Harrogate
BOROUGH COUNCIL

Medium Term Financial Strategy

2020/21 – 2024/25

Introduction

1. The Medium Term Financial Strategy (MTFS), for the years covering 2020/21 to 2024/25, 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 the 2024 Programme.

2. In an era of continuing 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.

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 51%. 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 £8.0m (67%). The table overleaf shows that during the same period, our net spend has reduced by £8.0m.

	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
2017/18	17,685
2018/19	16,103
2019/20	16,919
Total Reduction	**-7,953**

Against the backdrop of funding reductions, Harrogate has maintained its position nationally as a well-run and financially sound council.

7. 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. Under the localised business rates funding regime, 100% of Harrogate's net spend is now locally generated (89% council tax, 11% business rates), with no receipt of Revenue Support Grant (RSG).

8. Since 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 has been 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 and lost all of its RSG by 2018/19, much earlier than many other councils. This will most likely lead to a situation where some districts thrive and others decline.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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 Convention Centre (HCC) and business tourism impact on the council, the 2024 Programme and office accommodation strategy.

14. 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

15. 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.

16. Harrogate's latest Corporate Plan was approved by Council in December 2017 and the timespan was extended by Cabinet in June 2018 to cover the years 2018 to 2024 to align with our revised transformation programme. 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 corporate delivery plan, which details what we will do, what our 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

17. 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 aligning finance and performance reporting.
    - 2024 Programme: adoption of a corporate transformation programme to respond to the major challenges and opportunities that both the Council and district will face through to 2024. This includes 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 is helping us deliver our priorities more effectively at the same time as creating

scope for a leaner and more efficient organisation. The latest budgeted savings amount to £909k.

- 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 and investment strategy.

Developing a Longer Term Approach to Managing Our Assets

18. 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.

19. 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.

20. 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.

21. In terms of managing our assets, we have recognised that by taking a proactive approach to asset management we can ensure the return from them is maximised. Positive developments in this area include:
    - Planned Asset Maintenance: introduced in 2015/16, capacity in this area has been built up to £800k by 2019/20.
    - Office Accommodation: moving to new purpose built offices in 2017 has released at least £909k in efficiency savings by us operating more effectively.
    - Capital & Investment Strategy: approved in October 2016, and following a comprehensive review of existing resources and asset needs, the new strategy will ensure our assets are maintained appropriately and funding available to us is used where it is needed the most. The 2019/20 MTFS included annual growth of £165k from 2018/19 to 2019/20 and £200k from 2020/21 to 2025/26 to ensure a fully funded strategy at that point in time (£35k additional growth per annum from 2020/21 to 2025/26). Since approval of the ICT Strategy, the Capital & Investment Strategy is no longer fully funded and this will have to be addressed in the coming years, though increased funding from the revenue budget is not reflected in this plan. The strategy will also have to be amended as the following are developed:
        - o Sport and Leisure Review

- HCC Future Strategy
- Economic Growth and Commercial Property

22. The Capital and Investment 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

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

Council Tax

24. Harrogate had frozen its basic Band D council tax for residents for six consecutive years, prior to a 1.99% increase in 2016/17, which followed the removal of incentivised freeze grants. For both 2017/18 and 2018/19, the Band D was increased by £5, and for 2019/20 by 2.99%, so that it stood at £240.92 in 2019/20. Funding 89% of our net spend, it is our most important funding stream.

25. 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.

26. 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 Housing, 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.

27. In recent years the Government had agreed that shire districts could increase their council tax bills by £5 (at Band D) or 1.99%, whichever is higher, without triggering a referendum. However, the 2018/19 Local Government Finance Settlement increased the main referendum limit, in line with inflation. Shire districts could now increase their council tax bills by £5 (at Band D) or 2.99%, whichever is higher. Harrogate increased by £5 (at Band D) in 2018/19 and 2.99% (£6.99 at Band D) in 2019/20. The Government has not confirmed whether this additional council tax flexibility will extend into 2020/21.

28. 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 are assuming a pick up in the conversion of permissions to completions and that the tax base will grow by 1.2% per annum from 2020/21 (compared to 0.7% in 2018/19 and 0.9% in 2019/20) and the Medium Term Plan later in the strategy reflects this.

29. For planning purposes, this strategy assumes annual council tax increases of 2.99%. This increase would not breach the assumed referendum limit. Together with the tax base growth, this would generate an additional £636k in 2020/21 in new income, rising to £750k by 2024/25 (see table overleaf). A further 0.1% increase in the tax base each year from 2020/21 would generate £259k over the life of this plan in council tax income.

	Assumed Tax Base Increase	Assumed Council Tax Increase	Additional Income £000's
2020/21	1.2%	2.99%	-636
2021/22	1.2%	2.99%	-663
2022/23	1.2%	2.99%	-690
2023/24	1.2%	2.99%	-721
2024/25	1.2%	2.99%	-750

Spending Review and Finance Settlement

30. The timing of the Spending Review 2019 (SR19) and its effect on the local government finance settlement is now the most pressing and the most important variable for authorities in forecasting their funding in the short to medium term. Since at least the 2017 General Election, local government funding forecasts have been predicated on two assumptions:

    - A three year spending review in 2019 (covering the financial years 2020/21, 2021/22 and 2022/23).
    - Implementation of the Fair Funding Review (FFR) in 2020/21 together with reforms to the business rates retention system, including an increase in the local business rate share to 75% and a baseline reset.

31. There was an implicit assumption that SR19, the FFR and reform of the Business Rate Retention Scheme (BRRS) all had to happen in the same year. And there were very strong arguments that this should be the case. One argument was that authorities should be funded at their new funding baselines in 2020/21. Another was that resources from SR19 (and the baseline reset) would be needed to fund changes in the FFR. There had also been a very clear steer from both MHCLG and the LGA that all the changes would happen in the same year.

32. It now looks likely that there will be a delay of at least one year in the SR19 and the question is then whether this would mean a delay to the FFR and the reform of the BRRS. To some degree, the decisions on FFR, business rates and other elements of the settlement (such as New Homes Bonus) can only really be taken as a package and in the context of a spending review. For instance, it would be very difficult to make decisions about the distribution of funding (through the FFR) if the quantum of funding is not known. The likelihood is that changes in local government funding will be delayed. Having said that, Government policy is still that all these reviews will be implemented in 2020/21 and it is on that basis that this plan has been produced, albeit without any clarity of how this will be delivered in practice, including what damping arrangements will be put in place to limit overall year on year decreases.

Business Rates

33. The localised business rate retention scheme was introduced from 1 April 2013 (50% Business Rate Retention). The scheme allows local government to retain a 50% 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 could keep 50% of its 40% share of any growth, paying the rest over as a levy, in place to limit disproportionate gains. In order to stimulate growth over wider geographic areas, councils are allowed to pool together. The main financial benefit of this is that rather than paying levies to the government, the money is retained by the pool for local uses. Harrogate was part of the

Leeds City Region (LCR) Pool, along with Leeds, York, Wakefield, Calderdale, Kirklees and Bradford.

34. A Strong Local Economy is one of our corporate priorities, 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.

35. 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 were re-valued from April 2017, resulting in further volatility in the system.

36. The 2018/19 local government finance settlement announced that the LCR submission, including Harrogate, to pilot 100% Business Rates Retention was successful. This pilot was agreed for 2018/19 only and led to additional one-off funding being retained by member authorities (pre-audit outturn of £30.0m) and the pool (pre-audit outturn of £18.0m) to deliver significant additional investment by authorities and in the region and to support the budget positions of member authorities. For Harrogate the additional one-off funding amounted to £2.5m (pre-audit outturn) and was in lieu of Rural Services Delivery Grant (RSDG) of £240k.

37. In July 2018 the Government launched a prospectus for invitations to pilot 75% business rate retention for 2019/20. An application was submitted for a North and West Yorkshire pool, including Harrogate, and the 2019/20 local government finance settlement confirmed the application had been successful. The estimated net gain to the council of 75% retention compared to 50% retention is £1.28m (net of foregone RSDG of £240k), though this is dependent on business rate income growth in all member authorities. The 2019/20 budget approved that £200k of the net gain be transferred to the District Improvement Fund, with the remaining balance transferring to the Budget Transition Fund to help support the budget position over the medium term.

38. As mentioned above, this plan is predicated on the reform of the BRRS, with the local share increasing from 50% to 75% in 2020/21. It is assumed there will be a full baseline reset in 2020/21 (as previously suggested by Government), with our share remaining at 40%. For authorities who have business rate growth and are significantly above their funding baseline, such as Harrogate, this is not good news, though it would be subject to suitable damping arrangements. The effect is to reduce our funding position in 2020/21 to just above our baseline funding level. The table overleaf shows the significant reduction in business rates income in 2020/21 as a result and low levels of additional income from 2021/22 onwards.

	Additional Income (-) £000's
2020/21	2,656
2021/22	-80
2022/23	-70
2023/24	-61
2024/25	-107

39. It was also expected that the Fair Funding Review would be implemented in 2020/21 and a consultation was launched alongside the 2019/20 provisional finance settlement (deadline February 2019). The risk for low need high-tax base authorities, such as Harrogate, is significant. The range of variables is extensive and complex and as such it is difficult to model, though a damping regime would have to be implemented alongside the review to prevent excessive reductions to some authorities. For this plan we have assumed that the Fair Funding Review has a neutral effect on us, given the already significant reduction in 2020/21 from reform of the BRRS. Future versions of the financial strategy, and the detailed budget process for 2020/21, will develop our approach to managing this as more information becomes available.

Government Funding

40. In recent years the council has received 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. In addition, given the reforms to local government funding we are also including an entitlement to damping grant.

<u>Revenue Support Grant</u>

41. 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.

42. As highlighted earlier, from 2016/17 the government has applied 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, reducing the allocation to zero in 2018/19. Proposed further reductions from 2019/20, often referred to as "negative RSG", were eliminated by the Government in its final local government finance settlement for 2019/20.

	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	-100%

New Homes Bonus

43. Introduced in 2011/12, New Homes Bonus (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 originally built up incrementally over six years. In 2017/18 a stepped reduction to 5 years was implemented plus the introduction of a "deadweight" measure (which means councils receive no funding for the first 0.4% of growth in their tax bases, to reflect natural growth that would happen anyway without intervention from the local authority). In 2018/19 a further reduction to 4 years was implemented. The table below shows a breakdown of the amounts received in respect of each year from 2011/12 and included in the base budget.

	New Homes Bonus Allocations £000's
2011/12	-273
2012/13	-352
2013/14	-172
2014/15	-292
2015/16	-393
2016/17	-162
2017/18	+426
2018/19	+62
2019/20	-89
Total	**-1,245**

44. As part of the local government funding changes referred to above, it is expected that New Homes Bonus will also be reformed. This plan is based on the most likely and severe option, of abolition of the grant. This would result in a reduction in grant of £1,058k in 2020/21. We would continue to receive returned NHB funding of £187k per annum (our share of overall funding not distributed to authorities). If the government continued to make legacy payments then the £1,058k reduction would be spread over the next four years, resulting in savings of £2,183k over this five year plan.

Damping Grant

45. For 2020/21 we have assumed that the reduction in our total resources (including council tax, business rates and new homes bonus) will be limited to 5%, and that we will receive damping grant to ensure our funding reaches the "floor", with the grant being phased out over five years. As a result, we would be entitled to grant of £626k in 2020/21 only.

Workforce and Pay

46. For 2019/20 the budget reflects a 2% pay award and the implementation of the national pay and grading review and the assimilation to a new pay structure (with further assimilation costs of £56k in 2020/21). For 2020/21 and future years, 2% pay awards are assumed (c£600k per annum). The consideration of a local pay and grading review is assumed in this plan to be cost neutral.

47. Pension payments due to the North Yorkshire Pension Fund for the past service element of pension costs have been set for the years to 2019/20, based on the latest triennial valuation of the fund. We will have a significant one off saving in 2019/20 as a result of paying off the remaining past pension deficit by the end of 2018/19. This favourable position is due to past decisions about contribution rates. Looking ahead to 2020/21, based on the latest position provided by the Actuary, we are assuming there will not be a past pension deficit, but a 2% increase in the forward pension rate (+£410k).

Reserves and Past Performance

48. 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>

49. 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 service reserves.

50. 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 service reserves ensured a £2.1m fund was created to contribute towards the capital cost of the new office accommodation project.

51. Reserve balances of circa £15m are in place to support capital investment, and an earlier section of the strategy sets out our commitment to review the long term asset needs of the council to ensure this is the best use of our resources.

52. We have an established challenge process over the usage of service and earmarked reserves that is incorporated into the 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. For the past four years, reserves have been challenged at the Performance Clinics, which has resulted in £742k being released and set aside to support priorities. As part of the 2019/20 budget process only £50k was identified for release and ultimately this release did not happen as a result of calls on the reserve in 2018/19. For the 2020/21 budget the reserves review will need re-invigorating, particularly as additional funds will be required for the Budget Transition Fund (see paragraph 68).

53. 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>2018/19 and Past Performance to Approved Budget</u>

54. The 2018/19 outturn position was reported to Members during June 2019. The report showed an underspend of £380k from the Approved Budget to outturn, compared to an underspend for 2017/18 of £1,838k. As Figure 1 overleaf 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 underspend reduced significantly with a further significant reduction in 2018/19.

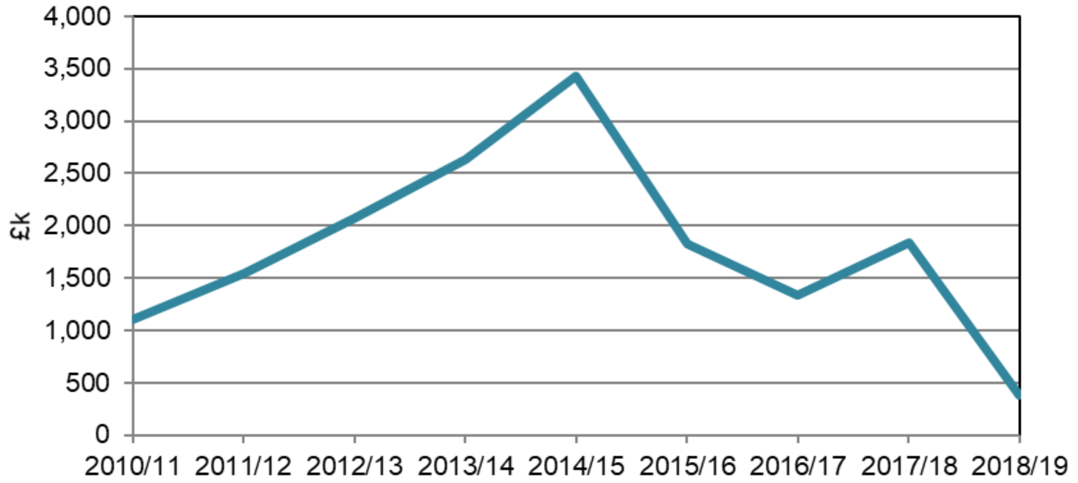

Fig 1: Underspends 2010/11 to 2018/19

55. 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. This has contributed to the trend of reducing year end underspends. However, income budgets in some areas continue to perform better than budgeted (planning and trade waste), whereas others have come under pressure (HCC, leisure and car parking). The 2019/20 budget has been realigned where appropriate and these budgets will be kept under review in future in order to ensure that they are set at suitable levels.

Previous Levels of Savings

56. 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 2016/17, a total of £2,084k in net savings has been delivered, at an average of circa £0.5m per annum. This reduces to £0.4m per annum if we exclude circa £100k in service efficiency targets. The majority of these have been efficiency savings and with no reduction in frontline services. Having said that, it is unlikely that the reductions in service expenditure can continue at the levels previously achieved, particularly as all services will have undertaken service reviews, or are planning to do so. In addition, over the same period a total of £3,714k in new or increased income has been identified, at an average of circa £0.9m per annum. This reduces to £0.8m per annum if we exclude circa £100k from inflationary increases in fees and charges.

	Total Net Savings £000's	**Total Income Increases £000's**
2019/20	-563	52
2018/19	-87	-1,905
2017/18	-512	-477
2016/17	-922	-1,384
Total	**-2,084**	**-3,714**

57. 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.

58. 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.

<u>Summary</u>

59. 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.

60. Whilst the reasons for year-end underspends vary, a clear pattern had developed that suggested some income budgets were conservative rather than realistic. From the 2016/17 budget process onwards this has continued to be addressed 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

61. 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.

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

- The starting point for 2020/21 is the indicative budget set by Council in February, subject to a number of changes.
- Benefits Admin Grant – continuing reduction in council tax admin and universal credit (UC) grant funding (5% per annum), with steeper cuts in housing benefit admin grant (10% in 2020/21) as rollout of UC to working age claimants (assumed grant reduced to £100k by 2024/25 to reflect pensioner caseload only). This results in a further reduction in overall grant in 2020/21 (£11k) and further reductions as set out in the table at paragraph 63.
- Rates, Rents, Utilities & Inflation – 2020/21 as per indicative budget, with an allowance of £200k per annum for business rate increases, general price inflation, vehicle fuel price increases and utility price increases in later years.
- Service Level Expenditure Reductions:
    - Swimming Pool Technology savings not achievable in 2020/21 (£20k), but offset by TIC savings (-£12k in 2020/21 and further -£12k in 2021/22) and income at Fairfax Community Centre (-£12k in 2020/21 and further -£12k in 2021/22).
    - Pest Control Service Review – delay in 2020/21 savings to 2021/22 (£5k).
    - Parks & Open Spaces Operational Review – reduction in 2020/21 savings from £168k to £120k, with £40k delivered in 2020/21 and a further £80k in 2021/22.

    - £100k annual efficiency target. Each Council service is allocated a share, acknowledging that there are always ways to cut out wastefulness.
- Other Cost Pressures:
    - Car Parking – reduction in income (£100k), increase in debit and credit card payment fees (£10k) and new permit system (£10k) from 2020/21.
    - Recycling contract – anticipated increase in cost (£70k) from 2020/21 when the current contract is re-tendered (ends in March 2020), as a result of uncertainty due to the Government's Waste Strategy.
    - Homelessness – uplift in prevention works and general fund share of additional Allocations Officer (£61k) from 2020/21.
    - HCC – security contract (£35k), catering income reduction (£20k), agents' fees (£20k) from 2020/21 and one-off increase in 2020/21 marketing budget (£192k). Beyond 2020/21 additional marketing costs would be covered by a new incremental revenue stream. These costs are offset in the medium term by a growth in lettings income (see below).
    - Waste Crews - an additional recycling crew (£100k) and refuse crew (£75k) in 2022/23 due to housing growth.
    - Other potential cost pressures – £93k provision in 2020/21 indicative budget deleted and replaced by above other cost pressures. An allowance of £200k per annum from 2021/22. This does not cover the potential costs stemming from the Waste Strategy (consultation outcomes not yet known) and revenue implications of the Sport and Leisure Review (including potential VAT partial exemption breaches and site closures to allow investment).
- Treasury savings – assumes investment rates in 2020/21 of 1%, followed by gradual increases in interest rates resulting in improved returns on our investments. The trajectory of rate increases has flattened compared to previous forecasts.
- Service Level New Income Items:
    - Place-shaping & Economic Growth – delay in start of Phase 2b of service review resulting in £10k of income from fee earning opportunities being delayed to 2021/22.
    - HCC – growth in lettings income from 2022/23 (£183k per annum).
    - Increasing existing fees and charges, where it is economically advantageous to do so, by c. 2.5% which would be worth c. £100k per annum.
- Commercial income – this strategy has been aligned to the commercial strategy and includes uplifts in income resulting from:
    - Trade Waste Development Strategy – growth in net controllable income (-£180k in 2020/21, with small changes in later years).
    - Turkish Baths Business Plan – growth in net controllable income after repayment of investment to the Council Investment Reserve (-£49k in 2022/23, -£170k in 2023/24 and -£49k in 2024/25).
    - Bracewell Homes – growth in income to the Council from the revised business plan (-£23k in 2020/21, -£99k in 2021/22 and small changes in later years). Further work is required to broaden the activities of the company.

- Lifeline – growth in net controllable income to the general fund (-£19k in 2021/22 and -£25k in 2022/23).
- Property Funds – net additional investment returns (-£30k in 2020/21, with margins reducing slowly as money market rates forecast to pick up).
- Advertising, Sponsorship & Naming Rights (-£20k in 2020/21).
- Strategic Asset Review - further work required to translate the review into a profile of proposed disposals and associated revenue savings.
- Commercial Investment Portfolio - work is required to develop an approach to commercial investment, including identifying the need for a resource to progress and deliver the approach and associated return.

- Residual Business Rates/Council Tax Deficit of £257k from 2018/19 (net of transfer from reserve).

63. The table overleaf brings together our key considerations and further assumptions outlined above.

Medium Term Plan	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Net Expenditure Brought Forward	**16,919**	**19,520**	**21,606**	**22,549**	**23,106**
BR Deficit Reserve Transfer	-186	186	0	0	0
75% BR Pilot Income Transfer	-200	0	0	0	0
Transition Fund In Year	-1,495	0	0	0	0
Transition Fund Reversal	-2,158	1,495	0	0	0
Changes in Grants					
New Homes Bonus	1,058	0	0	0	0
Benefit Admin Grant (incl. UC)	31	39	38	39	38
Business Rates Compensation Grants	4,385	0	0	0	0
Changes in Expenditure					
Pay & Pensions	1,044	589	601	613	625
Funding Future Investment	200	200	200	200	200
Rates, Rents, Utilities & Inflation	223	200	200	200	200
Service Level Expenditure Reductions	-193	-209	-100	-100	-100
Service Level New Expenditure Items	124	0	0	0	0
Other Cost Pressures	525	8	375	200	200
Changes in Income					
Treasury savings	-1	-194	-31	-142	16
Service Level New Income Items	-503	-110	-283	-283	-283
Commercial Strategy	-253	-118	-57	-170	-53
Total Proposed Net Expenditure	**19,520**	**21,606**	**22,549**	**23,106**	**23,949**
Funded By:					
Council Tax	-15,684	-16,347	-17,038	-17,758	-18,508
Retained Business Rates	-3,970	-4,050	-4,120	-4,181	-4,288
Business Rate/Council Tax Deficit	443	0	0	0	0
Damping Grant	-626	0			
Total Net Funding	**-19,837**	**-20,397**	**-21,158**	**-21,939**	**-22,796**
Cumulative Budget Deficit	**-317**	**1,209**	**1,391**	**1,167**	**1,153**
Initial Annual Budget Deficit	**-317**	**1,526**	**182**	**-224**	**-14**

64. The table shows significant pressure of £1.5m in 2021/22 compared to typical net savings per annum in the past of approximately £0.4m (excluding service efficiency targets of £100k) and income increases of £0.8m (excluding £100k from inflationary increases in fees and charges).

Budget Transition Fund

65. The initial budget deficit for 2021/22 would be extremely challenging to achieve without cutting services and cannot be delivered by efficiency savings and income generation alone.

66. 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, with a further £1,192k set aside from 2015/16, 2016/17 and 2017/18 year end underspends to meet structural pressures on the

budget. £178k of the fund was used in 2016/17, a further £1,191k in 2017/18 and £190k in 2018/19. It is planned that £2,158k is added to the Fund in 2019/20.

67. Now well established, the fund allows us to smooth the Medium Term Plan into more manageable savings targets. 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 base budget reductions of £1.2m by 2024/25.

68. 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 the fund will be overdrawn by £87k in 2022/23 and this will increase to an overdrawn position of £354k by the end of 2023/24, before falling to £307k overdrawn by the end of 2024/25. Where opportunities exist, it will be necessary to seek considerable additions to the fund, and where these additions are not sufficient, the fund will have to be topped up from existing reserves (see paragraph 52).

Medium Term Plan	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**
Initial Annual Deficit	**-317**	**1,526**	**182**	**-224**	**-14**
Further Use of Budget Transition	317	-909	-791	-267	47
Removal of Prior Year Effect	0	-317	909	791	267
Revised Annual Deficit	**0**	**300**	**300**	**300**	**300**

69. The uncertainties and unknowns in relation to local government funding were explored earlier. The plan is sensitive to increases in council tax base, with increases of 1.2% assumed (compared to 0.9% achieved in 2019/20). A 0.1% change in every year of the plan would result in a circa £260k change in overall council tax income. On business rates, if the reforms to the system are delayed by one year, then the significant reductions in 2020/21 of £2.0m (net of damping grant) would be delayed. How this would be profiled depends on what would happen in 2020/21. The 75% pilot would not necessarily continue and we could return to the 50% scheme (which would result in the funding reduction falling to circa £1.3m, a one-year saving of circa £0.7m). This would more than meet the required increase in the Budget Transition Fund set out above. Alternatively, there is also a risk that the Fair Funding Review will result in reductions in our funding over and above those assumed for the move to 75% business rate retention with a full baseline reset. Harrogate's needs assessment has always been low and as such a fall in funding following the redistribution of funding that could follow could be significant. There is therefore considerable uncertainty in relation to this plan's sustainability until the fair funding review and business rate retention system reforms are implemented.

<u>Savings Approach</u>

70. 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.

71. 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 2019/20. Given Harrogate's record of strong financial management and the Our Strategy for Success programme, we were well placed to grasp this opportunity to plan our services with certainty. The council submitted its Efficiency Plan to the Government on 6 October 2016 following approval by Council the evening before. The Government confirmed acceptance of our plan on 16 November 2016 and that Harrogate was formally on the multi-year settlement.

72. The certainty from the multi-year settlement has now passed. From 2021/22 onwards, we will aim to manage our strategy on the following basis:

- Use of the Budget Transition Fund to create fixed initial annual savings targets of £300k. This has reduced from £800k in recent years as a result of the following:
    - The increase in income as a result of increasing existing fees and charges, where it is economically advantageous to do so, by c. 2.5% (worth c. £100k per annum) is now built into the plan, rather than being part of the approach to deliver the annual target.
    - Allocating each Council service their share of a £100k annual efficiency target (acknowledging that there are always ways to cut out wastefulness), is also built into the plan, rather than being part of the approach to deliver the annual target.
    - Alignment of this strategy with the commercial strategy and reflected proposed increases in commercial income reflected in that strategy (on average circa £130k per annum, see paragraph 62).
    - A recognition that it is increasingly difficult to deliver efficiency savings. The indicative budget for 2020/21 includes net savings of £198k.
- Meeting the annual target by a mixed approach of:
    - Identifying new sources of income/revenue savings via the commercial strategy, over and above those already reflected in the plan. Current significant areas of focus are the implementation of the Strategic Asset Review and developing our approach to commercial investment.
    - Identifying budget reductions that result from other transformational activities in the 2024 Programme, as well as from expenditure that doesn't meet our stated priorities. Current areas of focus include assessing alternative delivery models and operational reviews of our waste management and street services.
- Clearly where opportunities exist to remove expenditure or introduce income that exceed the £300k target, or minimise usage of the Budget Transition Fund, these will be exploited. This is particularly important as the fund, based on current plans, will be overdrawn from 2022/23.

73. In terms of translating this into the budget setting process we will:

- Continue to present two years of balanced proposals
- Ensure that the 2020/21 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 2021/22 that feed directly from the Efficiency Plan process.

74. This approach requires full commitment from Officers and Members alike so that comprehensive plans can be presented formally for approval in January and February 2020.

Risk Statement

75. 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 are the potential revisions in Local Government finance policy, continual cuts to general grant and 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 (Fair Funding Review) 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.

76. 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 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 lettings income, planning fees and car park income that are linked directly to economic demand.

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

78. 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.