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To:	Council
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Lead Councillor:	Councillor Cliff Lunn, Lead Executive Member for Finance and Resources

Title: Revenue Budget and Capital Programme 2018/19 and Medium Term Financial Plan

Summary:

This report presents the Executive's proposed revenue budget; capital programmes and outline Programme for Growth for 2018/19 to 2020/21. The 2018/19 General Fund budget shows a forecasted deficit of £1.03m before savings. In accordance with the approved MTFS £668k will be drawn down from the Business Rates Equalisation Reserve leaving a savings target of £358k for the coming year. The 2018/19 HRA budget shows a £864k surplus on the HRA, which is required to fund the housing capital programme. Over the next 3 years a total funding shortfall of £3.862m is forecast on the General Fund. The report identifies a number of mounting budget pressures and acknowledges that an increase in General Fund savings is required. £2.4m of reserves has been earmarked previously to support the revenue budget pending delivery of savings. To date £377k has been used, a further £668k is planned to be used in 2018/19 and then £81k in 2019/20. The on-going use of reserves to support the revenue budget in this way is not sustainable and therefore as part of the next refresh of the MTFS, options for future savings will be sought in the context of emerging budget risks.

Sizeable capital programmes are planned over the coming 3 years - £15.6m for the General Fund and £12.5m for the HRA. A large proportion of the programmes relate to affordable housing delivery through Selby and District Housing Trust and the Council's own HRA.

Programme for Growth proposals - for the purposes of planning, the MTFS indicated an initial sum of £10m would be made available over the 3 years from 2017/18 to 2019/20. In accordance with the approved budget, to date £1m p.a. (£3m in total) has been committed to funding the new Economic Development and Regeneration Service and other internal capacity across the Council required to deliver the growth ambitions set out in the Corporate Plan. Allocation of funding to specific projects beyond those already approved, will be subject to formal decision making as set out in the governance framework approved by the Executive in September 2017.

As at March 2018 the Council's reserves are forecast to stand at £17.8m for the General Fund; £5.9m for the HRA and £4m for capital purposes. These reserves will be used to finance the capital spending and programme for growth – either directly or in the case of loans to Selby and District Housing Trust (and subject to cash flow requirements) to fund internal borrowing. Renewable energy business rates of £7.82m are estimated for the year – in accordance with the approved MTFs these will be transferred to the Special Projects Reserve and allocated as part of the next refresh of the MTFs.

Recommendations:

It is recommended that:

- i. the revenue budgets, savings, capital programme and programme for Growth at Appendices E to H be approved;**
- ii. Council Tax is increased by £5 to £175.22 for a Band D property for 2018/19;**
- iii. Council confirm an empty homes premium equivalent to 50% of the Council Tax charge i.e. to charge 150% of the Council Tax liability on a property that has been empty and substantially unfurnished for more than 2 years, with effect from 1 April 2018;**
- iv. The formal Council Tax resolution set out in Appendix B be considered and approved;**
- v. The General Fund Deficit of £358k be financed from the Business Rates Equalisation Reserve and the Surplus of £864k on the HRA be transferred to the Major Repairs Reserve to support the capital programme;**

Reasons for recommendation

To meet the Council's statutory obligations to set a balanced budget and a set a Council Tax for 2018/19 which is not excessive.

1. Introduction and background

- 1.1 The Council approved its Medium Term Financial Strategy (MTFS) on 19 September 2017. The MTFs covers both General Fund activities and for the first time, the Housing Revenue Account and provides the strategic financial framework for medium term financial planning and annual budget setting.
- 1.2 The Housing Revenue Account (HRA) and Housing Investment Programme (HIP) are covered in more detail by the Housing Business Plan (HBP). The current HBP was approved by Council on 24 February 2015 – a refresh is currently being planned which will align with the overarching financial framework set out in the MTFs.
- 1.3 The MTFs takes account of the Government's offer of a multi-year finance settlement for Local Government (now confirmed) which shows core General Fund funding reducing by £1m from £3.4m in 2016/17 to £2.4m in 2019/20 and a further reduction of around £900k in New Homes Bonus. The MTFs recognises risk and uncertainty surrounding 100% business rates retention and on-going reductions to Government funding (Revenue Support Grant and New Homes Bonus) as the key issues for the Council's finances and confirms the Council's strategic approach to 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.

- 1.4 From the HRA perspective the MTFS includes a 1% reduction in housing rents – 2018/19 is the 3rd year of the Government's 4 year plan to reduce social housing rents by 1% year on year.
- 1.5 The MTFS also confirms the Council's reserves strategy - fundamentally avoiding the use of balances 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 2018/19 to 2020/21 are presented at **Appendix E** and the proposed capital programmes are shown at **Appendix G**.

General Fund Revenue Budget

- 2.2 Since the proposed budget was approved the Local Government pay award has been confirmed and the Final Local Government Finance Settlement has been announced. Taking the Council's overall service requirements together, and after appropriations to and from reserves, the revised estimated position for 2018/19 is:

Updated following announcement on Final Finance Settlement	2018/19 £000's
Total Net Budget	18,352
Council Tax	(5,403)
RSG(per multi-year finance settlement)	(265)
Business Rates Baseline (Safety Net)	(2,188)
New Homes Bonus	(1,541)
Special & Specific Grants	(204)
Collection Fund Deficit – Council Tax	95
Renewable Business Rates Income see para 2.4	(7,820)
Total Funding	17,326
Deficit Before Planned Savings	1,026
Drawdown from Business Rates Equalisation Reserve	(668)
Savings requirement	(358)

- 2.3 The proposed budget includes provision for inflation where considered necessary and provision for a 2% pay award for the coming 3 years – a 2% vacancy factor has also been included to help mitigate the rising pay bill. Committed growth, (for example demand led pressures within our street scene contract) is also included where necessary along with some relatively minor proposals for discretionary growth. The General Fund revenue budget also includes contingencies totalling £148k in 2018/19 and £300k in 2019/20 and 2020/21.

- 2.4 The proposed budget now includes an estimate of £7.82m for renewable energy business rates receipts. These receipts will be transferred in full to the Special Projects Reserve and therefore do not impact on the overall base budget for the coming year. In accordance with the approved MTFs, such receipts will be subject to allocation as part of the next MTFs refresh and budget for 2019/20.
- 2.5 The estimated deficit of £1.026m for 2018/19 and £2.8m for the following 2 years gives **a total funding shortfall of £3.862m over the 3 years to 2020/21**; and there remain a number assumptions and related risks within the budget. £2.4m of reserves has been earmarked previously to support the revenue budget pending delivery of savings. To date £377k has been used, a further £668k is planned to be used in 2018/19 and then £81k in 2019/20. The on-going use of reserves to support the revenue budget in this way is not sustainable and therefore as part of the next refresh of the MTFs, options for future savings will be sought in the context of emerging budget risks.

Council Tax

- 2.6 The approved MTFs assumes a Council Tax increase of £5 for a Band D property for 2018/19. A £5 increase will take the Council average Band D charge from £170.22 to £175.22 – a rise of under 10p per week. The finance settlement for Local Government included provisions to allow district councils to increase Council Tax by up to 3% or £5 whichever is the higher. For Selby £5 equates to a percentage rise of 2.94% - 3% would be a rise of £5.10. The tax base for Council Tax setting purposes has been calculated at 30,837 which gives a Council Tax yield of £5.4m for 2018/19.

Housing Revenue Account

- 2.7 The HRA budgets have been prepared using assumptions on rent changes based on the Government's formula. In 2018/19 the 1% reduction (part of the Government's 4 year plan) has been applied.
- 2.8 The estimated position HRA for 2018/19 is shown below which is around £300k short of the position estimated when the forecasts were updated in February 2016. The previous HRA savings action plan has been achieved and therefore further savings will be sought.

	2018/19 £000's
Total Net Budget	11,076
Less Dwelling Rents	(11,940)
(Surplus) / deficit transferred to Balances/MRR	(864)

- 2.9 A surplus position is anticipated for 2018/19 which will be required to meet the capital programme. Future surpluses will be transferred to the Major Repairs Reserve to either repay debt or spend on the future HRA capital programme, including new build projects. The HRA also includes a contingency of £75k.

Savings

- 2.10 The MTF5 emphasises the careful balance that is required between savings and investment 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. An approved efficiency plan is a requirement of the multi-year finance settlement.
- 2.11 The Council has made good progress against its savings target to date, but it is becoming increasingly difficult to achieve further savings from a reducing cost base. However, the focus on delivering planned savings must be maintained, given the importance of savings in achieving the Council’s financial (and wider) objectives and to avoid the use of balances to support on-going spending which is unsustainable in the longer term. The Council’s approach to savings covers the following key strands:
- **Transforming** our business through the use of technology and flexible working to meet citizen and customer needs;
 - **Growing** our resources through charging for services and trading externally;
 - **Commissioning** from and with partners to achieve shared efficiencies and reduce the demand for public sector services;
 - **Investing** in economic and housing growth to drive growth in Council Tax and Business Rates along with opportunity for direct returns, which in turn will reduce the gap between service costs and core funding.
- 2.12 Taking the proposals for Council Tax, growth, and reserve transfers and assumptions on Formula Grant the MTF5 set targets for savings at circa £1m by 2018/19 and £1.7m by 2019/20. Looking ahead to 2019/20 mounting cost pressures mean an increased savings requirement, with a further £500k above the current target and £200k above the savings identified in the current savings plan. The plan will continue to be monitored closely and opportunities for further savings will be considered as part of the next refresh of the MTF5. Progress against the lasted savings plan is presented at **Appendix F**.

General Fund Capital Programme

- 2.13 The General Fund capital programme includes previously approved projects as well as new growth – the draft capital programme is attached at **Appendix G**.
- 2.14 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, and in the case of affordable housing development - borrowing. The following table presents a summary of the draft programme which has been updated to include proposals to extend affordable housing delivery and bring empty homes back into use (considered by the Executive at the meeting on 4 January 2018):

Programme	2018/19	2019/20	2020/21
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	£000's	£000's	£000's
Asset Management works	537	338	334
Grants & loans	377	377	377
ICT Replacement	394	245	149
Affordable Housing developments	4,909	7,560	
Total Programme	6,217	8,520	860
Funding			
Capital Receipts	30	30	30
Grants	347	347	347
Reserves	931	583	483
S106 Commuted Sums	360	220	
Borrowing	4,549	7,340	
Total Funding	6,217	8,520	860

- 2.15 Projects include enhancement of existing assets such as car parks, Selby and District Housing Trust developments, Disabled Facilities Grants and ICT projects. The latter cover a range of replacement and new systems, hardware and infrastructure (including a replacement asset management system) – funding for ICT projects is covered by the ICT Replacement Reserve.

Housing Investment Programme

- 2.16 The Housing Investment Programme (HIP) includes a number of growth proposals to ensure our homes continue to meet the decency standard – the updated HIP is at **Appendix G**. Again the following table presents a summary of the draft programme which has been updated to include proposals to extend affordable housing delivery (considered by the Executive at the meeting on 4 January 2018):

Programme	2018/19 £000's	2019/20 £000's	2020/21 £000's
Electrical works	240	240	240
Central heating	295	545	545
Roof replacements	220	400	
Damp works	220	220	220
Doors	120	120	120
Kitchens and bathrooms	160	160	160
Fencing & Gates	40	40	40
Pointing	300	300	300
New Build Programme	1,200	2,280	
Estate Enhancements	133	100	
Empty Homes	600	700	700
Other	603	535	390
Total Programme	4,131	5,640	2,715
Funding			
Major Repairs Reserve	2,206	2,660	2,015
Capital Receipts	565	340	280
HCA Grant	180	210	210
S.106 Commuted Sums	180	530	210
Borrowing	1,000	1,900	
Total Funding	4,131	5,640	2,715

Programme for Growth

- 2.17 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 approved as part of the 2017/18 budget and in-year progress reports have been presented to both Executive and the Overview and Scrutiny Committee (both separately and as part of the quarterly finance updates).
- 2.18 Following a Corporate Peer Challenge in November 2017, the current Programme will be reviewed and where appropriate refocussed. Prioritisation of resources will be crucial to ensure deliver of the intended outcomes within the budget available and proposals will be brought before the Executive for approval in due course.
- 2.19 For the purposes of planning, the MTFS indicated an initial sum of £10m would be made available over the 3 years from 2017/18 to 2019/20. In accordance with the approved budget, to date £1m p.a. (£3m in total) has been committed to funding the new Economic Development and Regeneration Service and other internal capacity across the Council required to deliver the growth ambitions set out in the Corporate Plan, including the Economic Development Framework and Action Plan and the Programme for Growth. A further £1.45m has been allocated to Programme for Growth projects.
- 2.20 The programme is funded by New Homes Bonus (currently up to £880k p.a.), and business rates receipts from renewable energy facilities. At this stage further economic development and other initiatives are anticipated but more detailed work on the proposals is needed. It is therefore proposed to allocate indicative funding at programme level pending formulation of more detailed project options.
- 2.21 Taking account of projects already in train and subject to confirmation of New Homes Bonus and Business Rates receipts, outline proposals for the remainder of the Programme are shown below:

Special Projects/Programme for Growth	£000's
Opening balance 01.04.2017	2,964
Contributions allocated to P4G 17/18	4,760
Future contributions 18/19 – 19/20 (subject to resources)	3,210
Total Indicative Funding	10,934
Total committed to salaries	(3,000)
Total committed to projects	(2,384)
Budget available for allocation	5,550

- 2.22 Allocation of funding to specific projects beyond those already approved, will be subject to formal decision making as set out in the governance framework approved by the Executive in September 2017.

Reserves

- 2.23 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 H**. As at 31 March 2018 reserves are forecast at:

Reserves	31 March 2018 £000's
General Fund	
Commitments	4,620
Growth and improvement	6,825
Risk	6,395
Total General Fund Reserves	17,840
HRA	
Balances	2,266
Major Repairs	3,596
Total HRA Reserves	5,862
Capital receipts (from asset sales)	4,030

- 2.24 Reserves to fund commitments are replenished by regular revenue contributions to ensure they remain sustainable.
- 2.25 Reserves for growth and improvement include £4.340m for the Programme for Growth (from New Homes Bonus and the Business Rates windfall) and £2.116m in S106 affordable housing commuted sums, which must be spent on affordable homes. Reserves to manage risk include £3.414m from Business Rates to support the revenue budget (per MTFS) and £1.5m General Working Balance.
- 2.26 The HRA reserves are General Balances and the Major Repairs Reserve (MRR) which are ring-fenced for the HRA. The overall estimated surplus of £864k on the HRA for 2018/19 will be transferred to the MRR. The HRA capital programme will require £2.206m from the MRR in 2018/19.
- 2.27 These earmarked reserves provide the financial capacity to fund the capital programmes and other irregular expenditure. Based on the proposals within this draft budget it is estimated that £6.569m will be required from reserves to fund growth bids and projects, with a further £668k required to support the revenue budget (subject to savings delivery). Reserves contributions of £14.586m are forecast for the year, including £7.82m from renewable energy business rates.

Budget Risk Assessment

- 2.28 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, cuts to public sector funding and the uncertainty within the funding regime, mean greater financial risk for the Council. Areas that are particularly high risk are central government funding and income generation (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.

- 2.29 The Council's contingency budgets, earmarked reserves and general balances provide a buffer for these risks and are crucial to ensure sustained financial resilience and viability.
- 2.30 Looking ahead North Yorkshire County Council has consulted on proposed changes to the recycling credit system – the proposals, which include removing all credits for recycled garden waste, could mean a net loss of income to Selby of circa £300k p.a. based on modelling undertaken by the County Council. Selby is the only district in North Yorkshire not to charge for its green waste service and consequently our recycling rates are higher than the other districts which means Selby would be hardest hit by the proposal should it go ahead. This issue is under review and discussions with the County Council are on-going. Should this risk ultimately materialise, options will be brought forward for consideration by members in due course.
- 2.31 In accordance with the approved MTFs the aim will be to manage any on-going cost pressures within the base budget.

3. Legal/Financial Controls and other Policy matters

3.1 Legal Issues

- 3.1.1 This report complies with the requirements of the Local Audit and Accountability Act 2014, the Localism Act 2011 and the Local Government Finance Act 1992.
- 3.1.2 In determining the Council's 'relevant basic amount of Council Tax' for 2018/19 the Council must also determine whether this is excessive in accordance with the principles approved under section 52ZB of the Local Government Act 1992.
- 3.1.3 This requirement is covered in recommendation 6 at Appendix B.
- 3.1.4 Section 11B of the Local Government Finance Act 1992 allows local authorities in England to set a Council Tax rate for long-term empty properties of up to 150% of the normal liability. This has been called the 'Empty Homes Premium'. A 'long-term empty property' must have been unoccupied and substantially unfurnished for at least two years.
- 3.1.5 The premium may be applied when a given property has been empty for two years, irrespective of how long its current owner has owned it. Therefore, it is possible for an individual to buy a property which has already been empty for two years and be liable for the premium immediately.
- 3.1.6 Occupancy of a long-term empty property for more than six weeks 'resets the clock' for this purpose.
- 3.1.7 Regulations specify that the premium cannot apply to:
- homes that are empty due to the occupant living in armed forces accommodation for job-related purposes; *or*
 - to annexes being used as part of a main property.

3.2 Financial Issues

- 3.2.1 As set out in the report.

3.3 Impacts

- 3.3.1 The draft budget has been subject to public consultation – no responses were received. Policy Review Committee was supportive of the proposals and asked that further consideration be given to opportunities for the Better Together collaboration with North Yorkshire County Council to achieve revenue savings.
- 3.3.2 The proposed Council Tax increase will have an impact on taxpayers but exemptions and discounts are available to those that qualify.
- 3.3.3 The Empty Homes Premium impacts on home owners with properties that have been left empty for more than 2 years but this provides an incentive to bring back into use much needed homes within the district and in doing so improve the street scene and vitality of affected neighbourhoods.

4. Conclusions

- 4.1 The proposed General Fund revenue budget for 2018/19 assumes a Council Tax rise of £5 for a Band D property and requires savings and/or reserve contributions to balance a £1m deficit in 2018/19 rising to a £1.5m deficit by 2020/21.
- 4.2 The budget provides for a capital programme to meet General Fund and HRA needs and also includes resources to support the 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.
- 4.3 A General Fund savings target of £1.5m is proposed, to balance the budget over the next 3 years given our assumptions on central Government funding and savings of approximately £200k are forecast for the HRA. The pace of savings is expected to be such that support from reserves will be required to balance the revenue budget in the shorter term. The MTFS includes £2.4m in the Business Rates Equalisation Reserve to provide this support – with £377k to be used in 2017/18 and a further £749k planned to be drawn down over the next 2 years.
- 4.4 Estimated receipts of £7.82m from renewable energy business rates are anticipated for the year. These will be transferred to the Special Projects Reserve and In accordance with the approved MTFS, these receipts will be subject to allocation as part of the next MTFS refresh and budget for 2019/20.
- 4.5 Progress is being made against the savings identified within our approved plan but more will be needed to meet the deficit in future years. Further opportunities will be brought forward for consideration as part of the next MTFS refresh.

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Appendices:

- A – Council Tax Supporting Information
- B – Formal Council Tax Resolution
- C – Council Tax Schedule by Town and Parish Areas
- D – Town and Parish Precepts
- E – Revenue Budgets
- F – Savings
- G – Capital Programmes
- H – Reserves