Harrogate
BOROUGH COUNCIL

Medium Term Financial Strategy

2022/23 – 2026/27

Introduction

1. The Medium Term Financial Strategy (MTFS), for the years covering 2022/23 to 2026/27, 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. As a result of 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 significant funding reductions, as the government continued to rein in the national deficit, and as other councils across the country faced 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 "age of austerity".

5. In addition to this, the Council is facing an unprecedented financial detriment as a result of the COVID-19 pandemic. The financial implications are challenging to estimate with certainty as there continue to be a number of unknowns. The financial impact stems from both additional costs incurred in responding to the pandemic, but also, and to a larger extent, from irrecoverable losses in income. Further to this, our tax income will also be detrimentally impacted. The deficits in the collection fund in 2020/21, as collection rates fall and the tax base is eroded as businesses fail and more taxpayers are eligible for council tax support, will impact the general fund from 2021/22. The Council developed a Financial Recovery Plan to set out how we would address the immediate, and significant, impacts in relation to 2020/21. The 2021/22 budget set out the continuing impacts of the pandemic and how we will look to address them in order to balance the budget. For budgetary purposes it was assumed our finances, primarily income, will recover in 2022/23.

6. Since the 2010 Comprehensive Spending Review (CSR), total local government funding in England has been reduced by approximately 50%. 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.

7. Harrogate has not been immune to the funding reductions and since 2010, its general grant allocation has reduced by £8.2m (69%). During the same period, our net spend has reduced by £3.8m. Against the backdrop of funding reductions, Harrogate has maintained its position nationally as a well-run and financially sound council.

8. 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 (76% council tax, 24% business rates), with no receipt of Revenue Support Grant (RSG).

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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

16. 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.

17. 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

18. 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.
    - 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: 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.
    - 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

19. 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.

20. 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.

21. 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.

22. 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: capacity in this area has been increased over time.
    - Office Accommodation: moving to new purpose built offices has released efficiency savings by us operating more effectively.
    - Capital & Investment Strategy: approved 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 MTFS will look to reduce the shortfall in overall funding for the strategy. The strategy will also have to be amended as the following are developed:
        - Sport and Leisure Review
        - HCC Redevelopment
        - Economic Growth

23. 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 where possible.

Key Considerations in our Medium Term Financial Planning

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

Spending Review and Fair Funding Review

25. The Chancellor had planned to formally launch the spending review before the Summer Recess, though this has now been delayed alongside an announcement on social care.

26. Treasury sources have been quoted as saying that “preparatory work for the review had already begun and would continue over the summer”. The delayed “formal launch” will be in September and will provide “details for how much overall government spending will rise

by in the next financial year". The delay probably also makes a November announcement more likely than October.

27. From a local government funding perspective, the Chancellor's launch statement in September should give us a broad outline of the spending totals that are available, but details about the package for local government in 2022/23 are not going to be known until later in November, or even the provisional settlement in December 2021. The spending review is still expected to cover the remainder of the parliament, but the tight timescales might now make a one-year settlement more likely.

28. A delay in the Fair Funding Review and the reform of Business Rates, including the baseline reset, now looks almost certain. There is insufficient time to implement far-reaching changes in local government funding in 2022/23. The most recent consultation paper on the Fair Funding Review was in December 2018, and the working group has not met since June 2019. Resurrecting these proposals in the next couple of months seems very unlikely. Changes in local government funding are made even more difficult because they will now have to take account of other high-profile policy developments, including levelling-up, social care and business rates.

29. This plan is predicated on the likely delay from 2022/23 to 2023/24. Of course, a further delay cannot be ruled-out and this possibility has been raised in the trade press. The reality is that the timescale is not yet known and is only likely to emerge in the negotiations for the Spending Review 2021.

Council Tax

30. 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. Since 2017/18, the Band D has been increased by £5 each year, except for 2019/20 when the increase was 2.99%. Funding 76% of our net spend in 2021/22, it is our most important funding stream.

31. 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.

32. 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, with the exception of 2019/20 when the main referendum was increased to 2.99%, in line with inflation. Harrogate increased by £5 (at Band D) in 2021/22 to £250.92.

33. As a result of the pandemic, we have seen a significant uplift in the number of council tax reduction claims, and this is expected to continue as the Coronavirus Job Retention Scheme is phased out. Now the Local Plan is in place and house building recovers from the pandemic, we are generally assuming a pick up in the conversion of permissions to completions and that the tax base will grow by an average of 1.5% per annum (compared to budgeted increases of 0.7% in 2018/19, 0.9% in 2019/20, 1.5% in 2020/21 and 0.9% in 2021/22) and the Medium Term Plan later in the strategy reflects this.

34. For planning purposes, this strategy assumes annual council tax increases of 1.99% or £5, whichever is the higher. This increase would not breach the assumed referendum limit. Together with the tax base growth, this would generate an additional £565k in 2022/23 in new income, rising to £649k by 2026/27 (see table below). A further 0.1% increase in the tax base each year from 2022/23 would generate £270k over the life of this plan in council tax income.

	Assumed Tax Base Increase %	Assumed Council Tax Band D Increase £	Additional Income £000's
2022/23	1.5	5.00	-565
2023/24	1.5	5.09	-585
2024/25	1.5	5.19	-605
2025/26	1.5	5.30	-627
2026/27	1.5	5.40	-649

Business Rates

35. 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 from 2013/14, along with Leeds, York, Wakefield, Calderdale, Kirklees and Bradford.

36. 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.

37. 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. The next revaluation will take effect in 2023. As part of the Government's Fundamental Review of Business Rates, it is currently consulting on delivering more frequent revaluations, setting out specific proposals to achieve a three-yearly cycle.

38. The LCR pool was successful in its submission to pilot 100% Business Rates Retention for 2018/19 only. This pilot led to additional one-off funding being retained by member authorities and the pool 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 of £2.5m was in lieu of RSG (£0) and RSDG (£240k) and was

transferred to the Council Investment Reserve to support the Capital and Investment Strategy.

39. A North and West Yorkshire Pool was successful in its submission to pilot 75% Business Rates Retention for 2019/20 only. The net gain to the council was £1.3m (net of foregone RSDG of £240k) and £200k of the additional income was transferred to the District Improvement Fund, with the remaining balance transferring to the Budget Transition Fund to support the budget position over the medium term.

40. For 2020/21 we returned to 50% Business Rates Retention forming a successful pool with the existing North and West Yorkshire pool (but excluding Selby District Council). For 2021/22 the other North Yorkshire authorities took the decision not to pool, because of the inherent risks relating to business rates income as a result of the pandemic. However, the original LCR member authorities were successful in their submission to pool for 2021/22.

41. The Government is still committed to implementing the Fair Funding Review and reforms to the Business Rate Retention Scheme (BRRS), though these continue to be delayed with an assumption now that they will be delivered in 2023/24. Part of the BRRS reform is still a very strong commitment to a “full reset of business rate retention baselines”. The effect for low need high-tax base authorities, such as Harrogate, is significant. Our working assumption has always been that the baseline reset would happen alongside the Fair Funding Review as a package of changes. It would also have to be accompanied by damping, even if the effect of the reset is outside the damping regime.

42. The effect for Harrogate is a significant loss of business rate income in 2023/24, as a result of the full baseline reset. The plan is predicated on this reform happening in 2023/24, with the local share increasing from 50% to 75%, though our share will remain at 40%. Should it be implemented in 2022/23 there would be a further one-off cost to the Council of circa £600k. It is unclear how damping would be implemented and as such our modelling is neutral on the effect. Future versions of the financial strategy, and the detailed budget process, will develop our approach to managing this as more information becomes available.

43. Following on from the above, the table below shows the significant reduction in business rates income in 2023/24 and low levels of additional income from 2024/25 onwards:

	Additional Income (-) £000's
2022/23	-210
2023/24	536
2024/25	-34
2025/26	-34
2026/27	-34

Government Funding

44. 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.

Revenue Support Grant

45. 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.

46. 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 2018/19, often referred to as “negative RSG”, were eliminated by the Government in the local government finance settlements each year.

	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

47. 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
2020/21	-472

2021/22	+47
Total	**-1,670**

48. 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 government fully phasing out the grant as it continues to make legacy payments. This would result in a reduction in grant of £1,189k in 2022/23 and £481k in 2023/24. It is anticipated we would continue to receive returned NHB funding from 2023/24 (our share of overall funding not distributed to authorities), though the basis on how this would be distributed is not yet known. For planning purposes we have assumed £100k per annum from 2023/24.

Workforce and Pay

49. For 2021/22 the budget reflects a 2.5% pay award, though trade unions have rejected an offer of 1.5% and asked for further talks. The base budget also includes a £150k provision for implementing a local pay and grading review, which is assumed will be implemented in 2021/22. For 2022/23 and future years, 2.5% pay awards are assumed (c£800k per annum).

50. Pension payments due to the North Yorkshire Pension Fund have been set for the three years from 2020/21, based on the latest triennial valuation of the fund. The surplus that had been built up in excess of 110% (we were 126% funded in the latest valuation) will be paid back over a 21 year period from 1 April 2020. The remaining surplus will be used as a buffer to protect against future funding level volatility. To ensure stability, reductions in contribution rates will be ‘stepped’ in over the 3 year period from 1 April 2020 and we have no past deficit payment to make. The result is a reduction in employer pension contributions of c£400k in 2022/23, as contribution rates fall from 14.6% in 2021/22 to 12.8% in 2022/23. Beyond this we are assuming contribution rates will ‘step’ return to 16.3% (rate in 2020/21) by 2024/25 and remain there in 2025/26 and 2026/27, at annual costs of c£400k per annum in 2023/24 and 2024/25. The results of the next triennial review will be available in late 2022 with rates set for three years from 2023/24.

Reserves and Past Performance

51. 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.

Reserves Review

52. 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.

53. 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.

54. Reserve balances of circa £16m 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.

55. 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. A separate reserves review took place to support the Council's Financial Recovery Plan to address the financial impact of the coronavirus pandemic and £205k was released as a result. The annual reserves review will need refocussing as part of the 2022/23 budget process, given the impending local government reorganisation.

56. 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.

2020/21 and Past Performance to Approved Budget

57. The 2020/21 outturn position was reported to Members in July 2021. The report shows an outturn on budget after an additional contribution to the Budget Transition Fund of £718k, despite a net cost of the COVID-19 pandemic of £2,449k. This compares to an overspend for 2019/20 of £327k, of which £270k was forecast to be the impact of COVID-19. As Figure 1 below shows, the council had, until recent years, 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 further significant reductions since 2018/19.

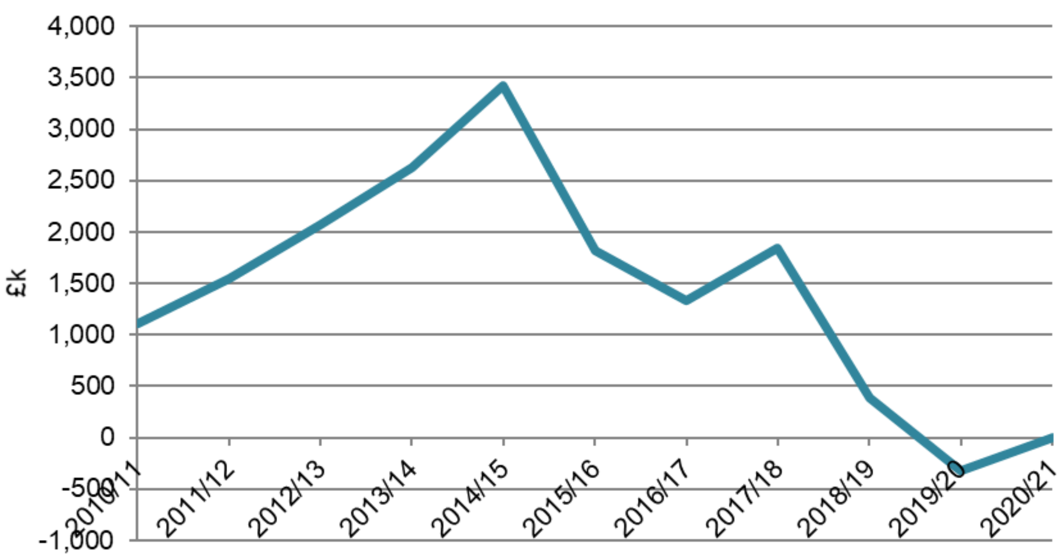

Fig 1: Underspends 2010/11 to 2020/21

58. In 2013/14 and 2014/15 our income generating services performed well above budget. These income lines are all areas that suffered during the previous recession. The fact they improved markedly was an indicator of improved economic circumstances, but also reflected 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, until 2019/20, income budgets in some areas continued to perform better than budgeted (planning and trade waste), whereas others

have come under pressure (HCC, leisure and car parking). The 2019/20 budget was realigned where appropriate, however a number continue to be under pressure (planning, leisure and car parking) and this was exacerbated by the pandemic. Given the unprecedented impact of COVID-19, income reductions of circa £6.5m are forecast in 2021/22, with government support of circa £1m anticipated. For planning purposes we have assumed income will fully recover in 2022/23, though the extent of this is challenging to estimate with certainty. These budgets will be kept under review in future in order to ensure that they are set at suitable levels.

Previous Levels of Savings

59. 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 between 2016/17 and 2020/21, a total of £2,085k in net savings has been delivered, at an average of circa £0.4m per annum. This reduces to £0.3m 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 reductions in service expenditure can continue significantly beyond those identified in the forthcoming plan, particularly as all services will have undertaken service reviews, or are planning to do so. In addition, over the same period a total of £3,889k in new or increased income has been identified, at an average of circa £0.8m per annum. This reduces to £0.7m per annum if we exclude circa £100k from inflationary increases in fees and charges. 2021/22 has not been included in this analysis because of the significant effect of the pandemic.

	Total Net Savings £000's	**Total Income Increases £000's**
2020/21	-1	-175
2019/20	-563	52
2018/19	-87	-1,905
2017/18	-512	-477
2016/17	-922	-1,384
Total	**-2,085**	**-3,889**

60. 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.

61. 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

62. The healthy 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 previous economic crisis. The council is now faced with unprecedented financial challenges stemming from the pandemic that continue in the current financial year.

63. 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, even before the impact of the pandemic, the challenge of identifying savings will be more difficult as we progress through the planning period.

The Medium Term Plan

64. 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.

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

- The starting point for 2022/23 is the indicative budget set by Council in February, subject to a number of changes.
- Benefits Admin Grant – continuing reduction in council tax admin, universal credit (UC) grant funding and housing benefit admin grant (5% per annum) as rollout of UC to working age claimants. This results in an increase in overall budgeted grant in 2022/23 (-£18k) and further reductions as set out in the following table.
- Funding Future Investment – the assumption is that the £200k annual growth is limited to 2022/23 and 2023/24, given the difficult financial circumstances facing the Council.
- Rates, Rents, Utilities & Inflation – 2021/22 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:
    - Service Reviews – anticipated savings as a result of service reviews in HCC (-£464k in 2022/23) and Parks & Environmental Services (-£84k in 2023/24)
    - Turkish Baths Business Plan (-£170k in 2023/24 and -£49k in 2024/25), after repayment of investment to the Council Investment Reserve (-£135k in 2023/24).
    - ICT Hardware Refresh – licensing and support savings (-£21k in 2022/23)
    - £100k annual efficiency target. Each Council service is allocated a share, acknowledging that opportunities for efficiencies arise as technology improves and working practices develop.
- Service Level New Expenditure Items:
    - Subvention – £500k of one-off funding over three years (assumed £450k funded by Council in 2022/23 and £50k from Harrogate BID).
    - LGR implementation costs – assumed one-off funding of £1,000k in 2022/23.
    - Waste - an additional refuse crew (£87k) in 2024/25 due to housing growth.
    - Local Plan Review & Examination – there is a requirement by Government to review the Local Plan every five years. It is too early to confirm what the scope of a review will be, and it is likely that this will get overtaken by Local Government Review. However, depending on the scope of review, it is likely that we may need to factor in one-off costs of £150k to £200k depending on

the scope of the review (£100k in 2023/24 and 2024/25) plus a further one-off £100k for the Examination (2025/26).

  - Masterplanning - in order to maintain the Council's proactive approach and delivery of quality place making on strategic sites, additional external expertise will be required after we complete the current round of work in 2021/22. It is estimated that additional one-off spend is likely to be in the order of £100k, probably in 2022/23.
  - LACC Relationship Manager (£24k in 2022/23).
  - Occupational Health (£5k in 2022/23).
  - Other potential cost pressures – remaining £47k allowance in 2022/23 from indicative budget, with an allowance of £200k per annum from 2023/24.

- Treasury costs/savings:
  - Modest increases in investment rate assumptions (0.15% in 2022/23, rising to 1.10% by 2025/26).
  - Assumed uplift in property fund income of £25k from 2023/24.
  - Underlying Minimum Revenue Provision cost reduces over time, however budget included for Ripon Pool borrowing (£457k per annum from 2022/23) offset by uplift in net income budgets.
  - Bracewell Homes – changes in dividend and loan interest income to the Council from the proposed revised business plan (-£38k in 2022/23, £70k in 2023/24, £15k in 2024/25 and £150k in 2025/26) as loans are repaid and shared ownerships developments reduce.
- Service Level New/Increased Income Items:
  - Harrogate Convention Centre – growth in lettings income (£50k in 2022/23 and £146k per annum from 2023/24 to 2025/26). This is the assumed uplifts in income that can be delivered before redevelopment.
  - Lifeline – further growth in net controllable income to the general fund (-£25k in 2023/24).
  - Civic Centre café income – delayed uplift of £6k from 2022/23 to 2023/24.
  - Bracewell Homes – increased salary recharge (-£10k in 2022/23).
  - Revenues Recovery Income – structural budget deficit following pandemic (+£100k)
  - 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.

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

Medium Term Plan	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Net Expenditure Brought Forward	**21,026**	**21,196**	**22,378**	**23,697**	**24,716**
Transition Fund In Year	-938	0	0	0	0
Transition Fund Reversal	2,499	938	0	0	0
Changes in Grants					
New Homes Bonus	1,189	381	0	0	0
Benefit Admin Grant (incl. UC)	-18	19	18	18	17
Rural Service Delivery Grant	0	252	0	0	0
Income Compensation Grant	981	0	0	0	0
Covid-19 Grant	639	0	0	0	0
Lower Tier Services Grant	159	0	0	0	0
Local Council Tax Support Grant	232	0	0	0	0
Changes in Expenditure					
Pay & Pensions	332	1,220	1,230	820	840
Funding Future Investment	200	200	0	0	0
Rates, Rents, Utilities & Inflation	126	200	200	200	200
Service Level Expenditure Reductions	121	-489	-149	-100	-100
Service Level New Expenditure Items	1,640	-1,250	287	200	100
Changes in Income					
Treasury costs/savings	375	-12	-21	127	-15
Service Level New Income Items	-7,367	-277	-246	-246	-100
Total Proposed Net Expenditure	**21,196**	**22,378**	**23,697**	**24,716**	**25,658**
Funded By:					
Council Tax	-16,621	-17,206	-17,811	-18,438	-19,087
Retained Business Rates	-2,218	-4,703	-4,737	-4,771	-4,805
Business Rates Grants	-3,021	0	0	0	0
Total Net Funding	**-21,860**	**-21,909**	**-22,548**	**-23,209**	**-23,892**
Cumulative Budget Deficit	**-664**	**469**	**1,149**	**1,507**	**1,766**
Initial Annual Budget Deficit	**-664**	**1,133**	**680**	**358**	**259**

67. The table shows a budget surplus in 2022/23 as a result of the assumed delay in the business rates baseline reset and a further service review, offset by significant one-off funding requirements. There is a significant pressure of £1.1m in 2023/24 compared to typical net savings per annum in the past of approximately £0.3m (excluding service efficiency targets of £100k) and income increases of £0.7m (excluding £100k from inflationary increases in fees and charges).

Budget Transition Fund

68. The initial budget deficit for 2023/24 would be extremely challenging to achieve without cutting services and cannot be delivered by efficiency savings and income generation alone, particularly given the significant recovery of income required in 2022/23.

69. It is for this reason that Cabinet agreed the set aside of £1,000k from the 2014/15 year end underspend to create a Budget Transition Fund, with a further £1,910k set aside from various year end underspends to meet structural pressures on the budget. £1,559k of the fund has been used since 2016/17, with budgeted additions of £3,454k. £2,499k is required to support the 2021/22 budget and £938k to support the 2022/23 indicative budget, given the on-going effect of the pandemic, in particular on income generation. As a result £1,368k is available to support this five-year plan.

70. 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 £1.8m by 2026/27.

71. 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 £141k will remain in the fund at the end of 2026/27, however given the uncertainties and unknowns around funding it may prove prudent, where opportunities exist, to seek additions to the fund.

Medium Term Plan	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Initial Annual Deficit	**-664**	**1,133**	**680**	**358**	**259**
Further Use of Budget Transition	664	-169	-549	-607	-566
Removal of Prior Year Effect	0	-664	169	549	607
Revised Annual Deficit	**0**	**300**	**300**	**300**	**300**

72. The uncertainties and unknowns in relation to local government funding were explored earlier. The plan is sensitive to increases in council tax base, with average increases of 1.5% assumed (compared to 0.9% assumed for 2021/22, dampened by the impact of the pandemic). A 0.1% change in every year of the plan would result in a circa £270k change in overall council tax income. On business rates, if the removal of our growth does happen in 2022/23, then further losses in funding of circa £600k could be incurred. There is also the 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>

73. 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.

74. Since 2020/21 local government has received one-year finance settlements from the Government. The certainty of multi-year settlements has now passed. From 2022/23 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 from 2023/24. 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 opportunities arise for efficiencies), 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 proposed increases in commercial income reflected in this strategy (circa £100k per annum).
  - A recognition that it is increasingly difficult to deliver efficiency savings. The savings identified in recent budgets have almost entirely been offset by increases in expenditure required to deliver statutory services and deliver income levels that support the budget.
- 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.
  - 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.
- 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.

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

- Continue to present two years of balanced proposals
- Ensure that the 2022/23 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 look 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 2023/24 based on this plan.

76. This approach requires full commitment from Officers and Members alike so that comprehensive plans can be presented formally for approval in January and February 2022.

Risk Statement

77. Medium term financial planning, set against a backdrop of severe reductions in Government funding, is a risk laden exercise. This is compounded when faced with a

global pandemic. 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, significant revisions to the New Homes Bonus and continuing pressures on income levels. 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, the funding reductions place further pressure on the council to deliver balanced budgets, without harming frontline services.

78. As is always the case, ministers will take decisions on the local government finance settlement as part of an overall package of funding measures. A business rate baseline reset in 2023/24 combined with the planned phasing-out of NHB by 2023/24 would hit many district councils very hard, and this might influence ministers to take a different approach. For now, our modelling assumption is that both take place.

79. The effects that the pandemic will have on the strategy cannot be underestimated. There is still much uncertainty, with further risk, in particular to significant areas of income such as lettings income, planning fees and car park income that are linked directly to economic demand, as well as tax income.

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

81. 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 up until local government reorganisation in April 2023.