



Report Reference Number: E/18/18

To: Executive
Date: 6 September 2018
Status: Key Decision
Ward(s) Affected: All
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Lead Executive Councillor Cliff Lunn, Lead Executive
Member: Member for Finance and Resources
Lead Officer: Karen Iveson, Chief Finance Officer

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) prior to consideration by Council later this month.

The key assumptions that underpin the strategy have been updated - Policy Review Committee members will be consulted prior to Council considering it later in September.

The MTFS highlights the potential for New Homes Bonus to be withdrawn after 2019/20 and the additional renewable energy business rates receipts expected in this final year before the system is reset.

The MTFS identifies risk and uncertainty around business rates retention and on-going reductions to Government funding for the General Fund and on-going reductions to HRA rents as the key issues for the Council. The MTFS confirms the Council's strategic approach to reducing its base revenue budget and investing 'one-off' or finite resources to stimulate local economic growth and achieve sustainable income through Council Tax and Business Rates growth.

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

Taking into account prudent forecasts in Business Rates income, alongside our on-going savings plans, a target net General Fund revenue budget of £17.8m and £11.6m for the HRA are proposed for the 2018/19 budget, which includes a savings target of £1.5m for the General Fund.

Based on the assumptions within the MTFS the savings requirement is estimated to rise to £2.9m over the next 3 years.

Recommendations:

It is recommended that:

- i) The Medium Term Financial Strategy be submitted to Council for approval;**
- ii) Delegated authority be given to the Chief Finance Officer, in consultation with the Lead Member for Finance and Resources, for the submission of an application for a 75% Business Rates Pilot, as part of a wider North Yorkshire pool, should this present a favourable outcome for Selby District Council.**

Reasons for recommendation:

To set the framework for the 2019/20 budget and Medium Term Financial Plan to 2021/22.

1. Introduction and background

- 1.1** This report presents an update 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.
- 1.3** Comments on the MTFS will be invited from Policy Review Committee members prior to consideration by full Council.

2. Report

- 2.1** The attached update paper models the Council's revenue budgets over the next 10 years although major risk and anticipated changes within the financing system mean that meaningful future forecasting is extremely difficult. A mid-range forecast is the scenario that is proposed as the basis for the budget round for 2019/20.

- 2.2** Significant changes to the Business Rates Retention Scheme were previously anticipated following the Government's announcement that in future 100% of Business Rates will be retained by Local Government and Revenue Support Grant will be phased out. However since the General Election, plans for 100% rates retention are uncertain as bids for 75% pilots in 2019/20 have recently been invited. This report seeks delegated authority for the Chief Finance Officer to submit an application as part of a wider North Yorkshire pool, on behalf of the Council, should this present a favourable outcome.
- 2.3** The MTFS takes account of the multi-year settlement offer confirmed last year, which sees settlement funding reducing by around £1m by 2019/20. We await the outcome of the Fair Funding Review, which is anticipated in 2019, to clarify funding from 2020/21 and beyond.
- 2.4** For the HRA the MTFS models the on-going 1% reduction in housing rents (2019/20 being the final year of the Government's 4 year reduction plan).
- 2.5** The MTFS mid-case scenario assumes a Council Tax rise of £5, which is in line with the current approved strategy, although a maximum of 3% (£5.25) is allowable under proposed referendum principles.
- 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** Based on the assumptions updated within the MTFS, taking the forecast resources available and assuming costs are contained within the net revenue budget, savings of £1.5m p.a. (General Fund) are still anticipated for 2019/20 and the deficit rises to £2.9m by 2021/22. Over the 4 years including this current year a total shortfall of around £7m is estimated.
- 2.8** Given the risk within our savings programme it is proposed to hold back £7m in the Business Rates Equalisation Reserve in addition to 3 years safety net top up per current policy. It must be stressed however that using reserves to support the revenue budget in this way is not sustainable and failure to 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** In-year HRA surpluses are transferred to the Major Repairs Reserve to support enhancements to the Council's housing stock although reductions to rent levels will mean diminishing resources available for investment.
- 2.10** Whilst revenue resources are challenging, capital receipts remain relatively buoyant which will enable the Council's General Fund capital programmes to be sustained as we consider opportunities to further invest in housing related schemes alongside the Programme for Growth and other reserve programmes which aim to deliver more sustainable income streams whilst improving outcomes for citizens and delivering internal efficiencies.

3. Implications

3.1 Legal Implications

None as a direct result of this report.

3.2 Financial Implications

- 3.2.1** The financial issues are highlighted within the body of the report. Based on the updated key assumptions within the paper, the target net revenue budget for 2018/19 is £17.8m for the General Fund and £11.6m for the HRA.
- 3.2.2** The estimated deficit for 2019/20 totals approximately £1.5m and rising to £2.9m by 2021/22. Work is progressing towards the target but there is a shortfall forecast in 2018/19. This can be off-set by one-off savings in-year but focussed effort is needed to bring this back on track.
- 3.2.3** Further opportunities for savings will be brought forward for consideration as part of the forth coming budget round.

3.3 Equalities Impact Assessment

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

4. Conclusion

- 4.1** The key assumptions which underpin the MTFs have been updated based on the latest intelligence available however there remains much uncertainty around public sector finance.
- 4.2** There remains risk within the Business Rates retention scheme and at this stage a cautious stance has been taken regarding the system reset after 2019/20.
- 4.3** For the HRA the MTFs models the on-going 1% reduction in housing rents.
- 4.4** 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 resources keeping pace with inflation and costs being contained within base budget.
- 4.5** Currently, New Homes Bonus is crucial to our financial resilience and to our capacity to invest in Selby District. The government has indicated a review of New Homes Bonus and stated that the current funding is only secured to 2019/20 and consequently the MTFs tapers this out of the revenue budget over the next 2 years – a loss of around £800k to our revenue budget.

- 4.6** The target net revenue budget for 2019/20 is £17.8m for the General Fund and £11.6m for the HRA. This requires savings of £1.5m General Fund savings for the year. Over the subsequent 2 years this requirement is expected to rise to £2.9m p.a. Given the size of the deficit and risk within the savings programme it is proposed that reserves are held to mitigate this risk although this is not a sustainable solution.
- 4.7** Additional income from Council Tax and Business Rates as a result of our investment in economic growth will help to bridge the funding gap in the long term but in the meantime we must strive to be as efficient as possible and additional savings targets are proposed. We will need to keep this under review as the future for Local Government funding becomes clearer.
- 4.8** The on-going risk to the Council's General Fund and HRA funding means that a careful balance between savings and investment will need to be struck.

5. Background Documents

Approved MTFS Update September 2017

Approved Budget February 2018

6. Appendices

Appendix 1 - Medium Term Financial Strategy Update September 2018

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