Appendix 1

Selby District Council

Medium Term Financial Strategy Update September 2018

1. Introduction and Background

1.1 This paper presents an update to the General Fund Medium Term Financial Strategy approved by Council in September 2017 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. It provides the framework for the forthcoming budget round and the longer term outlook to inform funding and investment decisions. A refresh of the full HRA Business Plan is in progress and this strategy will provide the financial framework for this work.

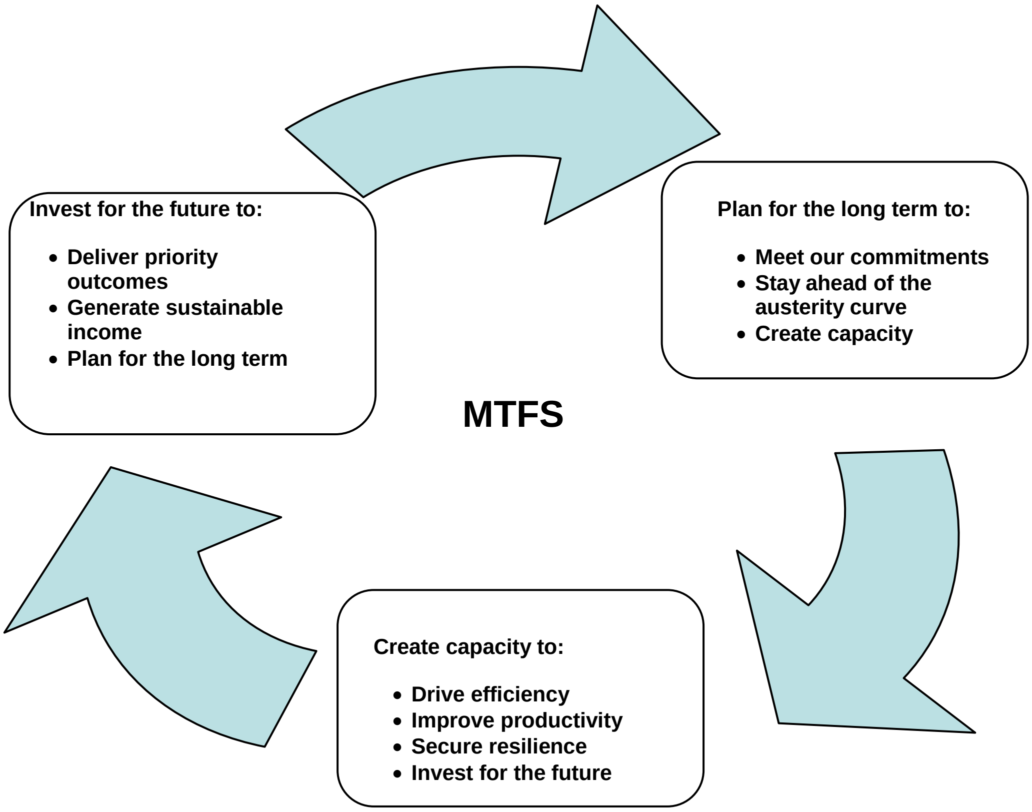
1.2 At this stage the impacts of the UK's exit from the European Union, on public sector finances are still not clear. The Government's proposals for a reviewed Local Government funding system are emerging but there is still much to be settled. A number of consultations have taken place and the latest closes on 18th September with the closing date for the next round of Business Rates Pool pilots a week later. We continue to await the outcome of the consultation on the fairer funding review to throw further light on the outlook for public sector finances.

1.3 As this strategy is being written, the outlook for the devolution agenda remains uncertain and at this stage the financial implications of devolution for Selby are not known and therefore cannot be taken into account in this update. It will be important to understand the on-going implications as part of any future decisions on forming a combined authority with other partners should this ultimately be an option.

1.4 Against this backdrop the key drivers for the financial strategy remain unchanged as the pressure on Local Government finance continues. Whilst there is talk that austerity is over, until this is evident in funding settlements for Local Government, we must assume that austerity in some form will continue.

1.5 In 2017/18 we refreshed our new Corporate Plan and with it restated the Council's priorities through to 2019/20. The Council has a clear and ambitious growth agenda – aiming **to make Selby a great place to do business, enjoy life and make a difference whilst delivering great value**. The financial strategy aims to provide financial sustainability, resilience and capacity for the Council in pursuing its objectives.

1.6 This update once again emphasises financial self-sufficiency as our economic growth agenda develops. This strategy aims to secure the resources necessary to deliver the Corporate Plan, whilst managing the funding cuts we are facing – ultimately over the long term achieving a self-sustaining financial model which sees the Council free from reliance on central government funding by raising income locally through Council Tax and Business Rates as well as through charging appropriately for services and maximising its investments.



1.7 To support this paper and due to the significant volatility within the General Fund, three scenarios (‘best’, ‘mid’ and ‘worst’ case) for the General Fund and a separate mid-case only, forecast for the HRA have been modelled over the 10 years from 2019/20 to 2028/29 and are attached at **Appendix A**. More detailed best and worst case scenarios will be modelled for the HRA when the whole HRA Business Plan is refreshed later this year. The mid-case scenarios are the proposed as the frameworks for the forthcoming budget. However, given the uncertainty for public sector finances, we remain ready to cope with a worst case scenario whilst staying focussed on our Corporate Plan objectives - using our strong financial position to carefully balance savings and investment.

2 Update on financial assumptions

Economic Assumptions

Interest Rates

2.1 The bank base rate was raised by 0.25% to 0.5% in November 2017 and then raised again to 0.75% in August 2018. In the latest forecasts received from Link (the Council's treasury management advisors) in May 2018, the bank rate was projected to remain at 0.50% through to December 2018 when a rise to 0.75% was predicted followed by a further rise to 1.00% in September 2019. We await an updated forecast following the August rate rise but have made some broad assumptions for the purpose of this MTFS.

2.2 The approved strategy includes provision for a £300k cap on the amount of investment interest used to support the General Fund revenue budget and an equivalent cap of £135k for the HRA is proposed. As a result of the latest interest rate rise and the level of Council balances, it is anticipated that these will be reached in 2019/20:

	2018/19*	2019/20	2020/21	2021/22
Average rate %	0.66	1.10	1.25	1.35
GF Interest£000's	249	300	300	300
HRA Interest £000's	112	135	135	135
Total Interest £000's	261	435	435	435

**2018/19 Quarter 1 Treasury Management Report*

2.3 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 As at May 2018 CPI inflation was running at 2.4% in contrast to average weekly earnings which rose by 2.5% in the three months to April 2018. The Bank of England forecast CPI to decline through 2018 to 2020 to just above their 2% target. However, it remains to be seen how the UK's exit from the European Union will impact on the outlook for the economy and inflation. Given the continued cuts to central Government funding, the MTFS assumption on inflation has been maintained at 2% although a provision for inflation will only be provided on contractual budgets, which builds in a level of risk mitigation. Relatively minor price rises above this level will be managed within the overall net budget.

Appendix 1

General Fund Assumptions

Settlement Funding

2.5 This element of funding has seen the most significant changes in recent years 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 The Government has provided a multi-year settlement (2017/18 – 2019/20) to Local Authorities although has reserved the right to alter the figures due to unforeseen circumstances or 'shocks' in the system. The Government have confirmed their intention to honour the multi-year settlement in its final year and are currently consulting on negative RSG, suggesting this may be removed from the 2019/20 settlement. At this stage it is assumed that this will be rolled into the new settlement from 2020/21 so any benefit would be for one year only.

Local Government Finance Settlement	**2015/16 £000's**	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's***
RSG	1,756	1,121	593	265	0	0
BRBF	2,232	2,250	2,294	2,365	2,418	2,466
Tariff adjustment					**~~-101~~**	**-103**
SFA	**3,988**	**3,371**	**2,887**	**2,630**	**2,418**	**2,363**
RSDG	0	134	108	135	108	0
TG	0	11	11	0	0	0
Total	**3,988**	**3,516**	**3,006**	**2,765**	**2,526**	**2,363**

**Multi-Year Settlement runs to 2019/20 – 2020/21 Estimated (+2% inflation) and subject to Fair Funding Review and Business Rates Reset*

2.8 The settlement shows a funding reduction of approximately £1.5m from 2015/16 to 2019/20 with RSG being completely phased out over the period.

2.9 The Government has now shelved plans for Local Government to retain 100% of Business Rates in future and plans to pilot a 75% retention system in 2019/20. The Government's 'Fair Funding Review' is still expected to move forward but without an agreed mechanism to redistribute resources there is the potential for further uncertainty and risk.

Business Rates Retention

2.10 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 will be maintained in this reserve. Balances above this level will be available for investment.

2.11 The Council is currently at the ‘safety net’ for the purposes of rates retention but in receipt of a large windfall from renewable energy (£7.8m p.a. in 2018/19). It is anticipated that this financial situation will continue for a further year until the system is reset from 2020/21.

2.12 At the time of updating this strategy the Government has announced a further pilot for Business Rates Retention (75% rather than 100%) prior to the system reset. Work is underway to assess the issues and impacts with colleagues within the potential pilot (North Yorkshire County Council, East Riding of York Council and the Districts within North Yorkshire). The deadline for applications is 25th September and at this stage the financial implications are not known – it is assumed however that if it is decided that Selby should be part of any application, the impacts will be for one year only and as such will not be included within the Council’s base budget assumptions.

2.13 Our forecast for 2018/19 is based on our NNDR1 return taking account of the 2017 revaluation, latest intelligence on appeals, business growth and closures known at that time:

Business Rates Income	2018/19 £000’s	2019/20 £000’s	2020/21 £000’s	2021/22 £000’s
Selby’s share of retained income	-761			
Safety-Net Payment	2,949			
Safety-Net	2,188			
Transfer from BRER	177			
= Baseline	2,365	2,418	2,363	2,410
Assumed growth	0	0	0	0
Renewable Energy/Surplus*	7,820	7,980	0	0

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. Since our 2018/19 forecast we have had notification of a downward revaluation for Eggborough Power Station which will reduce Selby’s retained income by a further £416k. As Selby is already £2.9m below the safety net (with £761k negative business rates through the retention system in 2018/19) no growth above our baseline funding is anticipated for the foreseeable future. Following the system reset, 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 approved strategy provides that £880k p.a. is used to support the Programme for Growth. A new Programme was established as part of the refresh of the Council's Corporate Plan and the current budget assumes that £880k p.a. continues to be transferred to reserves whilst NHB income continues, although funds have not been allocated to projects beyond those approved to date.

2.17 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. New Homes Bonus funding is only secured to 2019/20 and latest intelligence suggests that this scheme will be replaced in its entirety from 2020/21 with the Government considering alternative ways to incentivise housing growth. Assuming a similar level of growth in 2019/20 New Homes Bonus forecasts are:

New Homes Bonus	**2016/17 £000's**	**2017/18 £000's**	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
Year 1	***445***				
Year 2	***435***				
Year 3	303	303			
Year 4	542	542			
Year 5	353	353	353		
Year 6	368	368	368	368	
Year 7		400	405	405	0
Year 8			415	415	0
Year 9				427	0
Year 10					0
Total	**2,446**	**1,966**	**1,541**	**1,615**	**0**

2.18 Given the uncertain nature of NHB it is not advisable to rely on this to support the revenue budget and therefore the previous mid-case scenario assumed that the anticipated reductions impacted on the allocation to the revenue budget in the first instance. This allows a managed reduction in resources to help mitigate the risk of loss should the scheme ultimately be brought to a close.

2.19 The following is therefore proposed for 2019/20 and 2020/21 onwards:

NHB	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's
P4G	880	880	880	1,248	0
GF	1,566	1,086	661	367	0
Total	**2,446**	**1,966**	**1,541**	**1,615**	**0**

2.20 Growth in receipts above these levels or receipts from any new scheme is assumed to be allocated to the Programme for Growth.

Special and Specific Grants

2.21 The Council is in receipt of a number of additional grants for 2018/19 which may continue into the future. For 2018/19 the Local Government Finance Settlement included the following which are assumed to continue to 2019/20 in line with the multi-year finance settlement:

Grants	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
Rural Services Delivery Grant	135	108	0	0
Transition Grant	0	0	0	0
Total Grants	**135**	**108**	**0**	**0**

2.22 Future funding is dependent upon the outcome of the new Business Rates Retention system - beyond 2020 it is assumed that these grants will be rolled into Business Rates funding. 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 – they are not listed here as it is assumed that there is corresponding expenditure for these elements.

Council Tax

2.23 A Council Tax Base of 30,837 is estimated for 2018/19 with a 1% rise forecast thereafter included in the Council's current Medium Term Financial Plan. Every 0.5% increase above this level would add approximately 150 Band D equivalents to our Tax Base which equates to around £27k p.a. at the current Band D charge (£175.22).

2.24 At this stage the Government has not proposed changes to the council tax referendum principles that were used in 2018/19 although an update will be provided alongside the provisional local government finance settlement. The current principles are to allow district councils to increase their Band D charge by £5 or 3% (whichever is the higher) without triggering a referendum. A £5 p.a. increase has been factored into our current MTFS for 2019/20.

2.25 A £5 increase equates to an increase of 2.85% or 10p per week for 2019/20. A 1.99% rise (in line with inflation assumptions) has been modelled for 2020/21 onwards:

	2018/19	2019/20	2020/21	2021/22
Tax Base with 1% growth	30,837	31,145	31,456	31,771
Band D Charge £	175.22	180.22	183.80	187.46
% Increase	2.94	2.85	1.99	1.99
Council Tax Income £000's	5,403	5,613	5,782	5,956
Collection Fund Surplus/(Deficit)	(95)	0	0	0

2.26 Should the Council wish to consider an alternative policy on Council Tax:

- a 3% increase would take the Band D charge to £180.47 (an increase of £5.25) and raise an additional £8k in 2019/20 – £80k over the life of the MTFS,
- and a freeze in 2019/20 would reduce income by £157k – a loss of circa £1.6m over the life of the MTFS.

The best case scenario incorporates the 3% increase and the worst case a freeze.

<u>Council Tax Support Grant for Parishes</u>

2.27 In accordance with the approach adopted in the current Medium Term Financial Plan, it is assumed that support for parishes will be discontinued from 2019/20 by which time Tax Base growth will have more than compensated for the impact of Council Tax Support. The strategy forecasts the grant amount reducing in line with the reduction in the Council settlement funding (RSG/NNDR). On-going engagement has been undertaken with the Parishes to ensure that they are preparing for this change and this will continue through the forthcoming budget round. It should be noted that Parishes are not subject to Council Tax referendum rules and consequently are able to increase their precept to meet their spending needs.

<u>Service Income</u>

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. A review of fees and charges is planned as part of our savings programme and within the context of a self-sustaining financial model.

2.29 This strategy assumes that service income raised through discretionary fees and charges will increase in line with inflation although opportunities to maximise income will be sought as part of our overall approach to savings and efficiency – currently a £185k target for additional income is included within our approved savings plan for

2019/20. Prescribed planning fees increased by 20% from 17th January 2018 - the additional income generated being used to reinvest in the service. Other grants and subsidies are assumed to remain flat – any subsequent reductions will be managed within the overall base budget/savings requirement.

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

Service Income	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
General Fund				
Waste Collection & Recycling	1,533	1,564	1,595	1,627
Planning	1,050	1,050	1,050	1,050
Car Park Income	350	350	350	350
Selby Leisure Centre / Summit	407	398	398	406
Commercial Property Rental	319	482	491	501
Lifeline Private Clients	319	357	364	371
Court Fees / Summons Costs	155	158	162	165
Land Charges Search Fees	148	151	154	157
Miscellaneous Fees & Charges	332	368	375	382
Licences	133	136	138	141
Total Service Income	**4,746**	**5,014**	**5,077**	**5,150**
Current Income Growth Target (per savings plan)	0	185	185	185
Total Target Income GF	**4,746**	**5,199**	**5,262**	**5,335**

Housing Revenue Account Assumptions

2.31 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.

Dwelling Rents

2.32 2019/20 will be 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 reduces the amount available to invest in improving our housing stock and new build housing. From 2020/21 a CPI + 1% rise is expected 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. Assumptions on void properties and bad debts remain unchanged with 1% and 1% applied respectively.

Council House Sales and New Builds/Acquisitions

2.33 Right to buy sales are estimated at 20 per annum which accords with recent experience but such sales are sensitive to economic change and therefore these will be kept under close review.

2.34 New builds and acquisitions are currently forecast in line with the Council's approved Housing Development Programme. (£3.48m over the next 2 years). However as our plans are being brought forward there may be some flex required 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.

Rent Forecasts	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Number of dwellings (mid-year average)	3,040	3,045	3,041	3,027
Average Rent - Rent Restructuring £	83.26	82.43	84.90	87.45
Net Rent Income £000's	**11,940**	**11,840**	**12,143**	**12,452**

Other Income

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

Service Income	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
HRA Garage Rents	**100**	**103**	**106**	**107**

Debt Charges Assumptions

2.36 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).

2.37 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.

2.38 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.

2.39 A small amount of MRP charge remains within the General Fund relating to the cost of the 'fit-out' of the Summit which is covered by the trading concession fee received from 'Inspiring Healthy Lifestyles' – this arrangement aims to ensure that the facility remains sustainable by maintaining financial capacity to replace the interior at the end of the 10 year contract should this be required.

2.40 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. MRP is £1.26m p.a. and current interest payable is £2.413m p.a. The amount of borrowing allowable within the HRA is subject to a 'debt cap' of circa £63m – based on current borrowing requirements there is currently approximately £10m available for new borrowing.

2.41 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 as interest rates are expected to rise, 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

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

2.43 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

2.44 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 201617, there is now sufficient balance in this reserve to cover future commitments. 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 – £141k p.a. General Fund (£150k less £9k saving from the Better Together ICT service) 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. The level of on-going contribution is confirmed without change. 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.

- 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 planned with £900k committed from this reserve over the 3 years from 2018/19. Accordingly a one-off top-up of this reserve is required and it is proposed that £250k is transferred from General Balances (£150k) and the Pension Equalisation Reserve (£100k). An update to the assessment of works required to maintain our assets over the coming 10 years will be done as part of the next Asset Management Strategy refresh. In the meantime it is proposed that annual contributions be maintained at £200k p.a. pending a more detailed view of future spending needs.

- Special Projects Reserve - £880k of New Homes Bonus and excess business rates income beyond that required for the Business Rates Equalisation Reserve (see above) are used to top up this reserve for the Council's 'Programme for Growth'. However, i**t must be stressed that the use of NHB and Business Rates resources to fund growth is wholly dependent upon achieving the revenue savings targets set.**

- Affordable Housing (s106 commuted sums) – a ring-fenced reserve 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.

- 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 – 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. 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, and therefore contributions to this reserve have been reduced to £100k p.a. This reserve will be reviewed again in light of the next triennial valuation due in 2019.

- 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 from 2020/21. Given the anticipated changes to the rates retention scheme and on-going Local Government funding cuts, 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 with the rest transferred to the Special Projects (Programme for Growth) Reserve. This policy will be maintained for 2019/20 and the mid-case forecast on savings requirements suggests that a figure of £8.1m would be prudent to hold back to cover the current savings requirement and safety net 'top-up' for the next 3 years.

The impact of the system reset and the potential for a 75% rates retention pool will be considered and if necessary future changes to this reserve will be brought forward in due course.

- 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. Growing demands in this area suggest it would be prudent to set aside additional funds into this reserve and therefore it is proposed that £250k be transferred from the 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 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.

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.

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

3 Revenue Budget Outlook 2019/20 to 2021/22

Costs

3.1 It is assumed that on average costs will increase in line with inflation. Whilst cuts in general grant continue, demand led cost pressures must be 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.

3.2 There are a number of significant pressures that are currently being monitored:

- Lifeline service – a trial of a reconfigured service has been approved following withdrawal of NYCC supporting people funding. The business case identified an overall net cost of £30k to the Council's General Fund which has been included in the mid-case scenario;
- Green waste – NYCC are reviewing recycling credits and have consulted on proposals to reduce the amount of credits paid to district councils – a potential loss of £300k. The mid-case scenario assumes a cost neutral position for Selby but as Selby does not currently charge for this service this represents a significant risk;
- Summit – the facility operator IHL is experiencing lower footfall and approval to amend the service offer has been agreed by the Executive with corresponding one-off funding. The mid-case assumes no change to the income received from IHL for the trading concession.

Whilst we will seek to contain such issues within the revenue budget in 2018/19, given the pressures above it is unlikely this will be achievable going forward and therefore the savings gap is expected to widen from 2019/20.

3.3 The single largest cost to the Council is its employees. In 2018/19 the Council's payroll budget is approximately £8.2m including circa £1.0m to directly support the Programme for Growth. This includes the impacts of the 2018/19 pay award which has increased our budgets by approximately £240k and a 2% vacancy factor reducing the payroll budget by £170k. 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 over three years from 2017/18. In the shorter term this continues to require support from the Council's reserves and the Council has approved funding through the Programme for Growth through until 2019/20. However, care needs to be taken to ensure that this directly supports an increase in overall cash resources coming into the Council.

3.4 The Apprenticeship Levy has also been factored into our future payroll costs – an estimated cost of around £18k p.a.

<u>Income</u>

3.5 Service related income levels are improving and helping to support our savings plan. Opportunities for growing income generation remain a priority and proposals for commercialisation will continue to be developed. A strategic review of income generation is planned as part of our savings work which will include opportunities for investment in property and/or other alternatives to achieve an income stream.

3.6 The windfall from Business Rates income will have a significant positive impact on our General Fund financial position at least in the short term but we will need to keep this under close review and in accordance with the previously approved MTFS and budget, it is assumed that growth above our baseline funding is transferred into the Special Projects (Programme for Growth) Reserve as it is realised.

3.7 Whilst the Government's offer of a multi-year settlement provides a degree of certainty (notwithstanding the impacts of the UK's exist from the EU) this is a diminishing proportion of overall funding. Due to the uncertainty of Business Rates and New Homes Bonus it is difficult to predict the level of resources we can expect beyond 2018/19 with confidence.

3.8 Housing rents are subject to the Government's control and forecasts. In 2016/17 a 1% reduction in rents was implemented for a four year period of which the last year will be 2019/20. From 2020/21, CPI + 1% will be applied in line with government policy for a 5 year period but as highlighted in paragraph 2.34 above this could be subject to change.

Appendix 1

Net Budget Forecast (Mid-Case)

3.9 The forecasted resources and revenue budgets for 2019/20 to 2021/22 including approved bids and commitments are shown in the table below (mid-case):

General Fund	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
Council Tax	5,403	5,613	5,782	5,956
Council Tax Collection Fund Surpluses	(95)	0	0	0
Business Rates Collection Fund Surpluses	7,820	7,980	0	0
RSG	265	0	0	0
Business Rates*	2,188	2,418	2,363	2,410
New Homes Bonus	1,541	1,615	0	0`
Other Non-Service Grants	204	191	0	0
Total Resources	**17,326**	**17,817**	**8,145**	**8,366**
Net Budget Prior to Planned Savings	**18,354**	**19,388**	**10,490**	**11,264**
Business Rates Equalisation Reserve	668	81	0	0
Forecast Surplus/Deficit (+/-)	**-360**	**-1490**	**-2,345**	**-2,897**

*2018/19 Safety Net thereafter assumed Baseline

Housing Revenue Account	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
Dwellings Rents	11,940	11,840	12,413	12,452
Garage Rents	100	103	106	107
Total Resources	**12,040**	**11,943**	**12,248**	**12,559**
Net Budget Prior to Planned Savings	**11,175**	**11,664**	**10,740**	**12,226**
Planned Savings	0	-75	-75	-75
Forecast Surplus/Deficit (+/-) transferred to MRR to fund the capital programme	**864**	**353**	**1,584**	**408**

3.10 The General Fund shows a forecast deficit of £1.5m in 2019/20, £2.3m in 2020/21 and £2.9m in 2021/22.

3.11 The on-going risk to the Council's funding (General Fund and HRA) means that we will need to strike a careful balance between savings and investment. We will continue to strive for more efficient and effective services and maximising income where possible and appropriate, which in turn will enable the financial capacity for investment to achieve sustainable cash 'returns' 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 This MTFS 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.

4.2 Taking the proposals for Council Tax, growth, and reserve transfers and assumptions on Formula Grant, the estimated target for savings on the General Fund is £2.9m by 2021/22.

4.3 The Council has a good track record for delivering savings, but in 2018/19 progress is behind profile and 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 long term use of balances to support on-going spending which is unsustainable. The Council's approach to savings covers three key strands:

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

4.4 A number of 'technical' savings have also been delivered which involved the set-aside of one-off sums to reduce the on-going base budget – these included a £1.5m contribution to the Private Finance Initiative (PFI); £3.3m voluntary minimum revenue provision in relation to outstanding debt; and a £9.391m lump sum payment to the North Yorkshire Pension Fund to reduce employer contributions. Council agreed that resources earmarked in a number of reserves would be redirected in 2016/17 with the potential for these to be replenished in 2017/18 (subject to business rates income) – which was done in 2017/18.

4.5 The General Fund savings in progress and forecast for 2018/19 currently total £175k - £185k short of the expected deficit. Looking ahead to 2019/20 much of the identified savings are considered high risk. The previous MTFS provided £2.4m to support the revenue budget pending delivery of saving but given the high risk within the savings programme it would be prudent to hold back sufficient funds to cover the current year and following 3 years deficit – a total of around £7m.

4.6 In approving the plan and it must be acknowledged that **failure to deliver the savings target would require the use of further reserves to balance the budget which would undermine the Council's long term financial resilience and therefore work to deliver and identify further savings to bridge any gap must continue.**

4.7 Taking into account the updated forecasts in the MTFS and progress on the current savings plan the estimated position on savings is:

GF Savings Summary	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
Estimated Deficit (mid-case)	**360**	**1,490**	**2,345**	**2,897**
Low risk	45	45	45	45
Medium risk	60	319	319	319
High risk	70	1,212	1,212	1,212
Total per plan	**175**	**1,257**	**1,257**	**1,257**
Further Shortfall	**185**	**233**	**1,088**	**1,640**

HRA Savings Summary	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**	**2021/22 £000's**
Assumed residual target	**0**	**84**	**84**	**84**
Medium risk	0	194	194	194
High risk	0	20	20	20
Total per plan	**0**	**214**	**214**	**214**
Current Shortfall / (Surplus)		**(130)**	**(130)**	**(130)**

Note HRA is in surplus but resources are required for capital programme so an assumed savings target is applied

4.8 Opportunities for additional savings will be explored as part of the forthcoming budget round.

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. For information, the approved programmes are attached at **Appendix D**.

5.2 There is currently around £5.7m available in usable capital receipts estimated over next 3 years from right to buy receipts, and land/property sales. In recent years low level receipts have been used to cover the cost of Disabled Facilities Grants, however increases in Council House sales and the Council's agreement with the Government to retain extra receipts to achieve one for one replacement of Council homes, means that going forward, receipts retained from council house sales can be used to support the Council's affordable homes development strategy and deliver new build homes across the district.

5.3 In addition s106 affordable housing commuted sums are anticipated (£8.5m over the next 7 years with £4.88m outstanding at April 2018) which provide the potential to extend our house building/acquisition programme further. Plans are already in progress on the £22m development programme approved by the Executive in January 2018, but with rising right to buy receipts and s106 commuted sums, there is potential to increase our existing programme further. A review of the HRA Business Plan will be undertaken in the coming months and proposals will be brought forward for approval in due course should this be appropriate.

5.4 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. Capital Programme proposals will be considered as part of the forthcoming budget round and borrowing requirements will be kept under review.

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. The approved programme, which aligns to the new Corporate Plan, is set out at **Appendix E**.

6.2 The programme is now in its fourth incarnation, with an initial suite of projects approved as part of the 2018/19 budget:

Programme for Growth 3	**Projects £000**
Total Allocated to projects	7,511
Internal capacity	3,000
Assumed remaining project delivery fund (subject to available resources)	423
Funding from Special Projects Reserve	**10,934**

6.3 These resources could increase further subject to the future of New Homes Bonus and Business Rates and delivery of savings. **The mid-case scenario shows the potential for a further £8.7m receipts in 2018/19.** The Council's treasury management strategy proposes to invest £5m in property funds with entry fees and the investment being financed through the Programme for Growth which would leave £3.7m for future allocation.

6.4 At this stage however, given the risk within the savings plan the remaining £3.7m will be held within the Business Rates Equalisation reserve to mitigate the shortfall in our savings plan.

6.5 The resources available to fund the programme will be 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.

6.6 There may be opportunity to extend the programme for growth further through bids for funding from external partners (such as the LEP and HCA).

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.

7.2 There is risk within the Business Rates retention scheme as we approach the system reset from 2020/21 - at this stage a cautious stance has been taken and whilst we anticipate further renewable energy receipts in 2019/20 these will only be allocated when they are confirmed although we will keep the potential in mind as we develop our plans.

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 Currently, New Homes Bonus is crucial to our financial resilience and to our capacity to invest in Selby District. However recent indications from central government suggest that this scheme is only secured to 2019/20. To plan for the potential loss it is proposed that the amount used to support the revenue budget is phased out over the next 2 years - a loss of nearly £800k to our on-going revenue budget.

7.5 Based on the assumptions in this strategy the Council’s target General Fund Net Revenue Budget for 2019/20 is £17.8m, including a savings target of £1.5m and net contributions to reserves of £7.8m (which includes £8m non-recurring renewable energy business rates).

7.6 By 2020/21 the savings requirement is anticipated to rise to £2.3m and £2.9m by 2021/22 (although this does not take into account growth beyond the standard assumptions contained in this MTFS).

7.7 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 in the long term but inevitably this will take time to come to fruition and therefore in the meantime we must 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 funding becomes clearer.

7.8 The target HRA budget for 2019/20 is £11.6m including a savings target of £75k. Over the next 10 years there is capacity within the HRA Business Plan to support additional capital expenditure - balancing investment in our current stock with acquisition of new homes. 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. As plans for the Housing Development Programme are established this budget will be updated as required.

7.9 Meeting the on-going savings challenge features strongly in the Council’s strategic and operational plans and this work will continue. Our collaboration with North Yorkshire County Council and other partners, progressing our digital strategy and reducing demand for services, the commercialisation of our business, income generation and efficiency savings are important to this work.

7.10 However achieving financial self-sufficiency 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.