



**Report Reference Number: C/21/6**

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**To: Council**  
**Date: 22 July 2021**  
**Ward(s) Affected: All**  
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**Lead Officer: Karen Iveson, Chief Finance Officer**

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**Title: Medium-Term Financial Strategy**

**Summary:**

This report presents an update to the Medium Term Financial Strategy (MTFS) covering both the General Fund and Housing Revenue Account (HRA). It considers the budget pressures and issues facing the Council over the next 3 years and beyond in light of the on-going financial impacts of Covid-19 and local government re-organisation in North Yorkshire.

2020/21 was a year of major uncertainty as the effects of the Covid-19 pandemic unfolded and the Government's plans for potential re-organisation in North Yorkshire were announced. The Government's proposals for a reviewed Local Government funding system were delayed, and once again 2021/22 was a one-year settlement. Against this backdrop of uncertainty, the key drivers for the financial strategy remain unchanged although the level of risk has undoubtedly increased. The strategy identifies a range of emerging issues, including the government's waste strategy.

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

Based on the assumptions within the mid-case MTFS, the savings requirement is estimated to rise to £2.8m within the next 3 years although this is very much dependent upon future local government finance settlements. The worst case shows the gap rising to nearly £4m over the next 3 years.

Given on-going Covid and local government re-organisation (LGR), capacity is focussed on direct delivery of services and projects and it is proposed that savings are deferred a further year to 2024/25 with reserves being used to bridge the gap in

the meantime – it is proposed that £11.9m is held in the Business Rates Equalisation Reserve for this purpose with £8m available for alternative use.

A modest level of savings is assumed over the next 3 years but in the longer-term income generation will be key, with charging for green waste and alternative use for the Summit to be brought forward for consideration in due course. Local Government re-organisation also presents the opportunity for further service transformation and efficiency.

As part of this refresh the General Fund and HRA capital programmes have been reviewed to ensure they are deliverable and some reprioritisations are proposed, including withdrawal of the General Fund housing development programme and extension of the HRA to ensure maximisation of s106 spend.

The Programme for Growth has also been reviewed with the allocation of funds to carbon reduction work reduced to cover those elements that can be delivered within the next 2 years with £950k available for alternative use. In addition, a further £8m is proposed for release from the Business Rates Equalisation Reserve to the Programme for Growth from 2021/22, and following discussion at the Executive meeting on 8<sup>th</sup> July, a further £1m capital receipts. A number of proposals for these funds are put forward for consideration.

Despite the uncertainty, the MTFs reaffirms the Council's commitment to the people of Selby District to support our district to be a great place to live, to enjoy life and to grow, delivered by a Council whose focus is to continue to achieve the best value for money for our residents. This MTFs aims to provide financial sustainability, resilience and capacity for the Council in pursuing its objectives – ensuring our commitments are delivered and enabling a smooth transition to any new authority.

Consultation with Policy Review Committee took place on 20 July and comments from the committee will be updated verbally at the Council meeting.

### **Recommendations:**

**That subject to comments from Policy Review Committee it is recommended that Council:**

**(a) receives this Executive recommendation as notice signed by five Councillors pursuant to Council Procedure Rule 18 to enable consideration of the matters at (b) notwithstanding that it would rescind a decision made by Council within the past six months; and**

**(b) that Council**

- i) approves the Medium-Term Financial Strategy;**
- ii) approves the revisions to the General Fund and HRA capital programmes;**
- iii) approves the release of £8m from the Business Rates Equalisation Reserve and £1m from Capital Receipts for the Programme for Growth;**

- iv) **approves the supported capital and Programme for Growth bids within the funds available;**
- v) **delegates approval of Business Cases to the Chief Executive in consultation with the lead portfolio holder for housing to expedite delivery of the housing delivery programme.**

## **Reasons for recommendation**

To reflect the latest financial issues and to set the framework for the 2022/23 budget and Medium-Term Financial Plan to 2024/25.

### **1. Introduction and background**

- 1.1 This report presents an update to the MTFS taking into account changes to the key assumptions within the strategy. The draft MTFS including associated appendices is attached at **Appendix 1**.
- 1.2 The strategy covers both the General Fund and HRA to provide a holistic view of the Council's finances. It considers the budget pressures and issues facing the Council over the next 3 years and beyond in light of the financial impacts of Covid-19 and local government re-organisation in North Yorkshire.
- 1.3 Comments on the revised Budget and MTFS have been invited from Policy Review Committee members at their meeting on 20<sup>th</sup> July - comments from the committee will be updated verbally at the Council meeting. As a result of Covid-19 the usual 6-week budget consultation with Policy Review Committee has been curtailed.
- 1.4 This MTFS provides the framework for the forthcoming budget round and the medium-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.
- 1.5 2020/21 was a year of major uncertainty as the effects of the Covid-19 pandemic unfolded and the Government's plans for potential re-organisation in North Yorkshire were announced. The Government's proposals for a reviewed Local Government funding system (including New Homes Bonus) have been delayed, on the back of Brexit and Covid-19. 2021/22 was a one-year settlement with the Fair Funding Review and reform of the Business Rates Retention system being pushed out to 2022/23 (or later). Against this backdrop of uncertainty, the drivers for the financial strategy remain unchanged although the level of risk has undoubtedly increased.
- 1.6 This financial strategy aims to provide financial sustainability, resilience and capacity for the Council in pursuing its objectives – ensuring our commitments to the people of Selby District are delivered and enabling a smooth transition to any new authority.

## **2. The Report**

- 2.1 This report presents an update to the General Fund Medium Term Financial Strategy (MTFS) approved by Council in September 2020 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 in light of the financial impacts of Covid-19 and local government re-organisation in North Yorkshire.
- 2.2 This MTFS provides the framework for the forthcoming budget round and the medium-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.
- 2.3 2020/21 was a year of major uncertainty as the effects of the Covid-19 pandemic unfolded and the Government's plans for potential re-organisation in North Yorkshire were announced. The Government's proposals for a reviewed Local Government funding system have been delayed, on the back of Brexit and Covid-19. 2021/22 was a one-year settlement with the Fair Funding Review and 75% Business Rates Retention implementation was pushed out to 2022/23 (or later). Plans for changes to New Homes Bonus are also under consideration but the impacts are not yet known – the strategy assumes these receipts are phased out over the next 12 months. Against this backdrop of uncertainty, the key drivers for the financial strategy remain unchanged although the level of risk has undoubtedly increased.
- 2.4 For the HRA the MTFS aligns with the refreshed HRA Business Plan and models an on-going CPI +1% increase in housing rents following 4 years of 1% reductions ending in 2019/20.
- 2.5 The MTFS mid-case scenario assumes a Council Tax rise of 1.99% for 2022/23.
- 2.6 The Council's approach to the management of its reserves is also re-confirmed in the MTFS – earmarking resources to cover commitments, manage risk and support growth, with £1.5m retained as a minimum general working balance for both the General Fund and HRA.
- 2.7 A number of emerging risks/cost pressures have been identified, including for example: cost pressures in leisure services, central government's waste strategy, and planning income – the risks/cost pressures could total £900k p.a. recurring.
- 2.8 Given the deferral of savings and other potential risks £11.9m is proposed to be held back in the Business Rates Equalisation Reserve (BRER) to provide sufficient funds to balance the revenue budget in the shorter term. This would leave £8m available for alternative use. The BRER provides funding to support the revenue budget pending savings delivery. It must be stressed however that using reserves to support the revenue budget in this way is not

sustainable and failure to ultimately deliver the savings target would undermine the Council's long term financial resilience and therefore work to deliver and identify further savings to bridge any gap must continue.

- 2.9 Based on the mid-case assumptions updated within the MTF5, the estimated General Fund savings requirement is £2.8m by 2024/25 (worst-case circa £4m taking into account the emerging risks/cost pressures). A modest level of savings is assumed over the next 3 years but in the longer-term income generation will be important to bridging the underlying gap between income and expenditure. Charging for green waste and generating income from potential alternative use of the Summit could, together, achieve around £1m p.a. - two options that will need to be brought forward for consideration in due course. Local Government re-organisation also presents the opportunity for further service transformation and efficiency.
- 2.10 The HRA is experiencing its own challenges as a result of Covid-19 and previous rent reductions. Some savings are planned in order to maximise in-year HRA surpluses whilst setting aside sufficient sums to repay the self-financing debt. Revenue surpluses are transferred to the Major Repairs Reserve to fund enhancements to the Council's housing stock and a long-term programme to deliver a decent homes 'plus' standard.
- 2.11 Demand for stock improvement work is currently in excess of the resources available through the Major Repairs Reserve and therefore funds earmarked for debt repayment will need to be diverted to the capital programme. The necessary balance between investment in the stock and repayment of debt is highlighted in the 30-year business plan. The longer-term sustainability of the HRA is reliant upon the replacement of homes sold through right-to-buy and the rental income they deliver.
- 2.12 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. For on-going programmes indicative sums have been included for year 3 of the plan but these will be subject to the usual budget process in the autumn.
- 2.13 The impact of Covid-19 has contributed to considerable delays in the programmes in 2020/21 with a number of projects slipping into 2021/22 and further rephasing required.
- 2.14 As part of this refresh the General Fund and HRA capital programmes and the programme for growth have been reviewed to ensure they are deliverable, and some reprioritisations are proposed. A reassessment of the Homes England supported Empty Homes Programme indicates expected spend of £600k against the current £1.094m approved budget. This will enable funds to be diverted to the new build/acquisitions programme.

- 2.15 Given the expected announcement on LGR and limited capacity, it is proposed that affordable homes delivery is focussed entirely on the HRA which means removing the planned capital expenditure on Selby and District Housing Trust Loans. The impact of this change on the sustainability of the Trust will be discussed and options will be taken forward with the Trust Board, with a report back to Council in due course.
- 2.16 Prioritising HRA delivery and spending of s106 commuted sums will require extending the HRA programme from £3.4m currently planned over the next 2 years, to circa £9.4m in accordance with the bid set out at **Appendix 2. In order to expedite delivery of the housing delivery programme, it is proposed that business cases will be signed off by the Chief Executive in consultation with the lead portfolio holder for housing.**
- 2.17 In addition the MTFs includes a capital bid for major improvement works to the Council's industrial units – with potential spending of £941k phased over 3 years.
- 2.18 A review of existing Programme for Growth commitments suggests that it is unlikely that the funds earmarked for low carbon projects will be completed within the next 2 – 3 years and therefore it is proposed that this budget be focussed on those elements that are deliverable in the shorter term and reduced to £250k, releasing £950k for alternative use.
- 2.19 In addition, a further £8m is proposed for release from the Business rates Equalisation Reserve to the Programme for Growth from 2021/22. A number of proposals for these funds are put forward for consideration, including an additional allocation to the Selby Station Gateway Project (subject of a separate report). A summary of the proposals is set out at **Appendix 2.**, they are:

<b>Proposed project</b>	<b>£000</b>
Selby Station Gateway Project – plaza, additional land assembly and CPO costs (subject of a separate report)	5,650
Community Legacy Fund (subject of a separate report);	1,000
Burn - to bring the site forward for development;	500
Tadcaster and Sherburn projects - to earmark funds for allocation to a number of projects still to be confirmed	1,650
Places and movements study - to provide match funding to support a 'Levelling Up Fund' bid for future infrastructure projects.	2,000

- 2.20 Following consideration by the Executive at their meeting on 8<sup>th</sup> July 2021, the proposals include a recommended £1m on the Community Endowment Fund and an additional £500k each for projects in Tadcaster and Sherburn - total a max of £10.8m - £1.85m more than the revenue funding available. £1m capital receipts are proposed to be applied to the programme but that would still leave an £850k over commitment, which will need to be covered from reductions in other projects or allocation of further capital receipts. It should be noted that available capital receipts are largely from the sale of HRA

homes. **As with all Programme for Growth projects, spend will be subject to detailed business cases approved by the Executive.**

### **3. Alternative Options Considered**

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

### **4. Implications**

#### **4.1 Legal Implications**

Selby District Council Procedure Rule 18 states that “ A motion or amendment to rescind a decision made at a meeting of the Council within the past six months cannot be moved unless the notice of motion is signed by at least five councillors.”

As what is being proposed has the effect of rescinding a decision made within the last six months either this rule must be complied with, or Council could vote to suspend Rule 18 for the duration of the meeting. The proposed recommendation in this report suggests the former and references the Executive as being the five signatories to the notice of motion.

#### **4.2 Financial Implications**

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

4.2.2 The estimated deficit rises to £2.8m by 2023/24 (up to £4m including indicative emerging risks/costs). Work is progressing towards the target, but this has been delayed by Covid-19 and further by the prospect of Local Government re-organisation. The MTFS confirms the capacity within the Business Rates Equalisation Reserve to mitigate the savings shortfalls over the next 3 years but focussed effort will be needed to bring this back on track.

#### **4.3 Policy and Risk Implications**

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

4.3.2 The MTFS identifies and where possible quantifies (in outline) the risks to the Council’s financial position and presents appropriate mitigations – for example the risk inherent within the Local Government Finance Settlement and risks to the savings plan are mitigated through the Business Rates Equalisation Reserve.

#### **4.4 Corporate Plan Implications**

4.4.1 The MTFS underpins delivery of the Council Plan.

## **4.5 Resource Implications**

- 4.5.1 The MTF5 assesses the financial resources available to the Council over a medium to long term planning horizon. Based on the assumptions within the strategy, resources are available to deliver the stated priorities.

## **4.6 Other Implications**

- 4.6.1 As set out in the report.

## **4.7 Equalities Impact Assessment**

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

## **5. Conclusion**

- 5.1 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 as the impacts of Covid continue into 2021/22.
- 5.2 There is risk within the funding regime for local government and the Business Rates Retention scheme as we approach the system reset although this will now be delayed until at least 2022/23. 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.
- 5.3 Based on the assumptions in this strategy, the mid-case savings requirement is anticipated to rise to £2.8m by 2023/24 (although further emerging risks could increase this). Whilst savings have been deferred to 2024/25, outline plans total £1.6m but further work to establish deliverability will be required in due course). The worst case models a shortfall of circa £4m by 2023/24 including the risks identified.
- 5.4 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.
- 5.5 Over the next 10 years there is limited capacity within the HRA Business Plan to support additional capital expenditure so 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. The proposed revisions to the HRA capital programme seek to maximise delivery of new affordable homes using available s106 affordable housing commuted sums and capital receipts from “right to buy” sale of council homes.

- 5.6 Whilst Local Government re-organisation is expected, this MTFS assumes the Council is a going concern and as such, meeting the on-going savings challenge will continue to feature in the Council’s strategic and operational plans. Our collaboration with 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. However, over the next 2 years capacity will be focussed on delivering the Council’s investment priorities and preparations for re-organisation.
- 5.7 The MTFS proposes some reprioritisation of capital and Programme for Growth spending plans and proposes release of £8m from reserves and in addition, £1m from capital receipts for the Programme for Growth. A number of projects which support delivery of the Council Plan are put forward for consideration.
- 5.8 Despite the challenges we face, the Council is in a strong financial position, helped by 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.

## **6. Background Documents**

Approved MTFS Update September 2020  
Approved Budget February 2021

## **7. Appendices**

**Appendix 1** – Medium Term Financial Strategy Update July 2021 (plus appendices to the MTFS at A – E)

**Appendix 2** – Capital and Programme for Growth Bids

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