Appendix 1

Selby District Council

Revised Estimates 2020/21 Medium Term Financial Strategy Update September 2020

1. Introduction and Background

1.1 This paper presents an update to the General Fund Medium Term Financial Strategy (MTFS) approved by Council in September 2019 along with an overview of the Housing Revenue Account. It considers the budget pressures and issues facing the Council over the next 3 years and beyond and in response to the financial impacts of Covid-19, it presents a revised estimate for 2020/21 for approval by Council.

1.2 This MTFS provides the framework for the forthcoming budget round and the longer-term outlook to inform funding and investment decisions. A refreshed full HRA Business Plan was approved in 2019/20 and this update provides an overview of the current issues facing the HRA service within the context of the approved Plan.

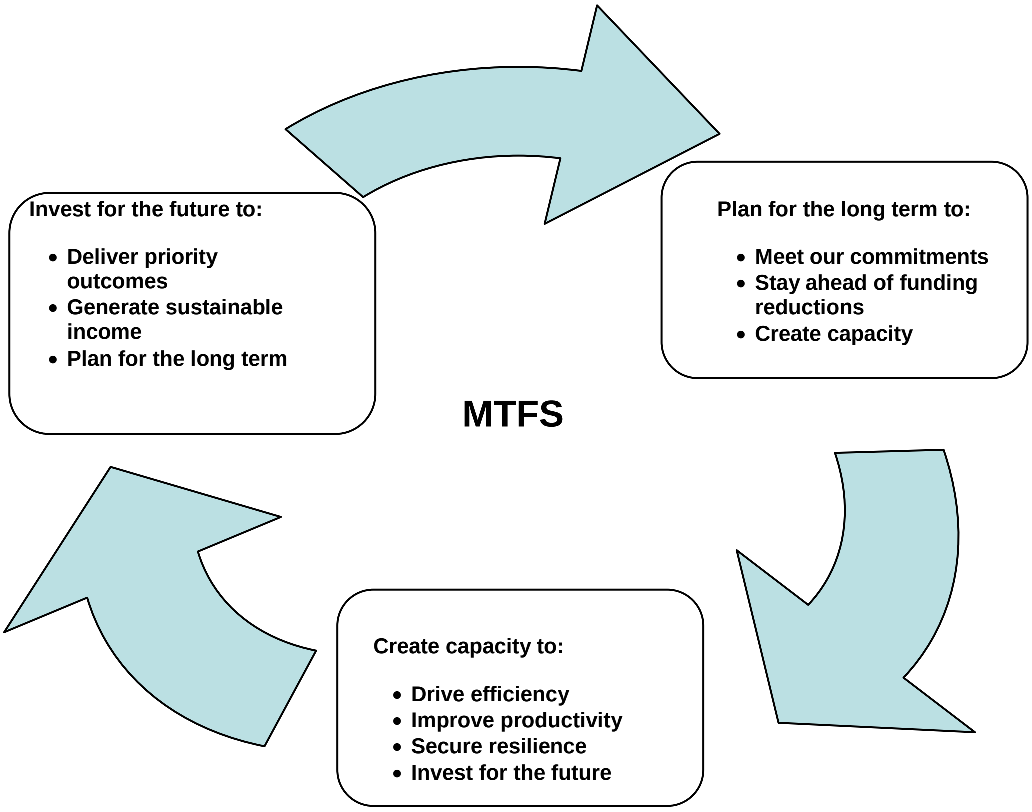
1.3 To date 2020 has been a year of major uncertainty as the effects of the Covid-19 global pandemic have unfolded (and continue to do so). Furthermore, the impacts of Brexit, on public sector finances are still not known as the transition phase draws to a close. Add to this the outlook for devolution and Local Government reorganisation and it is clear, that uncertainty will reign for some time to come.

1.4 The Government's proposals for a reviewed Local Government funding system have already been delayed 1 year, on the back of Brexit and now a further delay has been announced as a result of Covid-19. 2021/22 will be a one-year settlement with the Fair Funding Review and 75% Business Rates Retention implementation being pushed out to 20/22/23 (or later).

1.5 Against this backdrop of major uncertainty, the key drivers for the financial strategy remain unchanged although the level of risk has undoubtedly increased. Whilst Local Government re-organisation is looking likely, this MTFS assumes the Council is a going concern and as such, meeting the on-going savings challenge will continue to feature strongly in the Council's strategic and operational plans.

1.6 In 2019 we refreshed our Corporate Plan and with it restated the Council's priorities through to 2029/30. Whilst there were no significant departures from the previous plan, it was an opportunity to refine some priorities. The Council has a clear and ambitious agenda – aiming **to make Selby a great place to live, enjoy and grow with a Council that delivers great value**. This financial strategy aims to provide financial sustainability, resilience and capacity for the Council in pursuing its objectives.

1.7 This strategy aims to secure the resources necessary to deliver the Council Plan, whilst managing the risks we are facing – ultimately over the long term achieving a self-sustaining financial model which sees the Council free from reliance on central government funding by raising income locally through Council Tax and Business Rates as well as through charging appropriately for services and maximising its investments.



1.8 To support this paper and due to the significant volatility, three scenarios ('best', 'mid' and 'worst' case) for the General Fund and for the HRA have been modelled over the 10 years from 2021/22 to 2030/31 and are attached at **Appendix A**. The mid-case scenarios are the proposed as the frameworks for the forthcoming budget.

1.9 Despite the challenges we face, the Council is in a strong financial position, helped by its historic approach to delivering savings and efficiency, its success in generating New Homes Bonus and the significantly, business rates windfalls from renewable energy facilities. However, given the uncertainty for public sector finances, we remain ready to cope with a worst-case scenario whilst staying focussed on our Council Plan objectives - using our strong financial position to carefully balance investment and savings.

2 Update on financial assumptions

Economic Assumptions

Interest Rates

2.1 The bank base rate was cut to 0.1% on 19 March 2020 in response to the economic fallout from Covid-19. In the latest forecasts received from Link (the Council's treasury management advisors) in July 2020, the bank rate is projected to remain at 0.1% through to 2023.

2.2 The approved strategy includes provision for a £350k cap on the amount of investment interest earned on cash balances used to support the General Fund revenue budget and an equivalent cap of £135k for the HRA. In addition, the General Fund includes budgets for investment income from Property Funds of £200k and loans to Selby & District Housing Trust (SDHT) of £100k (both as a result of initiatives contained within the approved savings plan). Whilst SDHT loan rates are fixed, as a result of the latest interest rate cut, the level of Council balances, and unstable financial markets, it is anticipated that returns on cash balances and property funds will be below these levels for the foreseeable future. This forecast will add to the financial pressure in both the General Fund and HRA:

	2020/21*	2021/22	2022/23	2023/24
Average rate %	0.41%	0.25%	0.25%	0.25%
GF Interest£000's	188	100	88	78
HRA Interest £000's	72	38	34	30
Total Interest from cash balances £000's	**260**	**138**	**123**	**108**
Add:				
Property Funds £'000's	100	100	100	100
SDHT Loans £'000's	100	100	100	100
Total Investment Returns	**460**	**338**	**323**	**308**

**2020/21 Quarter 1 Treasury Management Report*

2.3 Given the economic uncertainty, as a result of Covid-19 and Brexit, there is a risk of further reductions and forecasts will be kept under review. In the unlikely event that rates rise, any surplus receipts above the cap will be transferred to the Contingency Reserve. Rates will be kept under review and forecasts updated as necessary.

Inflation

2.4 As at July 2020 CPI inflation was running at 0.6% (0.5% the previous month) compared to average weekly earnings which fell by 0.3% in the 3 months to May 2020. The Monetary Policy Committee sets policies to meet the 2% CPI target and expect rates to rise over the next 2 years although the effects of Covid and Brexit mean on-going uncertainty.

The MTFS assumptions on inflation therefore range from 1.5% to 3.5%, although a provision for inflation will only be provided on contractual budgets and staff pay, which builds in a level of risk mitigation.

General Fund Assumptions

Settlement Funding

2.5 This element of funding has seen the most significant changes in recent years following the localisation of Business Rates and Council Tax Support.

2.6 The 2017/18 Local Government Finance Settlement provided figures for Settlement funding through to 2019/20. Settlement Funding includes Revenue Support Grant (RSG), Business Rates Baseline Funding (BRBF) and in addition Rural Services Delivery Grant (RSDG) and Transitional Grant (TG) were included in the settlement.

2.7 In its final year the Government confirmed the settlement and following consultation, removed proposals on negative RSG. It was assumed that this would be rolled into the new settlement from 2020/21 so any benefit would be for one year only but delays to the Fair Funding review and the review of the Business Rates retention system mean that it was rolled on a year. Subsequent announcements following Covid-19 have confirmed that there will be further roll-over to 2021/22.

2.8 For the purposes of the mid-case scenario and in the absence of any indication from the Government about the likely level of future settlements, a 2% annual uplift is assumed.

Local Government Finance Settlement	**17/18 £000's**	**18/19 £000's**	**19/20 £000's**	**20/21 £000's ***	**21/22 £000's ***	**22/23 £000's**	**23/24 £000's**
RSG	593	265	0	0	0	0	0
BRBF	2,294	2,365	2,554	2,459	2,515	2,565	2,617
Tariff adjustment			**~~-101~~**	**~~-103~~**		**0**	**0**
SFA	**2,887**	**2,630**	**2,554**	**2,459**	**2,515**	**2,565**	**2,617**
RSDG	108	135	~~108~~	108	108	0	0
TG	11	0	0	0	0	0	0
Total	**3,006**	**2,765**	**2,554**	**2,567**	**2,623**	**2,565**	**2,617**

**Multi-Year Settlement runs to 2019/20 – 2021/22 (+2% inflation thereafter). From 22/23 figures are subject to Fair Funding Review and Business Rates Reset*

2.9 The settlement shows there has been a real term core funding reduction of approximately £1.9m from 2015/16 to 2019/20 with RSG being completely phased out over the period.

2.10 The Government has now shelved plans for Local Government to retain 100% of business rates and piloted a 75% retention system in 2019/20 – Selby was part of the North and West Yorkshire 75% pool pilot. In 2020/21, with the uncertainty over the future for Local Government funding, Government reverted to the 50% scheme and Selby withdrew from the pool. In the absence of any indication about the future of Business Rates this position is assumed going forward.

Business Rates Retention

2.11 The current approach to Business Rates Retention income is to set aside gains above our baseline funding (per settlement) into the Business Rates Equalisation reserve to off-set potential future losses. A rolling balance of 3 years cover down to the safety net **plus** funds to back fill planned savings will be maintained in this reserve. Balances above this level will be available for investment.

2.12 The Council is currently at the 'safety net' for the purposes of rates retention but in receipt of a large windfall from renewable energy (£9.019m p.a. in 2020/21). It is anticipated that this financial situation will continue for a further year until the system is reset from 2022/23, although it would not be prudent to make plans for spending this income until this is confirmed.

2.13 Our forecast for 2020/21 is based on our NNDR1 return taking account of the 2017 revaluation, any revaluations and the latest intelligence on appeals, business growth and closures known at that time. From 2022/23 and the assumed system reset, the 50% baseline is assumed:

Business Rates Income	Actual 2019/20* £000's	Forecast 2020/21 £000's	Estimate 2021/22 £000's	Estimate 2022/23 £000's	Estimate 2023/24 £000's
Safety-Net	**2,426**	**2,274**	**2,326**		
Transfer from BRER	128	185	189		
= Baseline	**2,554**	**2,459**	**2,515**	**2,565**	**2,617**
Assumed growth	**0**	**0**	**0**	**0**	**0**
Renewable Energy/Surplus	**8,865**	**9,019**	**9,172**	**0**	**0**

*In 2019/20 Selby was part of a 75% pool pilot with a safety threshold of 95%

2.14 These forecasts do not include any provision for new significant appeals or closures beyond those already known at NNDR1 stage and therefore they should be treated with extreme caution, particularly in light of the potential impacts of Covid-19. The figures for 2019/20 included a downward revaluation for Eggborough Power Station and a revaluation of Drax. As Selby is already below the safety net, any further losses are borne by the Government, and no growth above our baseline funding is anticipated for the foreseeable future. Following the system reset, any subsequent additional growth will be factored into our plans once a clear trend can be established and decisions on future allocations will need to be taken in light of the overall funding available and risk at that time.

New Homes Bonus

2.15 New Homes Bonus (NHB) is an incentive scheme which rewards housing growth. The scheme is funded partly by the Government and also by top-slicing the Local Government funding settlement. Selby achieved £2.4m p.a. when the scheme reached maturity for 2016/17 (year 6 of the scheme).

2.16 The Government's evaluation of NHB and consultation early in 2016 resulted in it being it being scaled back to a 4 year scheme with a 0.4% growth threshold. New Homes Bonus funding is only secured to 2020/21 and latest intelligence suggests that this scheme will be replaced in its entirety, with the Government considering alternative ways to incentivise housing growth alongside the reformed system of Local Government funding. The 2020/21 settlement indicated that new payments for 20/21 would be for one year only and the scheme would run down over the following 2 years. New Homes Bonus forecasts are therefore:

New Homes Bonus	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**
Year 1					
Year 2					
Year 3					
Year 4					
Year 5					
Year 6	368				
Year 7	405	405			
Year 8	415	415	415	0	0
Year 9	767	767	767	767	0
Year 10*		947	0	0	0
Total	**1,955**	**2,534**	**1,182**	**767**	**0**

Year 10 is assumed as a one off as indicated in the 20/21 settlement

Given the pressures on the revenue income as a result of Covid-19, these resources will be used to support the revenue budget for the remaining years of the scheme.

Special and Specific Grants

2.17 The Council is in receipt of a number of additional grants for 2020/21 which may continue into the future:

Grants	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Rural Services Delivery Grant*	~~108~~	108	108	0	0
Transition Grant	0	0	0	0	0
Other Grants	105	113	113	0	0
Covid - emergency funding (allocated to GF)	0	1,068	0	0	0
Total Grants	**105**	**1,289**	**221**	**0**	**0**

*RSDG rolled into Business Rates Baseline in 2019/20 to reflect 75% retention system pilot.

2.18 Future funding is dependent upon the outcome of the new Business Rates Retention system – which has been delayed until 2022/23. For 2021/22 it is assumed that the current position is rolled on for a further year. Beyond 2022 it is assumed that these grants will be rolled into Business Rates funding.

2.19 Covid-19 funding of £1.068m has been received to date in 2020/21 with £1.068m allocated to the GF and £0m to the HRA. At this stage it is not known if further funding will be made available. The full year impacts of Covid-19 are currently estimated at £3.7m for 2020/21 (mid-case scenario £2.6m GF and £1.1m HRA). If no further funding is received then the gap would need to be funded from the Council's own resources.

2.20 Non-service grants are not ring-fenced and are applied to finance the General Fund revenue budget. In addition, there are various service specific grants which are included within the Net Revenue budget – (see paragraph 2.31). It is assumed that there is corresponding expenditure for these elements, although reductions in such grants add further pressure to our savings requirements (as we have seen with Council Tax and Housing Benefit Administration Grants).

Council Tax

2.21 A Council Tax Base of 31,989 has been set for 2020/21 with a 1% rise forecast thereafter included in the Council's current Medium-Term Financial Plan. Every 0.5% variance in level would add/subtract approximately 156 Band D equivalents to our Tax Base which equates to around £29k p.a. at the current Band D charge (£183.22).

2.22 Covid-19 has had an impact in the early stages of 2020/21 with an increase in residents requiring Council Tax Support and delays to development in the district. At the end of June, the number receiving support had increased by 526, resulting in a tax base reduction of 364 and property growth added 263 to the tax base – a net reduction of 101 (a tax base of 31,888). The mid-case scenario assumes the tax base remains at 31,888 in 2021/22, with any developments being netted off by increases in Council Tax Support. The mid-case scenario assumes 0.5% growth for 2022/23, with growth returning to 1% from 2023/24 onwards.

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Revised Tax Base growth			-0.32%	0.5%	1.0%
New Mid-case Tax Base	31,395	31,989	31,888	32,047	32,368

2.23 Compared to the current Medium-Term Financial Plan (3 year budget) by 2022/23 the tax base will be 585 lower – which equates to a reduction in Council Tax income of £107k p.a. at the current Band D charge. The impacts of Covid-19 on employment and businesses continues, and there is inherent risk that the tax base could fall further if Council Tax Support continues to rise.

2.24 In addition, collection rates have been lower in the first quarter and this is expected to continue over the remainder of 2020/21. This combined with the reduced tax base is expected to result in an overall collection fund shortfall of £245k in 2020/21, which will be charged as a Collection Fund deficit in 2021/22. Higher payment failure is only assumed in 2020/21.

2.25 At this stage the Government has not proposed changes to the council tax referendum principles that were used in 2020/21 although an update is expected alongside the provisional local government finance settlement. The current principles are to allow district councils to increase their Band D charge by up to £5 or 2% (whichever is the higher) without triggering a referendum. The mid-case assumes a £5 increase.

2.26 A £5 (2.8%) increase equates to an increase of 9.6p per week for 2021/22. A 1.99% rise (in line with inflation assumptions) has been modelled for 2022/23 onwards:

	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Tax Base	31,395	31,989	31,888	32,047	32,368
Band D Charge £	178.22	183.22	188.22	191.97	195.79
Increase %	2.89%	2.81	2.73	1.99	1.99
Council Tax Income £000's	5,595	5,861	6,002	6,152	6,337
Collection Fund Surplus/(Deficit)	77	(245k)	0	0	0

Note: Collection fund deficit for 20/21 will be distributed in 21/22

2.27 Subject to the referendum principles, should the Council wish to consider an alternative policy on Council Tax:

- a 1.99% increase in 2021/22 would reduce income by a further £43k (in addition to the £107k as a result of the reduced tax base) – a loss of circa £492k over the life of the MTFS.

The best case scenario incorporates the £5 increase and the worst case a 1.99% increase.

Service Income

2.28 The Council approved an Income Strategy in 2016 which established full cost recovery as the default for all discretionary charges unless a specific decision to subsidise has been taken.

2.29 Covid-19 has had a significant impact on a number of income streams in 2020/21. The mid-case scenario assumes that prices are increased in line with inflation and, with the exception of planning income (which could continue to be depressed into 2021/22), pre-Covid demand returns with effect from 1 April 2021.

2.30 The table below shows the main service-related income streams:

Service Income	**2019/20 Actual £000's**	**2020/21 Forecast * £000's**	**2021/22 Estimate £000's**	**2022/23 Estimate £000's**	**2023/24 Estimate £000's**
General Fund					
Waste Collection & Recycling	1,301	1,263	1,325	1,350	1,377
Planning	980	596	1,013	1,157	1,158
Car Park Income	325	174	355	355	355
Selby Leisure Centre / Summit	438	0	479	469	475
Commercial Property Rental	285	214	367	368	369
Lifeline Private Clients	232	250	286	292	298
Court Fees / Summons Costs	172	50	155	155	155
Land Charges Search Fees	116	100	124	126	128
Miscellaneous Fees & Charges	175	101	103	105	107
Licences	163	135	138	141	144
Total Service Income	**4,187**	**2,883**	**4,345**	**4,518**	**4,566**

**Per Q1 20/21 and MHCLG return July 2020*

Service-Related Grants

2.31 Service-related grants fund a variety Government backed activities and associated costs within services. It is assumed that such grants are matched by equivalent costs, and that should the grants reduce or cease, the Council's corresponding costs would also reduce or cease. Latest forecasts are:

Service Related Grants	**2019/20 Actual** £000's	**2020/21 Forecast *** £000's	**2021/22 Estimate** £000's	**2022/23 Estimate** £000's	**2023/24 Estimate** £000's
Private Sector / Disabled Facilities Home Improvement Works	444	444	444	444	444
Housing Benefits Admin & Counter Fraud Grant	190	159	159	159	159
Homeless Persons	474	220	171	171	171
Discretionary Housing Payments Grant	101	127	115	115	115
Other Small Grants	87	0	0	0	0
New burdens : business grants	0	130	0	0	0
Total	**1,295**	**1,080**	**889**	**889**	**889**

Service Expenditure

2.32 Contingency Budgets are provided to enable in-year funding should unforeseen issues arise. Base budgets include:

- General Fund Operational Contingency - £100k
- General Fund Commissioning Contingency - £100k

2.33 Looking ahead to the potential for Local Government reorganisation it would be prudent to temporarily increase the Operational Contingency to allow for additional costs arising from the process. An additional £150k is proposed for 2020/21 and 2021/22.

2.34 Latest forecasts for 2020/21 indicate an increase in non-recurring expenditure of £173k as a result of Covid-19. These costs have been included in the revised budget position for 2020/21.

Housing Revenue Account Assumptions

2.35 The core assumptions which impact the HRA include: inflation and interest rates; rent levels; void properties; bad debts; right to buy sales; and new build/acquisitions. The economic assumptions applied to the General Fund will also be applied to the HRA.

Dwelling Rents

2.36 2019/20 was the final year of the Government's 4 year plan to reduce Social Housing rents by 1% year on year. This squeeze on rental income has reduced the amount available to invest in improving our housing stock and new build housing. From 2020/21 the Government's new rent policy came into force with a CPI + 1% (max) rise for the period through to 2024/25 (although there could be further Government policy change in this period so rental assumptions should be treated with caution). The assumption on void properties has increased from 1% to 2% and doubtful debts remain unchanged with 1% in respect of general debt and 3% in respect of universal credit, applied.

Council House Sales and New Builds/Acquisitions

2.37 In the first quarter of 2020/21, 4 sales have been completed under right to buy – slightly below normal levels. For 2020/21 16 sales are assumed with sales return to 20 p.a. from 2021/22. Such sales are sensitive to economic change and therefore these will be kept under close review.

2.38 New builds and acquisitions are currently forecast in line with the Council's approved Housing Development Programme. The HRA Business Plan includes the aspiration for 1 for 1 replacement of homes sold through right-to-buy. However, as our plans are being brought forward some flex will be required as we deal with the impacts of Covid-19 and consequently these assumptions are subject to change. Any such change will be subject to business cases which will consider the impact on the long term financial outlook for the HRA and seek to strengthen and improve the long term sustainability/viability of the HRA. Taking assumed rent levels and property numbers, rent forecasts are:

Rent Forecasts	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Number of dwellings (mid-year average)	3,040	3,032	3,029	3,029	3,029
Average Rent - Rent Restructuring £	82.48	84.98	86.34	88.07	90.27
Net Rent Income £000's	**11,836**	**12,157**	**12,302**	**12,548**	**12,862**

Other Income

2.39 In accordance with our fees and charges policy it is assumed that garage rents will increase by CPI inflation each year:

Service Income	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
HRA Garage Rents	102	106	107	109	111

Debt Charges Assumptions

2.40 Management of the Council's debt is governed by the Treasury Management Strategy and Prudential Indicators which aim to ensure the Council's capital expenditure plans are prudent, affordable and sustainable, with decisions on borrowing taken in light of spending plans and available funding, cash flow needs and interest rates (current and future forecasts).

2.41 Borrowing enables the Council to spread the cost of capital expenditure over time. Generally speaking it gives rise to two charges against the revenue budget: Minimum Revenue Provision (MRP) and interest payable on debt.

2.42 MRP is an amount set aside to repay debt in accordance with the approved policy within the Treasury Management Strategy. As part of the overall savings plan, the Council has maximised General Fund MRP set aside, by applying some of the business rates windfalls received. This voluntary set-aside has delivered a corresponding annual revenue saving.

2.43 A small amount of MRP charge remains within the General Fund relating to the cost of the 'fit-out' of the Summit which is covered by the trading concession fee received from 'Inspiring Healthy Lifestyles' – this arrangement aims to ensure that the facility remains sustainable by maintaining financial capacity to replace the interior at the end of the 10 year contract, should this be required.

2.44 The majority of debt charges fall on the HRA as a result of taking on circa £60m of central government debt when the previous HRA subsidy system was abolished in April 2012. MRP is currently £1.49m p.a. (rising to £2.68m in 2022/23) and interest payable is £2.06m p.a. increasing to £2.12m in 2022/23. The amount of borrowing allowable within the HRA is no longer subject to a 'debt cap' and therefore borrowing is available to support future capital investment subject to this being prudent and affordable.

2.45 The current environment of low returns on cash investments means that it is more favourable to borrow internally (i.e. use available cash earmarked for future spend) than take out new external borrowing. However, this will be kept under review as part of monitoring the Council's Treasury activities and corresponding interest charges will be factored into the budget to ensure sufficient capacity to accommodate any necessary borrowing.

Reserves and Balances Assumptions

General Balances

2.46 In accordance with the current strategy it is assumed that General balances are **not** used to support the revenue budget.

2.47 General Balances remain funding of last resort. The approved minimum working balance is £1.5m for both the General Fund and HRA and resources will be managed to maintain this level over the medium to long term.

Earmarked Reserves

2.48 The following has been extracted from the current approved MTFS and updated with the latest available intelligence – it sets out the rationale for each reserve and the proposed contribution where applicable.

Earmarked General Fund Reserves

A review of major earmarked reserves has been undertaken and the following proposed:

- PFI – Based on current forecasts and following an additional lump sum contribution in 2016/17. The on-going adequacy of this reserve is kept under review in light of interest rates and inflation. Any necessary increases in contributions will form part of the revenue budget and will be funded as a commitment before further service growth is considered.

- ICT Replacement – annual contributions of up to £250k p.a. General Fund and £50k p.a. HRA contributions are planned to sustain this important reserve, which provides the financial capacity to upgrade and replace our ICT infrastructure, hardware and systems in accordance with our approved ICT Strategy. The use of ICT to support the Council's customer 'self-service' and channel shift agenda means that the financial capacity to invest in modern technologies is crucial to support future services and deliver savings. A review of the Council's ICT strategy was undertaken in 2017/18 and a one-off injection of £500k was included in the approved revenue budget in 2018/19. Fixed contributions allow the smoothing of these irregular costs to avoid peaks and troughs in funding requirements. Spending is planned over a 10 year period allowing for known upgrades and systems/replacements. From 2020/21 to 2022/23 the level of contributions are being increased up to £300k p.a. to sustain this reserve.

- Asset Management - £200k p.a. (£178k plus £22k for the Summit Indoor Adventure), is transferred into this reserve to cover our commitments to maintaining our built assets. Major surfacing works to the Council's car parks are in progress with £900k spent/committed from this reserve for these works. Accordingly, a one-off top-up of this reserve was approved in 2018/19. An update to the assessment of works required to maintain our assets over the coming 10 years will be done as part of the next Asset Management Strategy refresh. In the meantime, it is proposed that annual contributions be maintained at £200k p.a. pending a more detailed view of future spending needs.

- Special Projects Reserve – Excess business rates income beyond that required for the Business Rates Equalisation Reserve (see above) is used to top up this reserve which is currently applied to fund the Council's 'Programme for Growth'. At 31 March 2021 it is estimated that a further £9.2m will be available for allocation to extend the Programme and/or support other non-recurring spending priorities as well as increase capacity to deliver the programme. Proposals will be brought forward as part of the forthcoming budget round. **However, it must be stressed that the use of these resources to fund growth is wholly dependent upon achieving the revenue savings targets set.**

- s106 and Community Infrastructure Levy Reserves – these reserves are restricted to the uses specified through the planning process. They include affordable housing commuted sums, general s106 receipts and Community Infrastructure Levies (CIL). Affordable housing commuted sums are ring-fenced to support new affordable housing delivery with restrictions on use and requirements to spend within a given timescale. The reserve receives any in-year s106 affordable housing commuted sums which are then applied to our affordable homes programme aiming to deliver more homes 'off-site' than could have been delivered through 'on-site' provision. Other s106 sums and CIL are held pending allocation to infrastructure and related uses.

- Discretionary Rate Relief – this reserve was established with £300k from the 2012/13 General Fund revenue surplus. Future contributions could come from excess Business Rates income subject to availability and prioritising against the revenue budget and 'Programme for Growth'. A budget of £100k p.a. has been created and will be funded by this reserve – this will enable applications for relief to be considered and awarded promptly. The balance will be kept under review and topped up from in-year savings if required.

- Business Development – the need for on-going savings and efficiencies to achieve the Council's objectives remains a key priority. This reserve provides up-front investment for service improvements and efficiency initiatives, to support the Council's savings plan – in particular commercialisation and income generation. The reserve will be topped up from in-year surpluses, if any, subject to other reserve priorities.

- Pension Equalisation – this reserve receives contributions which provide capacity within the General Fund revenue budget for a rise in employer pension contributions following each triennial valuation. However, the Council has reduced its historic pension fund deficit with a one-off lump sum payment of £9.4m in 2016/17. Following the triennial valuation in 2019 contributions to this reserve have been reviewed with phase increases up to £185k over the next 3 years. Future requirements will be reviewed again in light of the next triennial valuation due in 2022.

- Business Rates Equalisation – this reserve was created in 2012/13 in anticipation of localised Business Rates and the funding risk inherent within the scheme. The current strategy assumes that any excess Business Rates above our baseline are transferred into this reserve to mitigate any funding shortfalls prior to the safety net being reached.

  For the purposes of rates retention and whilst receiving the large cash windfalls from renewable energy, the Council is at the safety net and is expected to be in this position until the system is reset. Given the anticipated changes to the rates retention scheme, the current MTFS provides that 3 years' worth of safety net 'top-up' be held as a minimum balance plus a further sum to back-fill savings targets and support the revenue budget. This is the reserve that is being used to support the revenue budget as a result of discretionary decisions regarding Covid-19 and this will be the reserve that is called upon if Government funding is not sufficient to cover all of the Covid-19 impacts.

  Latest mid-case projections show a savings requirement of up to £6.5m over the next 3 years. This, along with a safety net 'top-up' suggests a balance of £6.9m. The estimated balance at the end of 2020/21 is £4.9m and therefore, a £2m top-up is required from the renewable energy windfall expected to be received in 2020/21.

  The impact of the system reset and the potential for a 75% rates retention pool will be considered and if necessary future changes to this reserve will be brought forward in due course.

- Local Plan Reserve – delivery of a district wide local plan requires a significant and sustained resource input over a relatively long period of time, which can put pressure on in-year budgets when peaks in work occur. £355k was earmarked in 2015/16, with a further £145k from the revenue budget in 2016/17 and then £50k p.a. set aside thereafter. With growing demands in this area an additional £250k transfer from the Contingency Reserve was approved in 2018/19. The reserve has been reviewed in light of the decision to take forward a new local plan. The on-going adequacy of this reserve will be kept under review and should further one-off injections be required, funds will be appropriated from the Special Projects Reserve.

- Contingency – this reserve provides resources to cover unforeseen issues beyond those that can be accommodated by in year contingency budgets – for example significant planning appeal costs. The reserve is topped-up using year-end surpluses if available and required.

Housing Revenue Account Reserves

- Major Repairs Reserve – this reserve provides the resources to manage the condition of the Council's housing stock over the long term. It receives depreciation charges along with any in-year surpluses generated through the HRA.

Capital Reserves

- Useable Capital Receipts – generated through the sale of Council assets (General Fund and HRA). The Council's Asset Management Strategy sets out our approach to assets, including review of assets for disposal. These receipts can only be used to fund capital expenditure and are allocated in light of our capital investment plans.

- Retained housing receipts – receipts generated from right to buy sales over and above the Government's assumptions following extension of right to buy discounts can, subject to terms and conditions, be retained for re-investment in new homes.

2.49 A forecast of reserve balances is set out at **Appendix B.**

3 Revised Revenue Budget 2020/21 and Outlook 2021/22 to 2023/24

Costs

3.1 Covid-19 has already had a major impact on the Council's finances in 2020/21, with additional costs and delays to savings plans, as a result of the lockdown measures that were introduced in March 2020. As at Q1, forecasts have been updated to reflect the easing of lockdown measures and a gradual return to 'normality' although there is risk of a second spike in cases and lockdown restrictions resuming.

3.2 Latest forecasts for 2020/21 indicate additional non-recurring expenditure of £173k directly as a result of Covid-19. Requirements include preparations for changes to the office, additional IT kit for remote working and additional homelessness support. These costs are included in the revised budget position for 2020/21.

3.3 In addition to direct costs some services are experiencing backlogs. The 'Live' planning and enforcement caseload has increased by 70% - 150% to over 500 cases against a normal workload of 200 – 300. Additional staffing resources (including agency staff) and legal support will be needed to clear the backlog over the remainder of the current financial year. The extra cost of these resources is estimated at £166k.

3.4 Beyond 2020/21 no residual financial revenue cost impacts are currently assumed although some service backlogs, delays to capital programmes and slippage in programme for growth projects are likely to carry into 2021/22.

3.5 Covid-19 aside, it is assumed that on average costs will increase in line with inflation. Whilst reductions in general grant continue, demand led recurring cost pressures must be contained within the net revenue budget. The strategy assumes that such cost pressures are managed within the overall base budget and therefore any proposed cost increases must be covered by equivalent savings elsewhere, over the medium-term.

3.6 The single largest cost to the Council is its employees. In 2020/21 the Council's payroll budget is approximately £8.3m. £7.0m of this is base budget salary (£7.0m in the General Fund and £0.08m in the HRA), whilst £1.3m is funded from grants or reserves (including circa £1m to directly support the Programme for Growth). The salary budget includes a 5% vacancy factor. Provision for a 2% pay award has been factored into our current medium-term financial plan but there is a risk of above inflationary increases which will ultimately increase the need for revenue savings. The latest pay offer for 2020/21 is 2.75%, which if accepted, would result in an increase of £53k – this has been included in the proposed revised budget and the base going forward.

3.7 Generally, there is downward pressure on staffing budgets meaning underspends and associated capacity issues. Work on our approach to Organisational Development is in progress but as a small authority we often find it difficult to compete particularly in professional services such as planning.

3.8 The Council's ambitious growth agenda (an agenda which is fundamental to the long-term sustainability of our vital public services) meant a need to increase our internal capacity. In the shorter term this continues to require support from the Council's reserves and the Council has approved fixed term funding through the Programme for Growth. These salary costs will need to be managed out of the budget when projects are completed, and this funding comes to an end.

3.9 In addition there are a number of emerging priorities and risks that are currently being monitored and strategic choices which may require funding:

- Street scene and leisure – ongoing contract negotiations plus uncertainty around recycling income rates and credits and the potential effect LGR could have on the market;
- Climate change –interventions which could be off-set by investment in renewable energy to deliver revenue returns;
- Continuing ICT investment to enable transformational change e.g. digital strategy;
- Brexit – as the transition phase draws to a close there remains the prospect of no trade deal with Europe and future economic uncertainty, which could have far reaching impacts on the public sector;
- Local Government reorganisation and devolution.

3.10 One-off projects, for example to support future growth can be funded through reserves supported by renewable business rates and new homes bonus (whilst we have them), issues which have recurring cost impacts will add pressure to the base budget. At this stage, a broad estimate of the additional recurring costs could be in the region of £300k - 500k p.a. but further work will be required to assess as these issues become clearer.

3.11 Impacts of this magnitude would be impossible to contain within the revenue budget and therefore the savings gap would inevitably widen. The worst case scenario builds in these additional costs and shows that by 2021/22 the recurring deficit on the revenue budget would be around £3m, and without savings, available reserves would be fully depleted within the next 3 years

Income

3.12 As highlighted in paragraph 3.1, Covid-19 has had a major impact on the Council's finances in 2020/21, with significant income losses as a result of the lockdown measures that were introduced. Again, forecasts have been updated to reflect the easing of these measures. Beyond 2020/21 pre-Covid income levels are expected to return in most services although planning income is expected to take longer to recover.

3.13 Opportunities for income generation remain a priority although recovery from the impacts of Covid-19 and the prospect of Local Government re-organisation will limit our shorter-term capacity.

3.14 The windfall from Business Rates income will have a significant positive impact on our General Fund financial position at least in the short term but we will need to keep this under close review and, with the exception of salary costs, in accordance with the previously approved MTFS and budget, it is assumed that growth above our baseline funding is used to fund 'one-off' project related spending to support service investment and local economic growth. Whilst the Government's review of Local Government Funding and the Business Rates Retention system are delayed it is impossible to predict with confidence, the level of resources we can expect beyond 2020/21.

3.15 Housing rents are subject to the Government's control. From 2020/21, it is assumed that the maximum CPI + 1% will be applied in line with government policy for a 5 year period but as highlighted in paragraph 2.36 above this could be subject to change.

<u>Net Budget Forecast (Mid-Case)</u>

3.16 The forecasted resources and revenue budgets to 2023/24, including approved bids and known commitments, are shown in the table below. The revised budget includes the Covid-19 emergency funding received to date, and supplementary estimates approved, along with their corresponding reserve drawdowns (gross £208k and net nil). The movements relating to Covid-19 are set out at **Appendix C.**

General Fund	**Revised Budget 2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**
Council Tax-	-5,861	-6,002	-6,152	-6,337
CTax Collection Fund Surpluses/ Deficit (-/+)	-74	245**	0	0
Business Rates Collection Fund Surpluses*	-9,019	-9,172	0	0
Business Rates	-2,274	-2,326	-2,565	-2,617
Rural Services Delivery Grant	-108	-108	0	0
New Homes Bonus	-2,534	-1,182	-767	0
Other Non-Service Grants	-1,181	-113	0	0
Total Resources	**-21,051**	**-18,658**	**-9,484**	**-8,954**
Net Budget before trfs to/from Reserves	**15,077**	**12,176**	**12,181**	**9,886**

General Fund Cont'd	Revised Budget 2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Net Budget before trfs to/from Reserves	**15,077**	**12,176**	**12,181**	**9,886**
Net transfer to/from Reserves	105	5,267	-3,833	11
Increased contingency	150	150	0	0
Covid cost pressures	173			
Covid income pressures	1,543	493	362	372
Covid Savings	603			
Additional pay award	53	54	55	56
Other cost/savings pressures	166	185	186	186
Cap Programme and P4G reprofiled	3,304	1,254	1,262	0
Revised Forecast Surplus/Deficit (-/+)	**-43**	**921**	**729**	**1,557**
Note: Planned Savings included within services	155	747	848	848

**Renewable energy business rates*
***Collection fund deficit relating to Covid impacts in 2020/21*

Housing Revenue Account	Latest Budget 2020/21 £000's	Revised Budget 2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Dwellings Rents	-12,157	-12,157	-12,302	-12,548	-12,862
Garage Rents	-106	-106	-107	-109	-111
Total Resources	-12,263	-12,263	-12,409	-12,657	-12,973
Net Service Costs	**7,055**	**6,931**	**7,154**	**7,294**	**7,457**
MRP	1,492	1,492	1,575	2,682	2,769
Covid cost pressures		279			
Covid income pressures		219			
Forecast Surplus/Deficit (-/+) transferred to MRR to fund the capital programme	**-3,716**	**-3,342**	**-3,680**	**-2.681**	**-2,747**

3.17 The General Fund shows a revised budget surplus of £43k in 2020/21 after the application of £1.4m of New Homes Bonus towards the financial impacts of Covid-19 and other cost pressures, and the delivery of £155k of planned savings. The impacts of Covid and other cost/income pressures, coupled with reducing New Homes Bonus, means that the residual deficit (after current planned savings) reaches £1.6m by 2023/24. Planned savings currently total £848k which means there is an overall shortfall of £2.4m by 2023/24 although as highlighted at paragraph 3.11 further emerging cost pressures could increase this.

3.18 The HRA shows a forecast surplus on its revenue activities but pressures arising from stock conditions and the previous 4 years rent reductions means that financing the required improvements will be challenging in the short to medium term and therefore cash flows will have to be carefully managed.

3.19 The on-going risk to the Council’s funding (General Fund and HRA) means that we will need to strike a balance between savings and investment. We will continue to strive for more efficient and effective services and maximising income where possible and appropriate, which in turn will enable the financial capacity for investment to achieve sustainable cash ‘returns’ and minimise the impact on front line service outcomes and in the case of the HRA the amount available for investment in our housing stock.

4. Savings

4.1 This MTFS emphasises the careful balance that is required between investment and savings in order to ensure the Council’s finances remain sustainable. Delivering on-going efficiencies is a key part of the Council’s ‘Great Value’ priority – being as efficient as possible and living within our means, whilst using the financial capacity created to generate long-term gains to improve outcomes for citizens.

4.2 Taking the proposals for Council Tax, growth, and reserve transfers and assumptions on Formula Grant, the estimated requirement for savings on the General Fund is £2.4m by 2023/24 (and potentially higher if further emerging cost pressures materialise).

4.3 Historically, the Council has a good track record for delivering savings, but progress has been behind profile in both of the last two years and at the end of quarter 1 of 2020/21, the impacts of Covid-19 have led to substantial shortfalls. Risk to delivery of the savings plan is recognised and reserves have been earmarked to mitigate non-delivery in the shorter term, as it is becoming increasingly difficult to achieve further savings from a reducing cost base (a situation exacerbated by Covid-19). However, the focus on delivering planned savings will be maintained, given the importance of savings in achieving the Council’s financial (and wider) objectives and to avoid the long term use of balances to support on-going spending which is unsustainable. The Council’s approach to savings covers three key strands:

- **Growing** our resources through charging for services, trading externally and importantly investing in economic growth to drive growth in Council Tax and Business Rates;
- **Transforming** our business through the use of technology and

flexible working to meet citizen and customer needs;
- **Commissioning** from and with partners to achieve shared efficiencies and reduce the demand for public sector services.

4.4 A number of 'technical' savings have also been delivered which involved the set-aside of one-off sums to reduce the on-going base budget – these included a £1.5m contribution to the Private Finance Initiative (PFI); £3.3m voluntary minimum revenue provision in relation to outstanding debt; and a £9.391m lump sum payment to the North Yorkshire Pension Fund to reduce employer contributions.

4.5 The General Fund savings forecast for 2020/21 currently totals £155k and totals £19k for the HRA. Taking into account the updated forecasts in the MTFS and progress on the current savings plan, the estimated position on savings is:

GF Savings Summary	**Revised 2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**
Estimated Deficit / (Surplus) (mid-case)	**(43)**	**1,668**	**1,577**	**2,405**
Savings planned:				
Low risk	(69)	(70)	(71)	(71)
Medium risk	(86)	(577)	(577)	(577)
High risk	0	(100)	(200)	(200)
Total per plan	**(155)**	**(747)**	**(848)**	**(848)**
Residual Shortfall/(Surplus)	**(198)**	**921**	**729**	**1,557**
HRA Savings Summary	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**
Assumed residual target	**214**	**214**	**214**	**214**
Low risk	19	12	12	12
Medium risk	0	194	194	194
High risk	0	8	8	8
Total per plan	**19**	**214**	**214**	**214**
Residual Shortfall	**195**	**0**	**0**	**0**

Note HRA is in surplus but resources are required for capital programme so an assumed savings target is applied

4.6 **It is stressed that failure to deliver the savings target would require the use of further reserves to balance the budget which would undermine the Council's long-term financial resilience and therefore work to deliver and identify further savings to bridge any gap must continue.**

4.7 The current savings plan is attached at **Appendix D**.

5 Capital Programmes

5.1 The Council's Capital Programmes contain the 'business as usual' capital projects planned – for the General Fund these include Disabled Facilities Grants (DFGs), ICT replacements, major works to the Council's assets and loans/grants to Selby and District Housing Trust to support affordable housing delivery; and for the HRA the various enhancement works to the Council's housing stock as well as new build schemes. Expenditure is funded by earmarked reserves set aside for these specific purposes, or through capital receipts from Council House and other asset sales. For information, the approved programmes are attached at **Appendix E**.

5.2 The impact of Covid-19 has contributed to considerable delays in the programmes in 2020/21. The quarter 1 financial update report proposes carry forwards of £3.3m in the General fund and £5.7m in the Housing Revenue Account as laid out in **Appendix E**.

5.3 After current commitments, there is currently around £3.4m available in usable capital receipts estimated over next 3 years from right to buy receipts, and land/property sales. In recent years low level receipts have been used to cover the cost of Disabled Facilities Grants, however increases in Council House sales and the Council's agreement with the Government to retain extra receipts to achieve one for one replacement of Council homes, means that going forward, receipts retained from council house sales can be used to support the Council's affordable homes development strategy and deliver new build homes across the district.

5.4 In addition s106 affordable housing commuted sums are anticipated, which provide the potential to extend our house building/acquisition programme further. Plans are already in progress on the £22m development programme approved by the Executive in January 2018, but with rising right to buy receipts and s106 commuted sums, there is potential to increase our existing programme further.

5.5 For the purpose of this strategy it is assumed that new acquisitions (purchased or built) will be subject to business cases and at least self-financing through the rental income achieved.

5.6 It is not expected that there will be any new additions to the existing capital programme. Delivery has been delayed as a result of Covid-19 and quarter 1 forecasts indicate £3.3m of slippage into subsequent years on the General Fund and £5.7m on the HRA and therefore focus will be on maximising delivery of the existing programme. Borrowing requirements will continue to be kept under review.

6 Programme for Growth

6.1 The 'Programme for Growth' is the Council's strategic programme to support delivery of its Corporate Plan. The programme comprises a range of cross cutting projects designed to '**make Selby a great place'** by investing in jobs; housing; infrastructure/economic development; and the tourism economy. The approved programme, is set out at **Appendix F with the latest phasing of spend**.

6.2 The programme is now in its fourth incarnation, with an initial suite of projects approved as part of the 2018/19 budget and then revised in January 2019. Extensions to contracts were approved as part of the 20/21 budget. The table below shows the value of spend to date on the programme and the value still to be delivered:

Programme for Growth	Spent to 2019/20 £000's	Spend from 2020/21 £000's	Total £000 £000's
Total Allocated to projects	2,639	7,139	9,778
Internal capacity	2,400	3,379	5,779
Assumed remaining project delivery fund (subject to available resources)		3,915	3,915
Funding from Special Projects Reserve	**5,039**	**14,433**	**19,472**

6.3 These resources could increase further subject to the future Business Rates and delivery of savings. **The mid-case scenario shows a further £6.583m available in the 'Special Projects Reserve' for allocation to the programme in 2021/22.**

6.4 The resources available to fund the programme will be reviewed annually in light of announcements on Local Government funding and the Council's financial outlook. However the Council's strategic approach to its future financial sustainability is reliant upon investment to stimulate housing and business growth which in turn will generate local funds through Council Tax and Business Rates to mitigate losses in central Government funding and provide the capacity for further reinvestment.

6.5 There may also be opportunity to extend the programme for growth further through bids for funding from external partners (such as the LEP and HCA). Proposals for further projects will be brought to Council for approval in September 2020.

7 Conclusions

7.1 The 2020/21 estimates have been updated to reflect the latest assessment of the financial impacts of Covid-19, with £1.4m of New Homes Bonus diverted from reserves to mitigate the risk to the revenue budget. The future impacts are clearly uncertain and any subsequent changes (such as further Government funding) be required these will be reported through the quarterly updates to executive and Scrutiny Committee.

7.2 The key assumptions which underpin the Financial Strategy have been updated based on the latest intelligence available however there remains much uncertainty around public sector finance. There is risk within the Business Rates Retention scheme as we approach the system reset although this will now be delayed until at least 2022/23. At this stage a cautious stance has been taken and whilst a delay could lead to further renewable energy receipts in 2021/22 these can only be allocated when they are confirmed.

7.3 There is also uncertainty over New Homes Bonus, the economic situation, income generation and delivery of savings. The Council's longer-term financial position is heavily reliant upon overall resources keeping pace with inflation and costs being contained within base budget.

7.4 Based on the assumptions in this strategy, the mid-case savings requirement is anticipated to rise to £2.4m by 2023/24 (although further emerging growth of £300k - £500k could increase this). After delivery of planned savings, the residual shortfall is forecast to be £1.6m (excluding the emerging growth risk).

7.5 In the long-term, the additional income from Council Tax and Business Rates, as a result of our investment in economic growth, will help to bridge the funding gap but inevitably this will take time to come to fruition and therefore in the meantime we must continue to strive to be as efficient as possible and deliver the additional savings targets that have been proposed. We will need to keep these targets under review as the future for Local Government in North Yorkshire and funding becomes clearer.

7.6 Over the next 10 years there is capacity within the HRA Business Plan to support additional capital expenditure but we will need to balance investment in our current stock with acquisition of new homes and repayment of debt. For the purpose of this strategy it is assumed that new acquisitions (purchased or built) will be subject to business cases and at least self-financing through the rental income achieved. As plans for the Housing Development Programme are progressed this budget will be updated as required.

7.7 Whilst Local Government re-organisation is looking likely, this MTFS assumes the Council is a going concern and as such, meeting the on-going savings challenge will continue to feature strongly in the Council's strategic and operational plans. Our collaboration with North Yorkshire County Council and other partners, progressing our digital strategy and reducing demand for services, the commercialisation of our business, income generation and efficiency savings remain important to this work.

7.8 However achieving financial self-sufficiency will mean that a careful balance between savings and investment will need to be struck. We will continue to strive for more efficient and effective services which in turn will provide the financial capacity for investment in delivering local economic growth – replacing central Government funding with sustainable cash returns in the form of income from services, Council Tax and Business Rates.

7.9 Despite the challenges we face, the Council is in a strong financial position, helped by its historic approach to delivering savings and efficiency, its success in generating New Homes Bonus and significantly, the business rates windfalls from renewable energy. This MTFS provides a clear framework to support delivery of our Council Plan objectives - using our strong financial position to carefully balance investment and savings.