfare costs.

14. A declining district council will demonstrate:

    - no capacity to plan or invest in the future,
    - a greater emphasis in cutting services,
    - over reliance on government funding.

15. The declining district's fortunes will be underpinned by static income from council tax, falling business rates yields, pressures on income budgets and rising welfare costs.

16. As well as the high levels of locally generated income funding our net spend, Harrogate clearly already displays a number of other key characteristics of a thriving district, including the Harrogate International Centre (HIC) and business tourism impact on the council, the "Our Strategy for Success" programme (successor of the Innovate programme) and office accommodation strategy.

17. However, we can and will do more to cement this status. This strategy will outline steps to further integrate the MTFS with the Corporate Plan so that our spend better reflects our priorities, as well as developing longer term approaches to managing our finances and assets that ensures we are best placed to meet future challenges.

Integrating Corporate and Financial Planning

18. One of the biggest challenges for any organisation is ensuring that its expenditure is aligned to its priorities. More often than not, historic spend will determine how much is invested in different activities which can lead to disparity between budgets and corporate priorities.

19. Harrogate's latest Corporate Plan, covering the years 2014 to 2017 was approved by Council in July 2014. This sets out our long term vision for the Harrogate district, our aim as an organisation, our corporate priorities and the long term outcomes that we want to achieve. Each year we publish our delivery plan, which details what we will do, what are targets are and how we will measure these. It comprises the following four priorities:

    i) A Strong Local Economy

    ii) A Sustainable Environment

    iii) Supporting our Communities

    iv) Excellent Public Services

20. One of the key aims of the MTFS will be to deliver budgets over the period that shifts our existing spend towards the priorities outlined above. This has to be a phased approach to ensure services can plan appropriately for change. We have started to achieve this via a number of means, including:

- Aligning the service and budget planning timetables, as well as taking the first steps in aligned finance and performance reporting.
- Our Strategy for Success: taking a fundamental look at the way we do things, integrating organisational development strategy with transformational change, including embedding a commercial culture and looking at alternative models of delivery to allow us to continue to protect frontline services.
- Introduction of multi-year budgeting with resource allocations based on making income budgets more realistic and delivering cost reductions based on priorities.
- Reduced cost of Corporate Affairs: the first phase of Corporate Affairs reviews delivered £988k in on-going staffing savings.
- Office Accommodation: the move to new office accommodation on one site will help us deliver our priorities more effectively at the same time as creating scope for a leaner and more efficient organisation. The Council approved report from July 2015 identified savings of at least £864k.
- Maximisation of our assets: maximising the value extracted from our asset base by ensuring it is fully utilised and fit for purpose, including the development of a revised capital strategy.

Developing a Longer Term Approach to Managing Our Assets

21. How an organisation manages its assets can have a significant bearing on its long term success. The organisation that can create capacity to invest in its asset base will have a far greater chance of meeting its objectives than the organisation who will not or cannot do so, and who as a result will have a higher likelihood of facing the challenges of gradual decline.

22. With its current strong and varied asset base, Harrogate is no different and it is therefore imperative that we develop such an approach to ensure we can continue to meet our priorities.

23. This approach will have a number of aspects, including:

    - rationalising the current asset base so we only retain assets that help us deliver our priorities,
    - maintaining the assets we do retain so that we can maximise the return from them and provide the best possible services to our residents,
    - identifying opportunities for acquiring new assets that help us further achieve our corporate objectives,
    - demonstrating flexibility in the way we fund such activity so that we get the most from our financial resources.

Planned Maintenance of Our Asset Base

24. The 2015/16 MTFS agreed the introduction of a Planned Asset Maintenance budget, that would ensure a timely and prioritised approach to maintaining our assets, and that would be built up to a total of £800k over a three year period to 2017/18. The final 2015/16

budget included £356k in on-going funding for this leaving a balance to find of £444k in the following two years.

25. Following the introduction of the 2015/16 budget, comprehensive asset reviews were undertaken, which refined the assumptions over the pace of the budgetary growth required. A total of £800k was still required over the long term, but over the next four years rather than the initially assumed two. With the agreement of Strategic Property, the 2016/17 MTFS allocated £111k per annum to that budget up to 2019/20.

Capital Strategy Review

26. Whilst the previous section of the report focuses on strengthening our approach to revenue maintenance, we will also identify capital investment opportunities in the coming years.

27. The council has a significant and varied asset base and work is on-going by the Strategic Property board to identify assets that are no longer economically advantageous to retain or that no longer contribute towards corporate priorities.

28. Rationalisation of the asset base may result in capital receipts that we will be able to reinvest in improving our existing assets, thereby creating facilities that are fit for purpose and which the revenue maintenance budget cannot achieve alone, or that we can invest in new assets that contribute to the council being a more efficient and effective organisation, the prime example being the new office accommodation project.

29. The 2015 Reserves Review identified that over £9m (60%) of our earmarked reserves are set aside for capital or investment purposes and that over £1.5m of the annual revenue budget is used for replenishing these reserves. As part of the outcomes of that report, we committed to review our approach to capital funding. Cabinet in January approved the scope of the Capital Strategy review. This set out the next steps that the Council needs to take in developing a more effective and long term General Fund Capital Strategy. The aim was that the issues outlined in the report will need to be tackled in the period up to June 2016, so that initial financial implications could be reflected in the next iteration of the Medium Term Financial Strategy (MTFS). The end result will be a refreshed Capital Strategy that will be in operation for the 2017/18 financial year. It was agreed that the review and resulting Capital Strategy will seek to:

    - assess our capital ambitions over the next 25 years,
    - determine the optimal approach for use of existing resources,
    - re-assess options such as borrowing and leasing so that the Council is able to maximise benefit from its assets over the long term,
    - identify long term revenue implications of our ambitions,
    - present a clear approach for prioritising new capital schemes in future,
    - outline appropriate governance arrangements for the resulting capital programme.

30. In January Cabinet also approved the consolidation of existing investment reserves, bar the capital receipts reserve, into one new Council Investment Reserve. At 2015/16 year-end £11m was transferred into this consolidated reserve.

31. The Capital Strategy report is included on the Cabinet agenda in July. The Capital Strategy outlines required expenditure of £107.3m over the next 25 years, based on the assumptions set out in the report. Available funding amounts to £86.4m, leaving a shortfall in funding over the 25 years of £20.9m (average of £838k per annum). Whilst it may be possible to mitigate the shortfall by the sale of redundant assets, in order to demonstrate a funded capital strategy, this MTFS assumes growth of £165k per annum from 2018/19 to fund future investment.

32. Over the life of the Capital Strategy £165k growth until 2025/26 (8 years) would result in a capital strategy that is fully funded overall and in each of the 25 years. The alternative is to set aside lower contributions from the revenue budget and meet the funding shortfalls in particular years by borrowing. For illustration:

    - £150k growth per annum from 2018/19 to 2024/25 (7 years) would result in a fully funded capital strategy, but a need to borrow £3.1m in 2025/26 for 14 years (in addition the interest cost of circa £93k per annum would have to be met from the revenue budget)
    - £120k growth per annum from 2018/19 to 2027/28 (10 years) would result in a fully funded capital strategy, but a need to borrow £2.7m in 2025/26 for 13 years (in addition the interest cost of circa £81k per annum would have to be met from the revenue budget)
    - £100k growth per annum from 2018/19 to 2030/31 (13 years) would result in a fully funded capital strategy, but a need to borrow £3.4m in 2022/23 for 17 years (in addition the interest cost of circa £102k per annum would have to be met from the revenue budget)

33. The Capital Strategy will be reviewed on an annual rolling basis alongside the MTFS and any changes in financial implications will be reflected in the MTFS.

Key Considerations in our Medium Term Financial Planning

34. This section outlines the detailed key considerations and assumptions we will make in our financial planning over the next five years.

Council Tax

35. Harrogate had frozen its basic Band D council tax for residents for six consecutive years, prior to the 1.99% increase to £223.93 in 2016/17, which followed the removal of incentivised freeze grants. Funding over 75% of our net spend, it is one of our most important income streams.

36. Following the 2010 general election, the coalition government committed itself to keeping bills down and from 2011/12 provided funding to councils who froze their tax. The terms of the grant on offer varied in value and duration up to their removal in 2016/17, with Harrogate receiving grants of £758k over the period.

37. At the same time as offering funding for council tax freezes, the coalition government replaced the old capping rules and introduced local referenda to veto excessive tax increases. Under this approach, alongside the annual funding settlement announcement, the Secretary of State for Communities & Local Government announces the tax rate

increase that they deem excessive and if a council sets a rate that breaches this, the council would have to take the vote to the local electorate to approve it.

38. When the referendum rules were introduced, the excessive rate was 3.5%. However, like the freeze grant, this has reduced in time as the government has sought to impose its promise of frozen bills.

39. The 2016/17 Local Government Finance Settlement confirmed the main referendum limits of 4% for upper tier authorities and the greater of 2%, or £5, for others. It was also confirmed that there would be no council tax freeze grant scheme offered for 2016/17.

40. Any assumptions made about long term property growth in the district will be dependent on the development of the Local Plan. Until that is in place, we can expect the current scale of planning applications to continue and are therefore confident that the tax base will grow by 1% per annum and the Medium Term Plan later in the strategy reflects this.

41. For planning purposes, this strategy assumes annual council tax increases of 1.99%, just under the current referendum limit, which would generate an additional £268k per annum in 2017/18 in new income, rising to £302k by 2021/22. In addition an early assessment of the likely 2016/17 Council Tax surplus has been made of £750k (our share being £130k), which would be distributed in 2017/18.

	Assumed Tax Base Increase	Assumed Council Tax Increase	Additional Income £000's
2017/18	1%	1.99%	-406
2018/19	1%	1.99%	-417
2019/20	1%	1.99%	-431
2020/21	1%	1.99%	-444
2021/22	1%	1.99%	-457

Business Rates

42. Prior to 2013/14, all income collected by councils from business rates was paid into a national pool and then redistributed on the basis of relative need as part of the Formula Grant system. Under that scheme, a council's main involvement was ensuring adequate collection.

43. One of the last government's key themes was growing the economy and it is on that basis that they introduced the localised business rate retention scheme from 1 April 2013. The scheme allows local government to retain a share of any growth in business rates, with the aim that the sector will work hard to generate local economic development. In Harrogate's case, the council can keep 50% of its 40% share of any growth, paying the rest over as a levy, in place to limit disproportionate gains.

44. In order to stimulate growth over wider geographic areas, councils are allowed to pool together. The main benefit of this is that rather than paying levies to the government, the money is retained by the pool for local uses. Harrogate is part of the Leeds City Region (LCR) Pool, along with Leeds, York, Wakefield, Calderdale, Kirklees and Bradford.

45. In the first three years of the system, a projected £6.9m has been saved in retained levies, including a £1.2m contribution from Harrogate. This money is being used for economic development initiatives across the region.

46. Priority 1 in the Council Plan is a Strong Local Economy, and aside from the positive social outcomes of a buoyant district, there are now direct financial rewards under the rates retention system. It is therefore important that emphasis is placed on continued economic development in the district to achieve these dual aims.

47. The introduction of the system has not been without complication. Each business has the right to appeal the valuation of its premises and the grounds for many of these are such that the liability extends back before the new system was introduced. Each council has been required to raise a provision which these potential costs can be charged against, which has served to reduce income. The risk for all councils is whether the provision raised is enough to cover refunds as they materialise. Business Rateable Values will be re-valued from April 2017, no doubt resulting in further volatility in the system.

48. The 2015 Spending Review outlined plans to change the Local Government finance system including moves to 100% Business Rates retention. The increase in retention from 50% to 100% will have to be fiscally neutral for the Treasury. To do this, new responsibilities will be transferred to local government. Of those proposed, the majority relate to upper tier services.

49. The Government has launched the process for implementing 100% business rates retention later in this parliament. The process will also encompass a review of the way the retained rates system works and of the needs assessments. The impact on authorities will therefore be the result of various moving parts, including changes in retention rates, baseline, and needs assessments.

50. Whilst the review itself has begun, and meetings are taking place, the timetable itself is unclear. In the short term, a consultation paper is going to be issued in July (before Parliament rises on 24 July), which will probably focus on the legislative changes that are required. The legislation to introduce 100% retention will be the Local Growth and Jobs bill, which will be introduced in early 2017. Policy development will take longer, at least into the autumn. Other elements, such as the review of needs, will take much longer and might not conclude much before the end of this parliament.

51. At this stage, it is difficult to predict with any certainty the effects of the move to 100% retention and future versions of the financial strategy will develop assumptions on our approach to managing this. The biggest risk is the effect of changes to the assessment of need. Harrogate's needs assessment has always been low and as such this plan assumes a £1m fall in funding following the redistribution of funding that could follow.

52. Given the risks associated with the existing retention system, particularly in relation to appeals, plus the impact of moving to 100% retention, the assumptions beyond the 2017/18 indicative budget are prudent, effectively capped at the inflationary increases in the business rate multiplier, less the funding lost from the changes in the needs assessment.

	Additional Income £000's
2017/18	-112
2018/19	-62
2019/20	-64
2020/21	934
2021/22	-47

Government Funding

53. The council receives two main grants from the Government, RSG and the New Homes Bonus (NHB). Both are funded from the residual amounts of business rates collected nationally that are not returned to councils in the form of top up or safety net payments.

Revenue Support Grant

54. The current RSG system was introduced at the same time as localised business rates. Like the business rates baseline, the majority of the initial allocation was determined on a relative needs basis. Since its introduction a number of other grants have been added including council tax freeze funding.

55. As highlighted earlier, from 2016/17 the government is applying equal percentage cuts in "settlement core funding" to reduce overall local government spending, which results in disproportionate cuts in RSG. The table below shows the allocations and reductions applied to Harrogate since 2013/14 and those proposed in the 2016/17 Local Government Finance Settlement.

	Base Allocation £000's	Year on Year Reduction £000's	%
2013/14	-4,914		
2014/15	-3,916	998	-20%
2015/16	-2,905	1,011	-26%
2016/17	-1,543	1,362	-47%
2017/18*	-399	1,144	-74%
2018/19*	0	399	

*indicative figures

New Homes Bonus

56. Introduced in 2011/12, NHB is an incentivised grant which is allocated based on a council's ability to grow its domestic property tax base and in effect, but not exclusively, rewarding the amount of new homes built. Alongside this, there are also premiums added for reducing long term empty properties and increasing the amount of affordable homes. The scheme was to be built up incrementally over six years. 2016/17 will be the sixth year of operation and the council will receive a total of £1,645k. The table below shows a breakdown of the amounts received in respect of each year to date.

	New Homes Bonus Allocations* £000's
2011/12	-272
2012/13	-353
2013/14	-172
2014/15	-292
2015/16	-394
2016/17	-162
Total	**-1,645**

*excludes returned NHB

57. To date, like many others, Harrogate have used the grant to support on-going spend and there are two schools of thought surrounding this. On the one hand, the grant is funded from the overall national local government pot so if NHB didn't exist, we would receive the money in some other form, with the value dependent on the allocation mechanism. On the other hand, it is not generally best practice to fund on-going expenditure from what could be seen as non-recurring money and other councils have used the money in imaginative ways such as creating funds to help generate economic growth.

58. Alongside the 2016/17 Finance Settlement the Government launched a technical consultation which set out a variety of options for increasing the focus of the New Homes Bonus on delivery of new homes and freeing up resources to be recycled within the local government settlement to support authorities with particular pressures, such as adult social care, following the outcome of the 2015 Spending Review. The options on which views were sought were: withholding the Bonus from areas where an authority does not have a Local Plan in place; reducing the Bonus in circumstances where planning permission for a new development has only been granted on appeal; and adjusting the Bonus to reflect estimates of housing that would have been built without an incentive. The consultation also set out proposals for reductions in the number of years for which the Bonus is paid from the current 6 years to 4 years. This will result in significant cuts. The consultation closed in March 2016. The Government is analysing the responses to the consultation. For 2018/19 a reduction of £610k in our allocation is included, which reflects the Government's illustrative figures.

59. This plan also reflects the potential additional grant income following a planned review of long term empty properties (circa 800 properties). Income of £40k in both 2017/18 and 2018/19 is estimated, which reflects approximately 80 (10%) of homes being brought back into use.

Workforce and Pay

60. Local Government has been through a prolonged period of pay restraint experiencing a freeze for the four years between 2009/10 and 2013/14. The pay deal, covering the period 1 January 2015 to 31 March 2016 was 2.2% for all staff except chief officers (excluding the Chief Executive) who received 2%. For 2016/17 and 2017/18 pay deals of 1% per annum have been agreed, with those on lower salaries receiving higher increases to take account of the new National Living Wage. The assumption is for 1% pay awards for the remainder of this plan (generating annual cost pressures of c£250k).

61. Superannuation payments due to the North Yorkshire Pension Fund for the past service element of pension costs have been set for the years to 2016/17, based on the latest triennial valuation of the fund. The 2016 Valuation expected later in the year will set future and past service costs and this plan assumes costs of £100k per annum from 2018/19. The past service payments are required to remove the deficit related to this aspect of the fund over a 15 year period. This links to Our Strategy for Success and the issue of the ageing workforce and associated increased costs of redundancy and early retirement.

Reserves and Past Performance

62. As well as considering external funding factors, a financial strategy must take account of existing internal resources, such as reserves, as well as looking at past performance.

<u>Reserves Review</u>

63. The 2014/15 strategy provided an overview of the council's reserves position that showed balances, as at 31 March 2014, of c. £21.8m covering three categories: the working balance, earmarked reserves and business unit reserves.

64. Following on from this analysis, a fundamental review of the council's reserves was carried out and reported to Members during June 2015. Building on the £1.6m release from the working balance as part of the February 2015 budget report, a further £530k reduction in earmarked and business unit reserves has ensured a £2.1m fund has been created to contribute towards the capital cost of the new office accommodation project.

65. Earlier sections of this strategy highlight the c.£11m of the balances that are in place to support capital investment, and also sets out our commitment to review the long term asset needs of the council to ensure this is the best use of our resources.

66. We have also introduced a new challenge process over the usage of business unit and earmarked reserves which will be incorporated into a revised annual service planning process, further demonstrating the integration of corporate and financial planning. There is an expectation that this will yield further releases into the annual budget process that can contribute to one-off investment in services. As part of the 2016/17 budget process, reserves were challenged at the Performance Clinics, which resulted in £185k being released and set aside to fund the upcoming investment requirement of the next iteration of the ICT Strategy.

67. The review also reset the recommended minimum working balance to £2.5m, which will be re-assessed annually by the Head of Finance as part of their statutory responsibilities on reporting on the robustness of the budget and adequacy of council reserves.

<u>2015/16 and Past Performance to Approved Budget</u>

68. The 2015/16 outturn position was reported to Members during June 2016. The report showed an underspend of £1,821k from the Approved Budget to outturn, compared to a consolidated underspend for 2014/15 of £3,428k. As Figure 1 below shows, despite the current national picture, the council has consistently spent well under its approved budget, with the magnitude of the final position growing year on year, until 2015/16 when the saving reduced significantly.

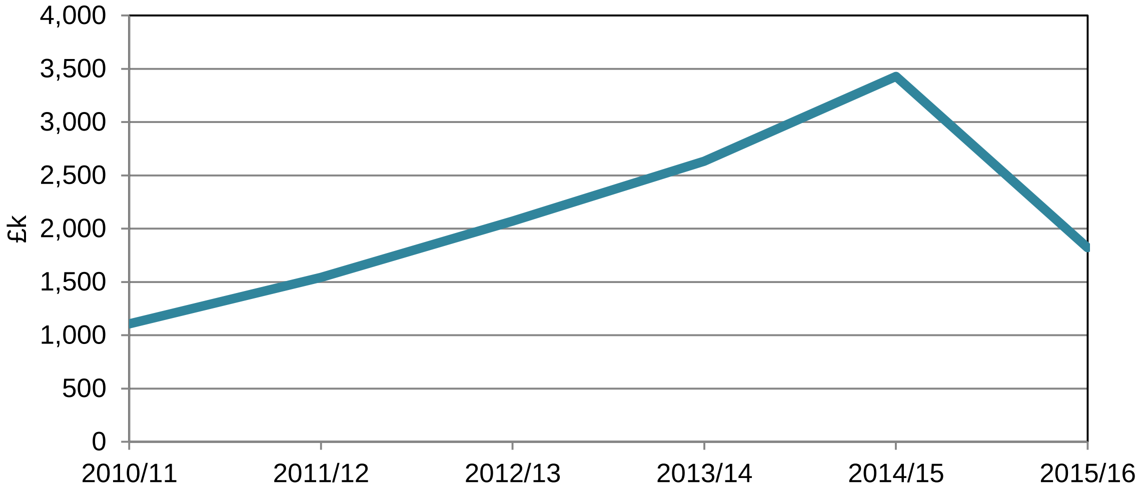

Fig 1: Underspends 2010/11 to 2015/16

69. In 2013/14 and 2014/15 our income generating services performed well above budget. These income lines are all areas that suffered during the recession. The fact they improved markedly is an indicator of improved economic circumstances, but also reflects an overly conservative approach to estimation. A key strand of meeting the projected budget deficits in the 2016/17 budget and 2017/18 indicative budget was to realign our income budgets to more realistic levels. In 2015/16, income budgets again performed well in some, but not all areas. The budgets from 2016/17 should be much more realistic and as such reduce further year end underspends.

Previous Levels of Savings

70. In considering how we tackle future financial pressures, it is useful to assess the level of savings made in previous budgets. The table below shows that since 2010/11, a total of £7,780k in savings has been delivered. The majority of these have been efficiency savings and with no reduction in frontline services. In addition, in 2016/17 new income items of £1,374k have been identified.

	Total Savings £000's
2016/17	-1,232
2015/16	-841
2014/15	-955
2013/14	-1,250
2012/13	-1,434
2011/12	-1,347
2010/11	-721
Total	**-7,780**

71. If significant one-off savings are ignored, the council has typically made on average approximately £900k in efficiency savings per annum.

72. In recent years, variable targets have been allocated to ensure frontline services are protected relatively, whilst we have reduced costs of the back office at a higher rate.

73. Whilst broad year on year reductions to services cannot be the sole solution to balancing the budget, particularly in times of austerity, the council should always strive to ensure its services are cost effective and an element of efficiency savings should underpin each budget process or otherwise wastefulness creeps into the organisation.

Summary

74. The high level reserves position, year-end performance and savings delivered since 2010/11 provide a good evidence base for the council's strong financial health. It also demonstrates that the council has been resilient during the period of the economic crisis.

75. Whilst the reasons for year-end underspends vary, a clear pattern had developed that suggested some income budgets were conservative rather than realistic. This was addressed in the 2016/17 budget process with their alignment to more realistic levels and as a result, the challenge of identifying savings will be more difficult as we progress through the planning period.

The Medium Term Plan

76. One of the key aims of the Medium Term Plan is to determine how we need to shape our finances over the next five years. As well as the key considerations outlined above, we also have to be mindful of service specific issues.

77. In constructing this plan, we have made the following further assumptions:

- The starting point for 2017/18 is the indicative budget set by Council in February, subject to the following changes:
  - Workplace and Facilities Management review – proposed savings of £163k reduced by £50k
  - Leisure Provision Review – anticipated savings of £146k delayed until 2018/19
  - HIC – income estimated to fall £148k from the 2016/17 budget compared to proposed increase of £239k, an overall deterioration of £387k. This is offset by proposed expenditure savings of £110k
  - Green Garden Waste – a part-year effect on income is expected to result in additional net costs of £602k in 2017/18 and additional net income of £816k in 2018/19. It is proposed that the 2017/18 cost is met from the Budget Transition Fund
- Rates, Rents, Utilities & Inflation – an allowance for general price inflation and vehicle fuel price increases as well as additional costs associated with the introduction of the Government's electricity market reform policy from 2015/16 and increases to the Climate Change Levy in 2019/20.
- Other cost pressures – temporary accommodation cost increases as a result of increased homelessness acceptances, the potential cost impact of a new Economic Growth Strategy, future financial implications of changes around Local Plan legislation and potentially volatile income streams.
- Treasury savings – as a result of the referendum vote to leave the EU there has been a worsening in the medium term interest rate projections. This assumes

investment rates in 2017/18 even lower than recently, followed by very gradual increases in interest rates resulting in improved returns on our investments.

- Changes in Grants – as well as the decreases in general grant allocations, the Transition Grant is removed in 2018/19, and individual specific grants are also likely to decrease, notably in relation to benefits administration.

78. The table below brings together our key considerations and further assumptions outlined above.

Medium Term Plan	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Net Expenditure Brought Forward	**17,637**	**17,966**	**19,063**	**20,101**	**20,853**
Remove Prior Year Business Rates Deficit Reserve Transfer	236	0	0	0	0
Transition Fund In Year	-326	0	0	0	0
Transition Fund Reversal	178	326	0	0	0
<u>Changes in Grants</u>					
New Homes Bonus	-49	570	42	0	0
Benefit Admin Grant (incl. UC)	19	50	40	30	20
Other Grant Variations	22	238	-45	0	0
<u>Changes in Expenditure</u>					
Pay & Pensions	359	350	350	350	350
Planned Asset Maintenance Budget	111	111	111	0	0
Funding Future Investment	0	165	165	165	165
Rates, Rents, Utilities & Inflation	182	90	140	50	50
Service Level Expenditure Reductions	-495	-146	0	0	0
Service Level New Expenditure Items	5	0	0	0	0
Other Cost Pressures	137	250	250	250	250
<u>Changes in Income</u>					
Treasury savings	83	-91	-15	-93	-196
Service Level New Income Items	-271	-816	0	0	0
<u>Office Accommodation</u>					
Debt Charges & Lifecycle Costs	534	0	0	0	0
Efficiencies to cover above*	-396	0	0	0	0
Total Proposed Net Expenditure	**17,966**	**19,063**	**20,101**	**20,853**	**21,492**
Funded By:					
Council Tax	-13,886	-14,303	-14,734	-15,178	-15,635
Retained Business Rates	-3,145	-3,207	-3,271	-2,337	-2,384
RSG	-399	0	0	0	0
Council Tax Surplus	-130	0	0	0	0
Total Net Funding	**-17,560**	**-17,510**	**18,005**	**-17,515**	**-18,019**
Cumulative Budget Deficit	**406**	**1,553**	**2,096**	**3,338**	**3,473**
Initial Annual Budget Deficit	**406**	**1,147**	**543**	**1,242**	**135**

*Savings to the base budget of £138k in 2016/17

79. The table shows significant pressures of £1.1m in 2018/19 and £1.2m in 2020/21 compared to typical savings per annum in the past of approximately £900k. To summarise the passages of the key considerations, the reasons for the significant pressures are:

- RSG, New Homes Bonus and Transition Grant reductions – all anticipated to be cut significantly in 2018/19
- Retained Business Rates reductions – anticipated to be reduced significantly in 2020/21 as a result of a revised needs assessment.

Budget Transition Fund

80. The initial budget deficits for 2018/19 and 2020/21 will be extremely challenging to achieve without cutting services and cannot be delivered by efficiency savings alone.

81. It is for this reason that Cabinet agreed the set aside of £1m from the 2014/15 year end underspend to create a Budget Transition Fund, £178k of which is planned to be used in 2016/17 and £326k in 2017/18. In addition Cabinet has recommended to Council that £589k be set aside from the 2015/16 year end underspend.

82. The fund will allow us to smooth the Medium Term Plan into more manageable savings targets. For the first time the five year view illustrates fixed annual budget deficits, which will allow us to remove volatility and provide more planning certainty. It will also help reduce, but not remove the risk, of cutting services and a full appreciation of the discretionary services that we provide on an on-going basis is still required during this planning period. The transition fund has a one-off use in each year which delays the need to make budget savings. It does not remove the need to make significant base budget reductions of £3.5m by 2021/22.

83. Based on the current plan, the table below shows how we intend to allocate the fund and the corresponding effects on the projected deficits. Members have to be mindful that we need to demonstrate flexibility with the fund as assumptions are refined during the budget process. Based on the below £249k will remain in the fund at the end of 2021/22 and as a result, where opportunities exist, additions to the fund should be sought.

Medium Term Plan	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Initial Annual Deficit	**406**	**1,147**	**543**	**1,242**	**135**
Further Use of Budget Transition	0	-347	-90	-532	133
Removal of Prior Year Effect	0	0	347	90	532
Revised Annual Deficit	**406**	**800**	**800**	**800**	**800**

Savings Approach

84. The last edition of this strategy reported that Mazars, our external auditors, had increased our risk rating for financial sustainability in their Annual Report. This was because, prior to the 2016/17 budget process, we had only been able to demonstrate savings plans for one of the next three years.

85. As a result of the need to take a longer term approach to managing our finances, we introduced a rolling two year budget process from the 2016/17 budget. This is the right approach in demonstrating the attributes of a thriving council as it gives us the opportunity to better plan our services and increase the certainty of our financial position over a longer time period.

86. This edition of the strategy develops this approach even further. In February 2016, the Communities & Local Government Secretary announced that funding assurances will be given to Councils who are able to demonstrate their approach to meeting the challenges set out in the most recent Local Government Settlement in the form of an Efficiency Plan, covering the period up to 2020/21. Given Harrogate's record of strong financial management and the new Strategy for Success, we are well placed to grasp this opportunity to plan our services with certainty. The final plan has to be submitted to the Government on Friday 14 October 2016 and a further report will be brought to Cabinet and Council setting out the content before this date. In terms of the principles of the content of the plan, we will aim to present:

- Fixed annual budget deficits, after usage of the budget transition fund, as set out in paragraph 83.
- How we will bridge those deficits by:
    - assumed increases in our existing fees and charges,
    - allocating an annual efficiency target to services in acknowledging that there are always ways to cut out wastefulness,
    - assessing the Strategy for Success programme in terms of an appropriate level of transformational savings,
    - assumptions around new areas of income delivered via the Commercialisation agenda,
    - Identifying thematic budget reductions that represents expenditure that doesn't meet our priorities.

87. In terms of translating this into the budget setting process, and following last year's introduction of presenting two years of balanced proposals, which will remain, we will:

- Ensure that the 2017/18 proposals remain robust. Earlier sections of this report highlight those proposals currently deemed at risk. Where a service cannot deliver a saving or new income item, the first stage will be to identify alternative options to make up for the shortfall. If that does not yield further savings, a further council wide efficiency target may be necessary.
- Present a set of proposals for 2018/19 that feed directly from the Efficiency Plan process.

88. Underpinning each year will be the principles outlined in last year's strategy, namely:

- The allocation of resource allocations, reflective of the processes outlined above.
- Acknowledge that the pay award, utilities and inflation are met corporately as demonstrated in the Medium Term Plan.
- Ensure that each service demonstrates clearly how it has moved from the previous year to the new allocation; including any other areas of budgetary growth are met by compensating reductions in expenditure or increases in income within the service's overall resource allocation.
- In line with established Financial Procedures, recommend a 2.5% increase on Fees and Charges. However, we must be pragmatic about this; where it is economically advantageous to increase beyond this level, the opportunity must be exploited; where it can be demonstrated such an increase will harm service usage levels, lower increases or a freeze must be appropriately explained.

89. This approach requires full commitment from Officers and Members alike so that comprehensive plans can be presented formally for approval in January and February 2017.

Risk Statement

90. Medium term financial planning, set against a backdrop of severe reductions in Government funding, is a risk laden exercise. Many factors may impact on the figures presented here and themes have been highlighted where appropriate. Most significant would appear to be the potential revisions in Local Government finance policy as the government moves towards 100% business rate retention and makes significant revisions to the New Homes Bonus. It remains to be seen to what extent this would affect Harrogate; however, we have to be mindful that, relatively speaking, we benefit from the current system focused on property and business bases. Should there be a change in emphasis, particularly around the assessment of need and Business Rates funding, there may be further reductions above those presented in the plan that would place further pressure on the council to deliver balanced budgets, without harming frontline services.

91. The effects that the EU referendum result will have on the strategy cannot be underestimated. Whilst there is still much uncertainty, not least around the terms and timeframes of the UK's exit from the EU, we have already seen a worsening of long term interest rate projections that are reflected in this strategy. A recession would present further risk, in particular significant areas of income such as planning fees that are linked directly to economic demand.

92. Beyond this, further policy announcements from the Government may have effects on our finances in the coming years.

93. Despite these risks, we will continue to plan effectively to strengthen our culture of strong financial management so that the council can continue to meets its priorities and provide the best possible services to the district.