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Ward(s) Affected: All
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Title: Draft Revenue Budget and Capital Programme 2021/22 and Medium Term Financial Plan

Summary:

This report presents the draft revenue budget; capital programmes and the Programme for Growth for 2021/22 to 2023/24. Subject to the confirmation of the Local Government Finance Settlement and Council Tax level, the 2021/22 budget is expected to require £2.270m of funds earmarked in the Business Rates Equalisation Reserve (BRER) for revenue support.

For the purpose of this draft budget, a Council Tax freeze for 2021/22 is proposed. This is a departure from the approved Medium-Term Financial Strategy (MTFS) and has added £160k p.a. to the forecast deficits. A CPI+1% increase is assumed for housing rents.

In 2021/22 (subject to confirmation of these receipts) it is proposed that £9.2m of renewable energy business rates are transferred to the Business Rates Equalisation Reserve. This will help to provide future support to the revenue budget as capacity is, in the shorter term, diverted towards the on-going Covid-19 response and existing investment programmes.

The Medium Term Financial Plan (3 year draft budget) shows there is an underlying gap between core spending (with spending reflecting the budget risk highlighted in the MTFS) and current assumed core funding as a result of New Homes Bonus being phased out and the renewable energy business rates windfalls ceasing. Beyond 2021/22 we await the outcome of the Government's Fair Funding Review, further consultation on the future of New Homes Bonus and reform of the Business Rates Retention System, to confirm the need for and level of future savings.

There is capacity in reserves to smooth the impact of funding reductions and this draft budget proposes deferring savings until 2023/24 when the outcome of the fairer funding review should be known. However, the on-going use of reserves to support the revenue budget is not a long term sustainable solution and therefore achievement of efficiency savings and additional income generation remain crucial as plans for Business Rates and Council Tax growth are brought to fruition and opportunities for savings will continue to be captured as they arise.

The draft budget is subject to public consultation before the Executive finalise their proposals in February 2021.

Recommendations:

It is recommended that the draft budget proposals be approved for 6 weeks public consultation with effect from 4 December 2020 and submitted to Policy Review for comments.

Reasons for recommendation

To enable the views of the public, local businesses, Policy Review Committee and other stakeholders to be gathered through consultation, prior to the Executive finalising their budget proposals for Council consideration.

1. Introduction and background

- 1.1 The Council approved its Medium-Term Financial Strategy (MTFS) on 22 September 2020. The MTFS covers both General Fund activities and the Housing Revenue Account, and provides the strategic financial framework for medium term financial planning and annual budget setting.
- 1.2 The MTFS takes account of the Government's intended further one-year roll-over spending review which was announced in October 2020, in response to the wider economic uncertainty resulting from the Covid-19 pandemic. The MTFS is set in the context of the potential for Local Government re-organisation in North Yorkshire and the increasing prospect of a no-deal Brexit as the transition phase draws to a close. Against this back drop of extreme uncertainty, it recognises on-going reductions to Government 'incentive' funding (New Homes Bonus and renewable energy business rates) along with risk and uncertainty surrounding the fair funding review and the business rates retention system reset as the key issues for the Council's finances.
- 1.3 At the time of writing this report we await the Government's provisional Local Government Finance Settlement – any necessary changes as a result of the settlement will be incorporated into the final budget proposals to be considered by the Executive in February 2021.
- 1.4 The draft budget proposals include provision for the emerging contractual risks identified in the MTFS and the resources needed to deal with backlogs

as a result of the Council's on-going response to Covid, but further work to fully assess the impacts is needed.

- 1.5 The MTFS also confirms the Council's strategic approach to securing financial sustainability by reducing its base net revenue budget in order to deliver services within its in-year resources; and investing 'one-off' or finite resources to stimulate local economic growth and achieve sustainable income through Council Tax and Business Rates growth.
- 1.6 The MTFS includes an assumed Council Tax increase of £5 for a Band D property. From the HRA perspective the MTFS includes a Consumer Price Index (CPI)+1% increase in housing rents.
- 1.7 The MTFS also confirms the Council's reserves strategy - fundamentally avoiding the use of reserves to support the on-going revenue budget which is not sustainable in the long term. Instead it seeks to balance the set aside of sums to cover known commitments and financial risk, as well as earmarking resources to support delivery of the Council's Corporate Plan.

2. The Report

- 2.1 The draft revenue budgets for the 3 years from 2021/22 to 2023/24 are presented at **Appendix A**, the latest capital programmes are shown at **Appendix D** and the Programme for Growth is at **Appendix E**.

General Fund Revenue Budget

- 2.2 The draft budget includes provision for 'contractual' and other unavoidable rises in expenditure (e.g. inflation and changes in interest rates), as well as inflation on income from the Council's discretionary fees and charges. This includes:
 - the on-going impacts of Covid-19 – including £350k reduction in investment interest as a result of the reduced bank rate;
 - an increase in Internal Drainage Board (IDB) levies of 11.5% over the 3 years to 2023/24 (Danvm IDB's levy is increasing by £121k or 27.9% in line with their equalisation plan) – taking the total levies from £1.739m in 2020/21 to £1.940m in 2023/24;
 - a 2% provision for an annual pay award - although public sector pay restraint is anticipated as the longer-term impacts of the virus on the wider economy become clearer;
 - a 5% vacancy factor to help mitigate the rising pay bill and manage other cost pressures within the budget.
- 2.3 £1m growth is included where considered necessary (**see Appendix B**). This includes an indicative assessment of the emerging budget risks identified in the MTFS:

- A recurring £500k loss of income from IHL and an increase in costs due to the potential need for alternative arrangements for leisure services;
- A one-off increase in staffing capacity required to deal with service backlogs arising from the on-going impacts of Covid-19 £500k in 21/22 (the impacts in 20/21 will be addressed as part of the quarterly exception reports to the Executive).

Whilst the draft budget proposals include provision for these emerging risks, further work is needed to fully assess the impacts.

- 2.4 Given the prospect of Local Government Review and the operational challenges associated with the on-going response to Covid-19, the draft budget does not include any other bids for discretionary growth. Our focus for the coming year will be on delivering the programmes already in place.
- 2.5 Following deferral of the 3-year Spending Review and reset of the business rates system, the draft budget includes an assumed further £9.2m from renewable energy business rates in 2021/22. Given the risks the Council is facing it proposed that these windfall receipts are earmarked to support the revenue budget through the Business Rates Equalisation Reserve, with £500k diverted to the Contingency Reserve.

Indicative Local Government Finance Settlement

- 2.6 In October 2020 the Chancellor announced that the scheduled Comprehensive Spending Review would not go ahead this year and indicated that once again the Local Government Finance Settlement would be for one year. The following have been incorporated into the draft budget for 2021/22, pending the actual settlement announcement:
- Business Rates Baseline funding £2.326m (safety net level) to reflect Selby's continued non-pool status in 2021/22;
 - New Homes Bonus – £1.182m (legacy payments only);
 - Rural Services Delivery Grant £108k (roll-over of 20/21).
- 2.7 For 2021/22 the draft budget assumes the Council is at the safety net for the purposes of Business Rates Retention and therefore no Business Rates Growth is included. Beyond 2021/22 the funding system is subject to review. For 2022/23 onwards the draft budget assumes current Business Rates Baseline (plus inflation) plus a small amount of growth within the savings plan (£100k in 2022/23 plus a further £100k in 2023/24).
- 2.8 In line with indications from the Government, the MTFs and draft budget assumes that New Homes Bonus funding will taper out over the next 2 years. Given the spending pressures facing the Council, the draft budget applies New Homes Bonus to the revenue budget in the first instance, but we continue to plan for the full withdrawal of this income stream. Should the assumed receipts not be forthcoming then there are sufficient receipts in the Business Rates Equalisation Reserve to compensate.

Council Tax

- 2.9 The approved MTFs mid-case assumes a Council Tax increase of £5 for a Band D property for 2021/22. A £5 increase would take the Council average Band D charge from £183.22 to £188.22 – a rise of 9.6p per week, and generate an additional £160k in Council Tax income. However, due to the impact of Covid-19 on our communities, the Executive propose to freeze Council Tax for 2021/22. This will mean £160k p.a. recurring reduction in income from Council Tax against that assumed in the MTFs.
- 2.10 An indicative assessment of the tax base for Council Tax setting purposes is 32,065 - a 0.24% increase on 2020/21 which is more optimistic than that used in the MTFs – whilst further Council Tax Support claims are anticipated, property growth looks promising despite the effects of the virus. The Council Tax yield is estimated at £5.875m for 2021/22.

General Fund Summary

- 2.11 Taking the Council's overall service requirements and funding assumptions together, the estimated position for 2021/22 is summarised below with more detail at **Appendix A**:

General Fund	2021/22 £000's
Net Budget Before Contribution to/(from) Reserves	16,785
Contributions to Reserves	9,770
Contributions from Reserves	(5,576)
Net Draft Revenue Budget	20,979
Funding	
Business Rates Baseline (safety net)	2,326
New Homes Bonus	1,182
Special & Specific Grants	113
Rural Services Delivery Grant	108
Renewable Business Rates Income	9,172
Council Tax (Tax Base 32,065 x Band D £183.22)	5,875
Collection Fund Deficit – Council Tax*	(67)
Total Funding	18,709
Net Budget Deficit to be funded from BRER**	2,270

* 2020/21 deficit spread over 3 years

** Includes £184k savings

- 2.12 Subject to the assumptions and risks within the budget, the General Fund Deficit after delivery of planned savings, is estimated at £2.270m for 2021/22. It is proposed that this be funded from the Business Rates Equalisation Reserve.

Housing Revenue Account Budget

- 2.13 The HRA budgets have been prepared using the same assumptions on pay and price inflation as included in the General Fund and assumptions on rent changes are based on the Government's formula. In 2021/22 the CPI+1% increase has been applied.
- 2.14 Again, the draft HRA budget includes no new bids for discretionary growth – as with the General Fund our focus over the next year will be to deliver the improvement programme already in place.
- 2.15 The estimated position on the HRA for 2021/22 is shown below. The HRA savings plan is on track to achieve, although opportunities for further efficiency will continue to be sought in order to maximise the resources available for investment in the service.

HRA	2021/22 £000's
Net Budget Before Contribution to/(from) Reserves	7,088
Contribution to Reserves	1,625
Net Draft Revenue Budget	8,713
Less Dwelling Rents	(12,302)
Net Surplus available for Major Repairs	(3,589)

- 2.16 Before consideration of the Housing Investment Programme requirements, a surplus position is anticipated for 2021/22. HRA surpluses are used to fund the HRA investment programme, which are smoothed annually through transfers to and from the Major Repairs Reserve. Investment plans for 2021/22 total £12m and will require a £8.1m drawdown from the Major Repairs Reserve. **Appendix F** shows the forecast on this reserve assuming all plans are delivered.
- 2.17 Looking ahead the refreshed HRA Business Plan sets out the long-term requirements for the Housing Revenue Account whilst balancing savings and investments within the context of a sustainable HRA.

Savings

- 2.18 The MTFS highlights the major uncertainty arising as a result of Covid-19 and the growing prospect of a no-deal Brexit, along with the potential for Local Government re-organisation. Against this backdrop, financial risk is increasing and savings continue to feature strongly in the Council's strategic and operational plans. 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. The MTFS identifies recurring savings of £2.4m - £2.9m p.a. will be needed by 2023/24. Taking into account

the freeze in Council Tax and provision for the emerging service risks, this has risen to £3m, but this remains very much dependent upon the longer-term funding regime for local government.

2.19 The Council's approach to savings will continue to cover three key strands:

- **Transforming** our business through the use of technology and flexible working to meet citizen and customer needs;
- **Growing** our resources through investment in economic and housing growth to drive growth in Council Tax and Business Rates and through charging for services and trading externally;
- **Commissioning** from and with partners to achieve shared efficiencies and reduce the demand for public sector services.

2.20 However organisational capacity is undoubtedly stretched as we continue to respond to the pandemic and growing backlogs in some service areas mean that capacity to deliver the savings required, is severely diminished. This coupled with the need to accelerate delivery of our approved investment programmes means that savings will be profiled beyond the next Comprehensive Spending Review when the future local government finance settlement is known. This does not mean that savings will not be captured as and when opportunities arise but the phasing of planned savings will be pushed out to 2023/24 and reserves will be used to bridge the gap in the short term.

2.21 The savings plan has been reassessed as part of the budget process and the revised plan is set out at **Appendix C**. Key changes include:

- Reprofile of saving from Market Cross to 2023/24 to align with lease expiration
- Permanent reduction in the planning service saving following a review of the staffing requirements - £89k (all years);
- Reprofile of business rates growth of £100k p.a. year-on-year from 2021/22 to 2022/23 onwards (subject to business rates reset);
- Reduction and reprofiling of environmental contract saving to reflect additional round capacity needed;
- Reprofile to 2023/24, all other savings not yet delivered.

2.22 Taking the proposals for Council Tax, committed growth, planned reserve transfers and assumptions on Government funding, the table below summarises the current plan and shows the estimated funding gap based on this draft Medium-Term Financial Plan:

GF Savings Summary	2021/22 £000's	2022/23 £000's	2023/24 £000's
Low risk/completed	11	11	11
Medium risk/in progress	173	173	273
High risk/not started	0	100	362
New target – to be identified	0	0	2,389

Cumulative Savings	184	284	3,035
Annual Savings	184	100	2,751

HRA Savings Summary	2021/22 £000's	2022/23 £000's	2023/24 £000's
Low risk/completed	0	0	0
Medium risk/in progress	195	195	195
High risk/not started	0	0	0
New target – to be identified	0	0	0
Cumulative Savings	195	195	195
Annual Savings	195	0	0

2.23 The plan will continue to be monitored closely and further savings will be captured as opportunities arise. Progress against the current savings plan is presented at **Appendix C**.

General Fund Capital Programme

2.24 As stated previously, given the prospect of Local Government Review and the operational challenges associated with the on-going response to Covid-19, the General Fund capital programme includes previously approved projects and a bid for an additional refuse collection vehicle; no other new growth is proposed at this time. Phasing of the programme is reviewed quarterly, and the latest capital programme is attached at **Appendix D**.

2.25 Much of the programme is of a relatively routine nature and accordingly, officers have authority to progress schemes based on the bid information previously submitted to Council. There are however, projects for which Detailed Business Cases will be required for Executive consideration before actual work commences. These are:

- Industrial Units improvement programme – a full review of industrial unit assets will be undertaken before expenditure is approved;
- Purchase of land;
- Selby and District Housing Trust loans – these loans are subject to viable business cases and variable subsidies within the overall funding package available.

For these 'non-routine' schemes, detailed business cases will be brought to the Executive for approval in due course.

2.26 There is limited room for additional revenue contributions to support the capital programme and therefore it is largely supported by capital receipts, external grants and earmarked reserves. Housing development loans are mainly funded through borrowing. The following table presents a summary of the programme:

Programme	2021/22 £000's	2022/23 £000's	2023/24 £000's
Asset Management	1,543	116	18
Grants & Loans	3,697	9,314	401
ICT Replacement	302	89	90
Waste Collection Fleet	200	0	0
Total Programme	5,742	9519	509
Funding			
Capital Receipts	1,118	180	
Grants	817	402	402
Reserves	807	106	107
Borrowing	3,000	8,831	
Total Funding	5,742	9,519	509

2.27 Projects include: acquisition of land to facilitate affordable housing; the enhancement of existing assets such as the car parks, play areas and industrial units; Disabled Facilities Grants and ICT projects. The latter cover a range of replacement and new systems, hardware and infrastructure – funding for ICT projects is covered by the ICT Replacement Reserve.

Housing Investment Programme

2.28 The Housing Investment Programme (HIP) includes the projects necessary to ensure our homes continue to meet the decency standard. The year 2023/24 programme (adjusted for any slippage expected from years 2021/22 or 2022/23) is taken from the approved HRA Business plan. Again the phasing of work is reviewed quarterly and the latest HIP is at **Appendix D**. Financing of the programme will be reviewed annually and should there be insufficient funding within the Major Repairs Reserve, adjustments to previous voluntary sums set-aside for debt repayment will be done in line with the business plan. The following is a summary of the programme:

Programme	2021/22 £000's	2022/23 £000's	2023/24 £000's
Energy Efficiency Programme	500	510	520
Health & Safety Improvement Prog	957	555	566
Property Refurbishment Prog	5,103	3,678	3,741
Investment Programme	1,373	427	436
Empty Home Programme	842		
Community Centre Refurbishment	54		
St Wilfrids Court Refurbishment	94		
Housing Development Programme	3,028		
Total Programme	11,951	5,170	5,263

Funding	2021/22 £000's	2022/23 £000's	2023/24 £000's
Major Repairs Reserve	8,081	5,170	5,263
Borrowing	3,028		
Capital Receipts	336		
HCA Grant	253		
S.106 Commuted Sums	253		
Total Funding	11,951	5,170	5,263

2.29 As with the General Fund, much of the HRA programme is of a relatively routine nature and again officers have authority to progress schemes based on the information previously approved by Council. Projects for which Detailed Business Cases will be required for Executive consideration before actual work commences are:

- HRA new build programme

For these 'non-routine' schemes, detailed business cases will be brought to the Executive for approval in due course.

Programme for Growth

2.30 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'. The current Programme was originally approved as part of the 2018/19 budget and regular progress reports have been presented to both Executive and the Overview and Scrutiny Committee. The Programme was extended in September 2020 to incorporate resources earmarked in 2019/20.

2.31 The latest approved programme totals £19.472m over the 7 years from 2017/18 to 2023/24. Latest forecasts show that, £10.259m will be spent by 31 March 2021, leaving £9.213m over the coming 3 years. Where possible investment plans will be accelerated so that outcomes can be delivered within the next 2 years.

2.32 The Programme is funded by previously received New Homes Bonus and some business rates receipts from renewable energy facilities. In September 2020 full Council approved an extended Programme.

2.33 The current budget is summarised below:

Special Projects/Programme for Growth	To 2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's
Staffing Resources	2,434	1,134	1,152	1,174	0
Project Delivery	2,605	3,683	3,119	3,223	545
Unallocated		403	0	0	0
Total Programme	5,039	5,220	4,271	4,397	545

2.34 **Appendix E** sets out the current programme.

Reserves

2.35 The Council has a robust reserves strategy which is reviewed annually as part of the refresh of the MTFS. A forecast of reserve balances based on the MTFS assumptions and draft budget, is set out at **Appendix F**. As at 31 March 2021 reserves are forecast at:

Reserves	Forecast 31 March 2021 £000's
General Fund	
Commitments	4,248
Growth and improvement	18,313
Risk	6,999
Total General Fund Reserves	29,560
HRA	
Balances	1,500
Major Repairs	7,456
Total HRA Reserves	8,956
Capital receipts (from asset sales)	5,942
Restricted Funds (s106/CIL)	9,944

2.36 Reserves to fund commitments are replenished by regular revenue contributions to ensure they remain sustainable.

2.37 At the end of 2020/21 reserves for growth and improvement are forecast to include £9.178m for the Programme for Growth which is committed to staffing and projects (with £403k remaining unallocated) and £8.5m in the Special Projects Reserve which is available for allocation. Reserves to manage risk include £4.767m from Business Rates to support the revenue budget (per MTFS) and £1.5m General Working Balance.

2.38 These earmarked reserves provide the financial capacity to fund the capital programmes and other irregular expenditure. Including the proposals within this draft budget for 2021/22 it is estimated that in total £7.853m will be required from General Fund and £1.707m from Capital and Restricted reserves to fund on-going projects and new proposals.

2.39 The HRA reserves are General Balances and the Major Repairs Reserve (MRR) which are ring-fenced for the HRA. The HRA capital programme will require £8.081m from the MRR in 2021/22.

- 2.40 Contributions to reserves (including capital receipts) of £13.908m are forecast for 2021/22 (subject to the receipt of £9.2m renewable energy business rates), which includes resources set aside to support future revenue budgets and subject to savings delivery, future investments.

3. Alternative Options Considered

The MTFS sets out scenarios and options for key assumptions including Council Tax. Whilst this report proposes a freeze in Council Tax for 2021/22, subject to the Government's referendum principles, reasonable alternatives for Council Tax are:

- 2% increase in the Band D charge from £183.22 to £186.88 - £3.66 p.a. and equivalent to 7p per week, which would generate additional receipts of £118k p.a.
- £5 increase in the Band D charge from £183.22 to £188.22 – 2.7% and equivalent to 9.6p per week, which would generate additional receipts of £160k p.a.

4. Implications

4.1 Legal Implications

None as a result of this report.

4.2 Financial Implications

As set out in the report

4.3.1 Policy and Risk Implications

- 4.3.1 As part of the annual budget process a risk assessment of the Council's major budgets is undertaken. The continuing uncertainty in the wider economy from the impacts of the pandemic and as the Brexit transition phase draws to a close, means greater uncertainty within the public sector funding regime, and therefore greater financial risk for the Council. Areas that are particularly high risk are central government funding and income (across key services such as planning, car parking and leisure) along with savings, and inflationary and demand led cost pressures – in services such as waste and recycling. The MTFS identified additional financial risk and £500k provision has been made within the draft budget proposals, pending a more detailed assessment. A further £500k contingency has been included within the draft budget proposals to mitigate the risk to service delivery as potential backlogs arise due to the on-going response to Covid-19.

- 4.3.2 The Council's contingency budgets, earmarked reserves and general balances also provide a buffer for these risks and are crucial to ensure sustained financial resilience and viability.

4.4 Corporate Plan Implications

The draft budget aims to support delivery of the Council's 'Corporate Plan'.

4.5 Resource Implications

The draft budget proposals include provision for the resources necessary to deliver the Council's objectives.

4.6 Other Implications

N/A

4.7 Equalities Impact Assessment

There are no equalities issues as a direct result of this report.

5. Conclusion

5.1 The draft General Fund Net Revenue Budget for 2021/22 totals £16.785m. It assumes a Council Tax freeze for 2021/22 and after the application of Central Government funding, savings, and planned transfers to and from reserves is a deficit of £2.270m. The deficit is the result of the phasing out of New Homes Bonus, on-going impacts of Covid-19, assumed increased costs of leisure services, and the proposed Council Tax freeze.

5.2 It is proposed that £2.270m is drawn from the Business Rates Equalisation Reserve, to balance the budget as the majority of savings are deferred to 2023/24. Savings of £184k are forecast for the General Fund and £195k for the HRA.

5.3 With the further top-up of the Business Rates Equalisation Reserve proposed as part of this draft budget, resources are available to support the revenue budget over the medium term, should this be necessary. The level and need for future savings will be reassessed following the outcome of the Fairer Funding Review and reset of the Business Rates Retention system. However, efficiency remains important and savings opportunities will continue to be captured as they arise.

5.4 The budget also includes a capital programme to meet General Fund and HRA needs and includes the latest Programme of Growth – the Council's strategic programme which aims to deliver its Corporate Plan priorities, generating economic growth and sustainable income for the Council as core government funding reduces.

6. Background Documents

Medium Term Financial Strategy approved by Council September 2020

7. Appendices

A – Revenue estimates

B – Growth (commitments to follow)

C – Savings

D – GF Capital programme and Housing Investment Programme

E – Programme for Growth

F – Reserves

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