APPENDIX 1

Selby District Council

Medium Term Financial Strategy Update July 2021

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 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.

1.2 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.

1.3 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). Against this backdrop of uncertainty, the key drivers for the financial strategy remain unchanged although the level of risk has undoubtedly increased.

1.4 In 2019 we refreshed our Corporate Plan and with it restated the Council's priorities through to 2029/30. 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 – ensuring our commitments to the people of Selby District are delivered and enabling a smooth transition to any new authority.

1.5 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.

1.6 Despite the challenges we face, the Council is in a strong financial position, helped by the significant 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 future financial capacity.

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), the bank rate is projected to remain at 0.1% through to 2023 although a rise may be necessary before then if inflation continues to increase.

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**	**2024/25**
Assumed average balance	£75m	£64m	£61m	£49m	£40m
Average rate %	0.48%	0.25%	0.25%	0.25%	0.5%
GF Interest£000's	263	110	133	123	200
HRA Interest £000's	101	38	34	30	31
Total Interest from cash balances £000's	**364**	**148**	**167**	**153**	**231**
Add:					
Property Funds £'000's	170	170	170	170	170
SDHT Loans £'000's	120	120	120	120	120
Total Investment Returns	**654**	**438**	**457**	**443**	**521**

**2020/21 Quarter 4 Treasury Management Report*

2.3 Given the on-going economic uncertainty, as a result of Covid-19, there is a risk of further reductions and forecasts will be kept under review. In the 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 CPI inflation rose by 1.5%% (in the 12 months to April 2021. 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 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 meant that it was rolled on a year. Subsequent announcements following Covid-19 led to a 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	**20/21 £000's***	**21/22 £000's***	**22/23 £000's**	**23/24 £000's**	**24/25 £000's**
RSG	0	0	0	0	0
BRBF	2,459	2,459	2,508	2,558	2,609
SFA	**2,459**	**2,459**	**2,508**	**2,558**	**2,609**
RSDG	108	142	0	0	0
Multiplier Cap Compensation	0	128	0	0	0
Total	**2,567**	**2,729**	**2,508**	**2,558**	**2,609**

2022/23 (+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 are maintained in this reserve. Balances above this level are 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 (£9.172m p.a. in 2021/22). At this stage it is assumed that this funding will cease when the system is reset, which is currently expected from 2022/23.

2.13 Our forecast for 2022/23 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 baseline plus a small; amount of growth is assumed:

Business Rates Income	Actual 2020/21 £000's	Forecast 2021/22 £000's	Estimate 2022/23 £000's	Estimate 2023/24 £000's	Estimate 2024/25 £000's
Safety-Net	**2,274**	**2,274**			
Transfer from BRER	185	185			
= Baseline	**2,459**	**2,459**	**2,508**	**2,558**	**2,609**
Assumed growth	**0**	**0**	**100**	**200**	**300**
Multiplier Cap Compensation	**99**	**128**	**0**	**0**	**0**
Renewable Energy/Surplus	**9,019**	**9,172**	**0**	**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. As Selby is already below the

safety net, any further losses are borne by the Government. Following the system reset, a small amount of growth is assumed which aligns to the savings plan. 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. We await the outcome of the consultation in 2021 but have assumed that this scheme will be replaced in its entirety alongside the reformed system of Local Government funding from 2022/23. New Homes Bonus forecasts are therefore:

New Homes Bonus	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Year 6					
Year 7	405				
Year 8	415	415	0	0	0
Year 9	767	767	767	0	0
Year 10*	947	489	0	0	0
Total	**2,534**	**1,671**	**767**	**0**	**0**

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 202/122 which may continue into the future:

Grants	**2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Rural Services Delivery Grant*	108	142	0	0	0
Lower Tier Services Grant	0	577	0	0	0
Other Grants	113	152	24	24	0
Covid - emergency funding (allocated to GF)	1,068	388	0	0	0
Total Grants	**1,289**	**221**	**24**	**24**	**0**

2.18 Future funding is dependent upon the outcome of the new Business Rates Retention system – at which point it is assumed that these grants will be rolled into Business Rates funding.

2.19 Covid-19 funding of £1.168m was received in 2020/21 with £818k allocated to the GF and £350k to the HRA. A further £487k is expected in sales, fees and charges compensation. The full year impacts of Covid-19 were £2.873m for 2020/21. The resulting gap was 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 32,064.65 has been set for 2021/22. Every 0.5% variance in level would add/subtract approximately 160 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 2020/21 with an increase in residents requiring Council Tax Support and delays to development in the district. The mid-case scenario assumes 0.5% growth for 2022/23, with growth returning to 1% from 2023/24 onwards.

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Revised Tax Base growth		0.24%	0.5%	1.0%	1.0%
New Mid-case Tax Base	31,989	32,065	32,225	32,547	32,873

2.23 It is stressed that the impacts of Covid-19 on employment and businesses continues, and there is inherent risk that the tax base could fall if Council Tax Support continues to rise.

2.24 In addition, collection rates have been impacted 2020/21. This combined with the reduced tax base resulted in an overall collection fund shortfall of £207k in 2020/21, which will be charged as a Collection Fund deficit across three years from 2021/22 at £69k per annum. Higher payment failure is only assumed in 2020/21.

2.25 It is assumed that the current principles will continue to allow district councils to increase their Band D charge by up to £5 or 2% (whichever

is the higher) without triggering a referendum. A £5 increase would equate to 2.7% for 2022/23.

2.26 A 1.99% rise (in line with inflation assumptions) has been modelled for 2022/23 onwards:

	2020/21	2021/22	2022/23	2023/24	2024/25
Tax Base	31,989	32,065	32,225	32,547	32,873
Band D Charge £	183.22	183.22	186.87	190.59	194.38
Increase %	2.81	0	1.99	1.99	1.99
Council Tax Income £000's	5,861	5,875	6,022	6,203	6,390
Collection Fund Surplus/(Deficit)	74	*8k	(69k)	(69k)	0

**21/22 includes distribution of £77k 19/20 surplus and (£69k) share of 20/21 deficit*

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

- a £5 increase in 2022/23 would increase income by a further £44k

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

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 2022/23) and loss of income from the Summit contract which was terminated in 2020/21, pre-Covid demand returns with effect from 1 April 2022. Early indications suggest that there are on-going Covid losses in 2021/22 – these will be kept under review and should the Sales, Fees and Charges Compensation scheme continue, claims will be made and/or contingencies are available to help bridge shortfalls.

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

Service Income	**2020/21 Actual £000's**	**2021/22 Approved Estimate £000's**	**2022/23 Estimate £000's**	**2023/24 Estimate £000's**	**2024/25 Estimate £000's**
General Fund					
Waste Collection & Recycling	1,432	1,425	1,451	1,477	1,507
Planning	659	1,057	1,201	1,202	1,202
Car Park Income*	94	355	355	355	355
Selby Leisure Centre / Summit	0	23	26	62	18
Commercial Property Rental	293	361	368	376	383
Lifeline Private Clients	224	286	292	298	304
Court Fees / Summons Costs	87	155	158	161	164
Land Charges Search Fees	146	124	126	129	131
Miscellaneous Fees & Charges	178	121	121	122	124
Licences	126	137	138	140	143
Total Service Income	**3,239**	**4,044**	**4,236**	**4,322**	**4,331**

**Subject to review*

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	**2020/21 Actual** £000's	**2021/22 Estimate** £000's	**2022/23 Estimate** £000's	**2023/24 Estimate** £000's	**2024/25 Estimate** £000's
Private Sector / Disabled Facilities Home Improvement Works	503	444	444	444	444
Housing Benefits Admin & Counter Fraud Grant	149	159	159	159	159
Homeless Persons	162	176	0	0	0
Discretionary Housing Payments Grant	126	118	118	118	118
Other Small Grants	45	0	0	0	0
New burdens : business grants	130	167	0	0	0
Total	**1,115**	**1,064**	**721**	**721**	**721**

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 Given the on-going risk associated with Covid-19, associated service backlogs, and local government reorganisation, contingencies were temporarily increased on the back of one-off central government funding. In 2021/22 budgets are:

- General Fund Operational Contingency- £2.3m
- General Fund Commissioning Contingency - £100k

2.34 £326k of Operational Contingency is committed to repay outstanding debt following termination of the Summit contract. A further circa £900k of the Operational Contingency will be required for the estimated Covid Subsidy agreed with IHL for 2021/22. This subsidy is subject to actual losses and is being monitored closely, with a review planned for September 2021.

2.35 Latest forecasts indicate an increase in recurring expenditure of £377k as a result of agreed changes to the Council's waste and leisure contracts against the £500k provision included in the base budget from 2021/22. The remaining £123k may be required for future Covid related subsidies on the leisure contract.

2.36 In addition on-going service risks continue to emerge:

- Future leisure related costs
- central government's waste strategy
- planning income
- planning appeal costs
- Selby and District Housing Trust loan interest
- Other service cost and income pressures in licensing, land charges and democratic services

Further detail on these risks is set out at paragraph 3.9 below. It is not possible to quantify the above risks with any certainty but a further £900k has been included in the worst-case scenario from 2022/23.

Housing Revenue Account Assumptions

2.37 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. In 2021/22 we are experiencing price rises in responsive repair works as a result of

market pressures. A £75k contingency is available within the HRA and costs will be monitored closely during the year.

Dwelling Rents

2.38 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 remains at 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

2.39 In 2020/21 9 sales have been completed and in the first quarter of 2021/22, 3 sales have been completed under right to buy – slightly below normal levels. For 2021/22 20 sales are assumed. Such sales are sensitive to economic change and therefore these will be kept under close review.

2.40 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 continuing 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	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Number of dwellings (mid-year average)	3,021	3,017	3,017	3,017	3,017
Average Rent - Rent Restructuring £	84.98	86.37	88.09	90.29	93.00
Net Rent Income £000's	**12,010**	**12,302**	**12,548**	**12,862**	**13,247**

Other Income

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

Service Income	2020/21 £000's	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's
HRA Garage Rents	102	107	109	111	114

Debt Charges Assumptions

2.42 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).

2.43 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.

2.44 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.

2.45 A small amount of MRP charge remained within the General Fund relating to the cost of the 'fit-out' of the Summit which was covered by the trading concession fee received from 'Inspiring Healthy Lifestyles' – this arrangement aimed to ensure that the facility remained sustainable by maintaining financial capacity to replace the interior at the end of the 10-year contract, should this be required. As highlighted in paragraph 2.34 £326k of contingency has been applied to repay the outstanding debt on the facility and the resulting saving in MRP has been reflected in the budget.

2.46 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. This voluntary set aside is currently £1.58m p.a. (rising to £2.68m in 2022/23) and interest payable is £2.07m p.a.. As balances on the Major Repairs Reserve run down over the medium term, release of sums set aside to repay debt will be required. 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. Further detailed modelling will be undertaken as part of the next Business Plan refresh planned later this year.

2.47 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

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

2.49 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

2.50 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. At this stage it is proposed that annual contributions be maintained at £200k p.a. subject to annual review of future spending needs as part of the budget process.

- Special Projects Reserve – Excess business rates income beyond that required for the Business Rates Equalisation Reserve (BRER) is used to top up this reserve which is currently applied to fund the Council's 'Programme for Growth'. **However, it must be stressed that the use of any such resources to fund growth is wholly dependent upon achieving the revenue savings targets set.** Based on the current budget for 2021/22 there are no available resources in this reserve although a review of the BRER is being undertaken as part of this MTFS refresh.

- 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. At 31 March 2021 £7.996m is available in this reserve, with up to £5.158m committed through the current approved capital programme. Other s106 sums and CIL are held pending allocation to infrastructure and related uses - £135k and £2.337m respectively.

- 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/Collaboration – 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) as well as any potential transitional costs. 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 phased increases up to £185k by 2022/23. 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.

  After budgeted contributions and drawdowns in 2021/22, by March 2022 £19.9m will be held in this reserve. Latest mid-case projections show drawdown requirements of £6.4m over the next 3 years. This, along with balances of £1.6m to cover planned savings plus a further £2.7m to cover emerging risks, would leave £9.2m available for reprioritisation. Given the potential for further costs associated with future uses of the Summit it would be prudent to

retain a reasonable balance on this reserve and therefore **it is proposed that £8m is released for allocation to the Programme for Growth**.

- 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 Contingency 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 also funds the Commissioning Contingency budget. 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. The planned investment in housing stock means that there are insufficient funds in the MRR to cover the costs – by 2022/23 the reserve will be fully depleted and resources previously set aside to repay HRA debt will need to be released to cover the costs of the housing improvement programme. This challenge is recognised in the 30 year Business Plan. In addition rising prices in construction and related services following Covid restrictions and Brexit mean that these pressures will increase over the coming months and future spending plans will need to be reviewed.

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.

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

3 Revenue Budget Outlook 2022/23 to 2024/25

Covid-19

3.1 Covid-19 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 and restrictions that were introduced throughout the year. The Q4 outturn report highlighted that as lockdown and Covid restrictions have continued into 2021/22 the impacts on the Council's finances have also continued.

3.2 Early forecasts for 2021/22 indicate on-going impacts and delays to planned savings as restrictions continue. £609k of ongoing budget pressures are estimated in the first quarter of the year in the general fund against pre-covid budget levels including additional costs to support leisure services, reduced planning income and continuing low investment returns. There are resources held in contingency to help manage these losses and should opportunities for further Government support arise then forecasts will be updated. The HRA indicates potential £98k reduction on the same basis with lower rents and investment returns driving the shortfall. The position will be kept under review and recommendations will be brought forward as required as part of quarterly reporting during 2021/22

3.4 Beyond 2021/22 apart from investment interest and planning income, no residual revenue budget impacts are currently assumed although the leisure service may take longer to recover and some delays to capital programmes and slippage in programme for growth projects are likely to carry into 2022/23.

Revenue Costs

3.5 Covid-19 aside, it is assumed that on average costs will increase in line with inflation, with demand led recurring cost pressures 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 2021/22 the Council's payroll budget is approximately £8.4m. £7.2m of this is base budget salary (£7.1m in the General Fund and £0.08m in the HRA), whilst £1.3m is funded from grants or reserves (including circa £1.2m

to 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 2021/22 is 1.5%, has been rejected by the Unions. Every 0.5% above the 2% provision will cost an additional £36k on the base budget.

3.7 Generally, there is downward pressure on staffing budgets meaning underspends and associated capacity issues. However, Covid has led to some service backlogs and as a small authority we often find it difficult to compete particularly in professional services such as planning, which means some level of agency staff is expected. Resources to deal with service backlogs is contained within the budget for 2021/22.

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. Resources are held in the Business Development/Collaboration and Contingency Reserves to cover potential exit costs.

<u>Income</u>

3.9 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 lockdowns and restriction measures that were introduced. In 2021/22 pre-Covid income levels are expected to return in most services although planning and investment income is expected to take longer to recover.

3.10 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.

3.11 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 2021/22. For the purposes of the mid-case scenario an inflationary increase in funding is assumed.

3.12 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.

Emerging Risks and Issues

3.13 There are a number of emerging priorities and risks that are currently being monitored and strategic choices which may require funding:

- Local Government reorganisation and devolution – the Council's Programme for Growth and capital programme commitments will provide a legacy but a refocus and reprioritisation may be required;
- Leisure – Increase in cost of management overheads of our leisure service provider passed on to the Council. In addition, following agreement on the termination of the Summit contract a longer-term alternative use for the facility will need to be found, which given expected future financial challenges, does not further increase the base budget going forward. In the shorter term the facility is being used as a Covid-19 vaccination centre with some minor elements retained by our leisure provider;
- Waste Strategy – the Government has consulted on a number of changes (types of recycling, consistency of collection and free garden waste collection nationally) which could have far reaching implication for the waste and recycling service. Changes could begin as early as 2023 but the financial impacts and any potential additional Government funding are not yet clear;
- Planning income – underlying shift towards increased smaller applications with lower fees;
- Planning appeal costs;
- The future relationship with Selby and District Housing Trust and impact on loan interest;
- Other service cost and income pressures in licensing, land charges and democratic services;
- Brexit – as legislation and policies are reviewed following the UK's withdrawal from the European Union there could be impacts on the public sector and wider economy;
- Re-procurement of street scene contract – work on procurement this major contract will require additional capacity and external support.

3.14 One-off issues can be funded through reserves but those which have recurring cost impacts will add pressure to the base budget.

3.15 The worst-case scenario builds in notional additional recurring costs of £900k from 2022/23.

Net Budget Forecast (Mid-Case)

3.16 The forecasted resources and revenue budgets to 2024/25, are:

General Fund	**Revised Budget 2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Council Tax-	-5,861	-5,875	-6,022	-6,203	-6,390
CTax Collection Fund Surpluses/ Deficit (-/+)	-74	-8	69	69	0
Business Rates Collection Fund Surpluses	-9,019	-9,172	-100	-200	-300
Business Rates	-2,274	-2,274	-2,508	-2,558	-2,609
BR Multiplier Cap Compensation	0	-128			
Rural Services Delivery Grant	-108	-142			
New Homes Bonus	-2,534	-1,671	-767		
Other Non-Service Grants	-1,181	-1,117	-24	-24	
Total Resources	**-21,051**	**-20,387**	**-9,352**	**-8,916**	**-9,299**
Net Budget before trfs to/from Reserves	**15,077**	**19,076**	**16,263**	**12,734**	**11,629**
Net transfer to/from Reserves	**105**	**3,353**	**-4,969**	**-1,343**	**53**
Revised Forecast Surplus/Deficit (-/+)	**-43**	**2,042**	**1,942**	**2,475**	**2,383**
Note: Planned Savings included within services	155	123	323	323	323

Housing Revenue Account	**Revised Budget 2020/21 £000's**	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Dwellings Rents	-12,157	-12,302	-12,548	-12,862	-13,247
Garage Rents	-106	-107	-109	-111	-114
Total Resources	-12,263	-12,409	-12,657	-12,973	-13,361
Net Service Costs	**6,931**	**7,245**	**7,365**	**7,498**	**7,665**
MRP	1,492	1,575	2,682	2,769	2,858
Covid cost pressures	279				
Covid income pressures	219				
Forecast Surplus/Deficit (-/+) transferred to MRR to fund the capital programme	**-3,342**	**-3,589**	**-2,610**	**-2,706**	**-2,838**
Note: Planned Savings included within services	195	195	195	195	195

3.17 For 2021/22 and 2022/23 the General Fund shows a budget deficit of circa £2m with modest savings of £323k assumed but not yet delivered. By 2023/24 the deficit reaches £2.5m. Ultimately the deficit is dependent upon the Local Government Finance Settlement and any further emerging risks. The 'worst-case' scenario shows that by 2023/24 the recurring deficit on the revenue budget could be around

£4m, and without savings, available reserves would be fully depleted within the next 3 years.

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 as resources currently held in the Major Repairs Reserve will not be sufficient and therefore cash flows will have to be carefully managed. By 2022/23 the Major Repairs Reserve will be fully depleted, and funds voluntarily set aside to repay debt will have to be released to fund on-going works to the housing stock.

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 supporting the revenue budget in lieu of deferred savings and investment. We will continue to strive for more efficient and effective services and maximise income where possible and appropriate, 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 The previous MTFS and the Budget report approved in February 2021 highlight the major uncertainty arising as a result of Covid-19 and 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.

4.2 This MTFS identifies recurring savings of £2m - £2.8m p.a. will be needed by 2024/25, but this remains very much dependent upon the longer-term funding regime for local government and emerging budget risk.

4.3 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 – potential future income from the Summit and garden waste is included in the outline plan;
- **Commissioning** from and with partners to achieve shared

efficiencies and reduce the demand for public sector services.

4.4 However as recognised in the approved Budget, 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 have been 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 new savings is now pushed out to 2024/25, with reserves being used to bridge the gap in the short term.

4.5 The tables below summarise the current plans and show the estimated funding gap based on the mid-case of this refreshed MTFS:

GF Savings Summary	**2021/22 £000's**	**2022/23 £000's**	**2023/24 £000's**	**2024/25 £000's**
Low risk/completed	0	0	0	0
Medium risk/in progress	23	23	123	123
High risk/not started	0	100	200	1,484
New target – to be delivered through LGR	0	0	0	1,193
Cumulative Savings	**23**	**123**	**323**	**2,800**
Annual Savings	**23**	**100**	**200**	**2,477**

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

4.6 The plan will continue to be monitored closely and further savings will be captured as opportunities arise, and of course should any of the emerging risks crystallise (see paragraph 3.13) then the target will be updated. An outline savings plan is presented at **Appendix C**.

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.

5.2 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.

5.3 As part of the MTFS refresh a review of the programmes has been undertaken and some reprioritisation is 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.

5.4 In addition, 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 majority of this spend was to be financed through borrowing with a modest amount of s106 funding earmarked.

5.5 It is proposed that s106 funds be transferred to the HRA programme. The on-going 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. These changes have been incorporated into the revised programme at **Appendix D**.

5.6 In order to maximise spend against the s106 affordable housing commuted sums it is proposed that the current new build budget is extended by £5.990m - from £3.401m to £9.391m and financed £7.513m s106 and £1.878m capital receipts. A bid for this extended programme is submitted alongside this MTFS.

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

5.8 In addition to housing projects, major works are required to the Council's industrial units - £941k is estimated and it is proposed that funds be earmarked for this work pending a more detailed assessment.

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.

6.2 The resources available to fund the programme are 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. **The worst-case scenario shows a further £8m available for allocation to the programme in 2021/22 and it is recommended that this is released for spending from 2021/22. In addition, at the Executive meeting on 8th July, it was proposed that a further £1m capital receipts be allocated to the programme to earmark for future projects in Tadcaster and Sherburn.**

6.3 The table below shows the value of spend to date on the programme and assuming the additional £9m allocation, the value still to be delivered:

Programme for Growth	**Spent to 2020/21 £000's**	**Spend from 2021/22 £000's**	**New Funds released £000's**	**Total £000's**
Total Allocated to projects	3,365	9,994	9,000	22,359
Internal capacity	3,136	2,724		5,860
Assumed remaining project delivery fund (subject to available resources)		253		253
Funding from Special Projects Reserve	**6,501**	**12,971**	**9,000**	**28,472**

6.4 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).

6.5 A review of existing 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. The current programme is set out at **Appendix E with the latest phasing of spend**.

6.6 In light of the additional resources available for release to the programme, plus reprioritisation of £950k above, a number of new

projects are put forward for consideration alongside this MTFS with projects being subject to business case approval by the Executive. In summary these are:

- Selby Station Gateway Project – an additional £5.65m for the plaza, additional land assembly and CPO costs (subject of a separate report);
- Community Legacy Fund £1m (subject of a separate report);
- Burn - £500k to bring the site forward for development;
- Sherburn projects- an additional £650k to deliver a number of legacy projects plus a further £500k to be earmarked for future projects;
- Tadcaster projects - £500k to be earmarked for future projects;
- Places and movements study £2m to provide match funding to support a 'Levelling Up Fund' bid for future infrastructure projects.

6.7 Estimated sums include project and related professional/staffing capacity to take projects forward through delivery. **These projects total a maximum of £10.8m - £0.85m in excess of the £9.95m available for new projects. Council is asked to prioritise allocations within the funding availalbe.**

7 Conclusions

7.1 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. There is risk within 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. At this stage a cautious stance has been taken and whilst further delays could lead to further renewable energy receipts 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 £2.8m 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 £3.9m by 2023/24 including the risks identified.

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 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.

7.7 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.

7.8 Achieving financial self-sufficiency remains the long-term goal and 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 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. 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.

7.10 Finally this 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.

APPENDIX 1

Appendices to MTFS

Appendix A – 10-Year Financial Models General Fund and HRA
Appendix B - Reserves
Appendix C - Savings
Appendix D – Revised Capital Programmes (excluding new bids)
Appendix E – Revised Programme for Growth (excluding new bids)