SELBY
DISTRICT COUNCIL

Report Reference Number: E/20/16

To:	**Executive**
Date:	**3 September 2020**
Status:	**Key Decision**
Ward(s) Affected:	**All Wards**
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Lead Executive Member:	**Councillor C Lunn, Lead Member for Finance & Resources**
Lead Officer:	**Karen Iveson, Chief Finance Officer**

Title: Revised Estimate 2020/21 and Medium-Term Financial Strategy

Summary:

This report presents a revised Budget for 2020/21 and an update to the Medium-Term Financial Strategy (MTFS) covering both the General Fund and Housing Revenue Account (HRA) prior to consideration by Council later this month.

Covid-19 has had, and continues to have, a significant impact on the Council's finances. As at the end of July 2020 the full year forecast for 2020/21 totals £3.8m. The key assumptions that underpin the strategy have been updated - Policy Review Committee members will be consulted prior to Council considering it later in September.

The MTFS highlights further delays to the Fair Funding Review and the reform of the Business rates Retention system, as a result of Covid. It is assumed therefore, that the settlement for 2021/22 will be another roll-forward which could result in a further year of the renewable energy business rates windfall. Should the Local Government Finance Settlement be announced early then any necessary changes will be incorporated into the draft Budget as part of the process during the autumn.

The MTFS identifies risk and uncertainty around business rates retention, on-going reductions to Government funding, wider economic uncertainty at the prospect of a no-deal Brexit and local government re-organisation on the back of a potential devolution deal.

In spite of the uncertainty, the MTFS confirms the Council's strategic approach to continuing to invest 'one-off' or finite resources to stimulate local economic growth and achieve sustainable income through Council Tax and Business Rates growth, whilst reducing its base revenue budget.

The MTFS also sets out the Council's reserves strategy which seeks to set aside sums to cover known commitments and cover financial risk as well as earmarking resources to support delivery of the "Council Plan".

Following the district elections in May 2019, a number of emerging cost pressures have been identified which will if they materialise, increase the requirement for on-going savings. Some resources are available from the Business Rates Equalisation Reserve to support in the shorter term, although a top-up of this reserve is required.

Progress against our savings targets has been delayed as a result of Covid and therefore additional drawdown from the Business Rates Equalisation Reserve is expected.

Based on the assumptions within the MTFS, the savings requirement is estimated to rise to between £2.4m and £2.9m over the next 3 years. With savings of £848k p.a. already planned, a further £2m will need to be identified.

Recommendation:

It is recommended that, subject to consultation with Policy Review Committee, the Revised Estimates for 2020/21 and the Medium-Term Financial Strategy be submitted to Council for approval.

Reasons for recommendation:

To reflect the latest financial issues within the budget for 2020/21 and to set the framework for the 2021/22 budget and Medium-Term Financial Plan to 2023/24.

1. Introduction and background

1.1 This report presents revised estimates following an assessment of the impacts of Covid-19 along with an update to the MTFS taking into account changes to the key assumptions within the strategy. The draft MTFS (incorporating a revised budget for 2020/21) including associated appendices is attached at **Appendix 1.**

1.2 The strategy covers both the General Fund and HRA to provide a holistic view of the Council's finances.

1.3 Comments on the revised Budget and MTFS will be invited from Policy Review Committee members prior to consideration by full Council. As a result of Covid-19 the usual 6-week budget consultation with Policy Review Committee has been curtailed.

2. The Report

2.1 The attached update paper presents a revised budget for 2020/21 as a result of the financial impacts of Covid-19. The virus has had, and continues to have, a significant impact on the Council's finances - as at the end of July

2020 the full year forecast for 2020/21 totals £3.8m. To the end of July 2020, £1.068m has been received from the Government to help off-set these impacts. This forecast has informed the revised estimate put forward for approval, with £1.44m New Homes Bonus proposed to be diverted from reserves to help mitigate the impacts. Base on current assumptions a surplus of £43k is forecast but given the risk and volatility as a result of the virus, this could change. Any subsequent changes, for example additional Government funding, will be reported through the quarterly exception reports to Executive and Scrutiny Committee.

2.2 The paper also models the Council's revenue budgets over the next 10 years although major risk and uncertainty around business rates retention, on-going reductions to Government funding, wider economic uncertainty as the transition phase of Brexit draws to a close and local government re-organisation on the back of a potential devolution deal, mean that meaningful future forecasting is extremely difficult. A mid-range forecast is the scenario that is proposed as the basis for the forthcoming budget round for 2021/22.

2.3 Significant changes to the Business Rates Retention Scheme were previously anticipated following the Government's announcement that in future 100% of Business Rates will be retained by Local Government and Revenue Support Grant would be phased out. Since then these plans have been scaled back and the Government piloted 75% Business Rates Retention in 2019/20. The reform of the Local Government Finance System was anticipated from 2020/21 but as result of political challenges nationally and the prospect of the no-deal Brexit HM Treasury announced there would be a one year settlement for 2020/21 and the system will be reviewed in 2020. Since then Covid-19 and the subsequent lockdown measures have led to further delays.

2.4 It is assumed therefore, that the settlement for 2021/22 will be another roll-forward from 2020/21 which could result in a further year of the renewable energy business rates windfall. As in previous years however, it is not proposed to allocate or commit these funds until they are confirmed. Should the Local Government Finance Settlement be announced early then any necessary changes will be incorporated into the draft Budget as part of the process during the autumn.

2.5 For the HRA the MTFS aligns with the refreshed HRA Business Plan and models an on-going CPI +1% increase in housing rents following 4 years of 1% reductions ending in 2019/20.

2.6 The MTFS mid-case scenario assumes a Council Tax rise of £5 (2.8%) for 2021/22, which mirrors the referendum principles that applied in 2020/21.

2.7 The Council's approach to the management of its reserves is also re-confirmed in the MTFS – earmarking resources to cover commitments, manage risk and support growth, with £1.5m retained as a minimum general working balance for both the General Fund and HRA.

2.8 Following the district elections in May 2019, a number of emerging risks/cost pressures have been identified, including for example: street scene and leisure contract negotiations, additional ICT investment and internal capacity issues – these costs pressures could range from £300k - £500k p.a. recurring.

2.9 Based on the assumptions updated within the MTFS, taking the forecast resources available, the estimated deficit before planned savings is £2.4m by 2023/24 (up to £2.9m taking into account the emerging risks/cost pressures). After current planned savings the residual shortfall on the General Fund is estimated at £1.6m by 2023/24 (£2.1m taking into account the emerging cost pressures).

2.10 Given the risk within our savings programme £6.9m is to be held back in the Business Rates Equalisation Reserve (BRER), which requires an additional £2m top up to this reserve from the Special Projects Reserve in 2021/22. The BRER provides funding to support the revenue budget should savings be delayed. It must be stressed however that using reserves to support the revenue budget in this way is not sustainable and failure to deliver the savings target would undermine the Council's long term financial resilience and therefore work to deliver and identify further savings to bridge any gap must continue.

2.11 The HRA is experiencing its own challenges as a result of Covid-19 and previous rent reductions. Savings are planned in order to maximise in-year HRA surpluses whilst setting aside sufficient sums to repay the self-financing debt. Revenue surpluses are transferred to the Major Repairs Reserve to fund enhancements to the Council's housing stock and a long term programme to deliver a decent homes 'plus' standard and support 1-for-1 replacement of homes sold through right-to buy.

2.12 Whilst revenue resources are challenging, capital receipts and s106 sums remain relatively buoyant which will enable the Council's capital programmes to be sustained as we consider opportunities to further invest in housing related schemes alongside the Programme for Growth and other reserve programmes which aim to deliver more sustainable income streams whilst improving outcomes for citizens and delivering internal efficiencies.

2.13 Programme for growth proposals will be brought to Council for approval in September 2020.

3. Alternative Options Considered

3.1 The MTFS models mid, best and worst case scenarios, which are set out at Appendix A.

4. Implications

4.1 Legal Implications

None as a direct result of this report.

4.2 Financial Implications

4.2.1 The financial issues are highlighted within the body of the report.

The estimated deficit rises to £2.4m by 2023/24 (up to £2.9m including indicative emerging risks/costs). Work is progressing towards the target but this has been delayed by Covid-19. The MTFS makes further provision in the Business Rates Equalisation Reserve to mitigate the savings shortfalls over the next 3 years but focussed effort will be needed to bring this back on track once the effects of the virus have subsided.

4.3 Policy and Risk Implications

4.3.1 The MTFS is based upon the Council's current policy framework and where there are opportunities to vary this framework these are identified within the report – for example the level of Council Tax and the replenishment/use of reserves.

4.3.2 The MTFS identifies and where possible quantifies (in outline) the risks to the Council's financial position and presents appropriate mitigations – for example the impacts of Covid-19 are mitigated through the use of New Homes Bonus and the risk inherent within the Local Government Finance Settlement and risks to the savings plan are mitigated through the Business Rates Equalisation Reserve.

4.4 Corporate Plan Implications

4.4.1 The MTFS underpins delivery of the Council Plan.

4.5 Resource Implications

4.5.1 The MTFS assesses the financial resources available to the Council over the coming 10 years. Based on the assumptions within the strategy a recurring shortfall is expected.

4.6 Other Implications

4.6.1 As set out in the report.

4.7 Equalities Impact Assessment

There are no equality impacts as a result of this report – individual savings ideas will be subject to assessment as they are brought forward for consideration/implementation.

5. Conclusion

5.1 Covid-19 is impacting significantly on the Council's finances. Whilst Government funding has been received, to date it is not sufficient to cover the forecast costs/income losses. The proposed Revised Estimate incorporates the latest assessment of these impacts.

5.2 The key assumptions which underpin the MTFS have been updated based on the latest intelligence available however there is much uncertainty around public sector finance. There remains risk within the Local Government funding system and at this stage a cautious stance has been taken regarding the fair funding review and business rates ‘reset’ now expected after 2021/22.

5.3 The mid-case assumes a £5 (2.8%) increase in Council Tax and for the HRA the MTFS models a CPI+1% increase in housing rents.

5.4 There is also uncertainty over New Homes Bonus, the economic situation as a result of a no-deal Brexit, income generation and delivery of savings. The Council’s longer-term financial position is heavily reliant upon resources keeping pace with inflation and costs being contained within base budget.

5.6 Over the next 3 years the savings requirement is expected to rise to £2.4m p.a. (£2.9m including emerging cost pressures). Given the size of the deficit and delays to the savings programme it is likely that additional reserves will be needed, although this is not a sustainable solution.

5.7 Additional income from Council Tax and Business Rates as a result of our investment in economic growth will help to bridge the funding gap in the long term but in the meantime we must strive to be as efficient as possible and additional savings targets are proposed. We will need to keep this under review as the future for Local Government funding becomes clearer.

5.8 The on-going risk to the Council’s General Fund and HRA funding means that a careful balance between savings and investment will need to be struck.

6. Background Documents

Approved MTFS Update September 2019

Approved Budget February 2020

7. Appendices

Appendix 1 – Revised Estimate 2020/21 and Medium-Term Financial Strategy Update September 2020
Appendix A1 – 10 Year Financial Plan
Appendix A1 – HRA 30 Year Financial Plan
Appendix B – Reserve Balances 2020 – 2023 Including Growth Bids
Appendix C – Covid Scenarios
Appendix D – Planned Savings
Appendix E - 2020/21 Selby District Council Capital Programme - To 30 June 2020
Appendix F - Programme for Growth 2020/21 Financial Year Project Updates

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