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Ward(s) Affected: All
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Title: Proposed Revenue Budget and Capital Programme 2019/20 and Medium Term Financial Plan

Summary: Subject to consultation which runs to 3 February 2019, this report presents the proposed revenue budget; capital programmes and latest forecast for the Programme for Growth for 2019/20 to 2021/22. The 2019/20 budgets show a forecasted balanced budget after taking into account planned savings and reserve drawdowns.

A Band D Council Tax increase of £3 is proposed for 2019/20 - £2 less than the approved MTFS.

General Fund efficiency savings and income generation plans totalling £1.972m p.a. by 2021/22 are included in the budget proposals with a further circa £65k required from 2020/21 and a residual £300k required beyond 2021/22. HRA savings of £214k are also planned.

In 2019/20 it is proposed that £3.3m is transferred to the Business Rates Equalisation Reserve to provide future revenue support in line with the previously approved MTFS policy. In 2020/21 £745k will be drawn down from this reserve and a further £294k will be required in 2021/22. The on-going use of reserves to support the revenue budget in this way is not a long term sustainable solution and therefore achievement of efficiency savings and additional income generation remain crucial as plans for Business Rates and Council Tax growth are brought to fruition.

The draft budget also includes Capital Programme proposals for the General Fund and HRA which, (with the exception of housing development loans and programmes which are funded through borrowing) are funded from reserves and external funding.

Subject to the outcome of the 2019 Spending Review, Fairer Funding Review and wider economic risks, plans are in place to deliver a sustainable budget going forward, although this is reliant on focussed action to deliver the savings required

Recommendations:

It is recommended that the draft budgets, bids, savings and Council tax increase for 2019/20 be submitted to full Council for consideration and approval.

Reasons for recommendation: To enable the views of the public and Policy Review Committee members to be gathered through consultation.

1. Introduction and background

- 1.1 The Council approved its Medium Term Financial Strategy (MTFS) on 18 September 2018. The MTFS covers both General Fund activities and the Housing Revenue Account, and provides the strategic financial framework for medium term financial planning and annual budget setting.
- 1.2 The Housing Revenue Account (HRA) and Housing Investment Programme (HIP) are covered in more detail by the Housing Business Plan (HBP). The current HBP was approved by Council on 24 February 2015 – a refresh is currently in progress which will align with the overarching financial framework set out in the MTFS.
- 1.3 The MTFS takes account of the Government's offer of a multi-year finance settlement for Local Government which showed core General Fund funding reducing by £1m from £2.4m in 2016/17 to £2.0m in 2019/20 and a further reduction of around £500k in New Homes Bonus. The MTFS recognises on-going reductions to Government funding (Revenue Support Grant and New Homes Bonus) along with risk and uncertainty surrounding the fair funding review and the business rates retention system reset from 2020/21 as the key issues for the Council's finances.
- 1.4 The MTFS highlights the wider economic risks associated with the UK's exit from the European Union although realistic quantification of those risks is not possible at this stage.
- 1.5 The MTFS also confirms the Council's strategic approach to securing financial sustainability by reducing its base net revenue budget in order to deliver services within its in-year resources; and investing 'one-off' or finite resources to stimulate local economic growth and achieve sustainable income through Council Tax and Business Rates growth.
- 1.6 From the HRA perspective the MTFS includes a 1% reduction in housing rents – 2019/20 is the final year of the Government's 4 year plan to reduce social housing rents by 1% year on year.
- 1.7 The MTFS also confirms the Council's reserves strategy - fundamentally avoiding the use of balances to support the on-going revenue budget which is not sustainable in the long term. Instead it seeks to balance the set aside of sums to cover known commitments and financial risk, as well as earmarking resources to support delivery of the Council's Corporate Plan.

- 1.8 The draft budget proposals are currently under consultation, which closes on 3 February 2019 – an extract of the minutes from Policy Review Committee on 22 January is attached at Appendix G. The Executive will be updated verbally with any issues raised through the public consultation.

2. The Report

- 2.1 The draft revenue budgets for the 3 years from 2019/20 to 2021/22 are presented at **Appendix A**, the proposed capital programmes are shown at **Appendix D** and the current Programme for Growth is at **Appendix E**.

General Fund Revenue Budget

- 2.2 The draft budget includes provision for inflation where considered necessary and provision for the agreed pay award plus provision for the subsequent 2 years – a 5% vacancy factor has also been included to help mitigate the rising pay bill and manage other cost pressures within the budget. Committed growth, (for example the reduction in recycling credits and demand led pressures within our street scene contract) is also included where necessary along with some relatively minor proposals for discretionary growth. **Appendix C** identifies revenue and capital proposals for approval.
- 2.3 The draft budget includes an assumed £7.98m from renewable energy business rates in 2019/20 although it is understood that Drax Power Station is subject to a revaluation. In accordance with the MTFS after allowing for the revenue budget requirements these receipts will be transferred to the Business Rates Equalisation Reserve and the Special Projects Reserve. In accordance with the approved MTFS, the allocation of such receipts will be subject to confirmation as part of the next MTFS refresh and budget for 2020/21.

Local Government Finance Settlement

- 2.4 The provisional settlement was announced on 13 December and at the time of writing this report the final settlement announcement is awaited. Key changes included in the provisional settlement from the MTFS assumptions are:
- New Homes Bonus – an additional £340k for 2019/20;
 - Business Rates Baseline funding increased to £2.427m (safety net level) to reflect the 75% pilot in 2019/20 and the rolling-in of Rural Services Delivery Grant;
 - Rural Services Delivery Grant maintained at 2018/19 level (subject to safety net);
 - Additional £37k share of levy surplus

In accordance with the approved MTFS any additional resources arising from the final settlement are, subject to Council approval as part of the budget setting, to be transferred to Reserves for future allocation. Beyond 2019/20 the funding system is subject to review and for 2020/21 onwards current baselines (plus inflation) are assumed. In 2019/20 the revenue budget requirement for Business Rates includes £128k to bring in-year Business Rates Income up to Baseline.

Council Tax

- 2.5 The approved MTFs assumes a Council Tax increase of £5 for a Band D property for 2019/20. A £5 increase would take the Council average Band D charge from £175.22 to £180.22 – a rise of under 10p per week. This assumption is slightly below that used by the Government in their local government funding assessment, which assumes a maximum of 3%. However given the on-going challenges for residents the Executive propose to increase the Band D charge by £3 for 2019/20 – to £178.22 – a rise of under 6p per week.
- 2.6 The tax base for Council Tax setting purposes has been calculated at 31,395.19 - a 1.81% increase on 2018/19. The MTFs assumed a 1% increase, so this additional growth will generate a further £45k towards the cost of Council services in 2019/20. In total therefore, the Council Tax yield is estimated at £5.595m for 2019/20.
- 2.7 Taking the Council's overall service requirements and funding assumptions together, the estimated position for 2019/20 is summarised overleaf with more detail at **Appendix A:**

General Fund	2019/20 £000's
Net Budget before contribution to/(from) Reserves	12,119
Contributions to Reserves	9,606
Contributions from Reserves	(2,545)
Net Draft Revenue Budget (including reserve transfers)	19,180
RSG(per multi-year finance settlement)	0
Business Rates Baseline (safety net) - provisional settlement	(2,427)
New Homes Bonus	(1,955)
Special & Specific Grants (still t.b.c.)	(105)
Renewable Business Rates Income	(7,980)
Council Tax	(5,595)
Collection Fund Deficit – Council Tax	23
Total Funding	(18,039)
Planned savings	(1,141)
Net Budget (Surplus)/Deficit	(0)

- 2.8 Subject to the assumptions and risks within the budget, the estimated savings required for 2019/20 are therefore £1.1m, with a further £531k for 2020/21, £367k for 2021/22 and a residual circa £300k beyond 2021/22 (see **Appendix A**).

Housing Revenue Account

- 2.9 The HRA budgets have been prepared using assumptions on rent changes based on the Government's formula. In 2019/20 the 1% reduction (part of the Government's 4

year plan) has been applied.

- 2.10 The estimated position on the HRA for 2019/20 is shown below, which is around £67k short of the position estimated when the forecasts were updated in February 2018. The HRA savings plan is on track to overachieve but opportunities for further efficiency will continue to be sought in order to maximise the resources available for investment in the service.

HRA	2019/20 £000's
Total Net Budget	8,835
Less Dwelling Rents	(11,840)
Less Savings	(214)
Net Surplus available for Major Repairs	(3,219)

- 2.11 Before consideration of the Housing Investment Programme requirements, a surplus position is anticipated for 2019/20. HRA surpluses are used to fund the HRA investment programme, which are smoothed annually through transfers to and from the Major Repairs Reserve. Investment proposals for 2019/20 total £4.369m (£2.725m previously approved and £1.644m new bids) which, if approved, will require a £1.151m drawdown from the Major Repairs Reserve. **Appendix F** shows the forecast on this reserve assuming all bids are approved.
- 2.12 Looking ahead the refreshed HRA Business Plan will set out the long term requirements for the Housing Revenue Account whilst balancing savings and investments within the context of a sustainable HRA.

Savings

- 2.13 The 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. An approved efficiency plan is a requirement of the multi-year finance settlement.
- 2.14 The Council has made good progress against its targets to date, but inevitably it is increasingly challenging to achieve further savings from a reducing cost base. However, the focus on delivering planned efficiency savings must be maintained, given their importance in achieving the Council's financial (and wider) objectives and to avoid the use of balances to support on-going spending which is unsustainable in the longer term. The Council's approach to savings covers 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;
 - **Commissioning** from and with partners to achieve shared efficiencies and reduce the demand for public sector services.

- 2.15 Taking the proposals for Council Tax, growth, and reserve transfers and assumptions on Formula Grant, the draft budget includes savings proposals of £1.1m for 2019/20 rising to £1.6m for 2020/21 and to £2m by 2021/22, with a further £65k still to be identified by 2020/21 and a further £300k to be identified beyond 2021/22. The plan will continue to be monitored closely and opportunities for further savings will be considered as part of the next refresh of the MTFs. Progress against the latest savings plan is presented at **Appendix C**.

GF Savings Summary	2019/20 £000's	2020/21 £000's	2021/22 £000's	Beyond 2021/22 £00's
Low risk/completed	580	500	500	500
Medium risk/in progress	459	747	797	797
High risk/not started	102	360	675	675
To be identified		65	67	367
Cumulative Savings	1,141	1,672	2,039	2,339
Annual Savings	1,141	531	367	300

HRA Savings Summary (Cumulative)	2019/20 £000's	2020/21 £000's	2021/22 £000's	Beyond 2021/22 £000's
Low risk/completed	12	12	12	12
Medium risk/in progress	194	194	194	194
High risk/not started	8	8	8	8
Cumulative Savings	214	214	214	214
Annual Savings	214	0	0	0

General Fund Capital Programme

- 2.16 The General Fund capital programme includes previously approved projects as well as new growth – a summary of the growth proposals is shown at **Appendix B** and the draft capital programme is attached at **Appendix D**.
- 2.17 Much of the programme is of a relatively routine nature and accordingly, subject to Council approval, officers will be given authority to progress schemes in 2019/20 based on the information contained within Appendices B and D. There are however, projects for which Detailed Business Cases will be required for Executive consideration before actual work commences. These are:

- Industrial Units improvement programme
- Selby and District Housing Trust loans

For these 'non-routine' schemes, detailed business cases will be brought to the Executive for approval in due course.

- 2.18 There is limited room for additional revenue contributions to support the capital programme and therefore it is largely supported by capital receipts, external grants and earmarked reserves. Housing development loans are mainly funded through

borrowing. The following table presents a summary of the proposed programme:

Programme	2019/20 £000's	2020/21 £000's	2021/22 £000's
Asset Management works	494	126	50
Grants & Loans	377	377	347
ICT Replacement	321	149	150
Housing Development Loans	7,694	0	0
Total Programme	8,886	652	547
Capital Receipts	30	30	0
Grants	347	347	347
Reserves	815	275	200
S106 Commuted Sums	220	0	0
Borrowing	7,474	0	0
Total Funding	8,886	652	547

- 2.19 Projects include enhancement of existing assets such as the car parks, the Civic Centre and industrial units, Disabled Facilities Grants, Selby and District Housing Trust development loans, and ICT projects. The latter cover a range of replacement and new systems, hardware and infrastructure – funding for ICT projects is covered by the ICT Replacement Reserve.

Housing Investment Programme

- 2.20 The Housing Investment Programme (HIP) includes a number of growth proposals to ensure our homes continue to meet the decency standard – these proposals are shown at **Appendix B** and the updated HIP is at **Appendix D**. The following is a summary of the draft programme:

Programme	2019/20 £000's	2020/21 £000's	2021/22 £000's
Decent Homes Programme	3,681	2,893	2,843
Community Centre Refurb	30		
Sheltered Homes Adaptations	165	150	
Empty Homes Programme	700	700	
Estate Enhancements	100		
St Wilfred's Court Refurb	100		
Footpath Repairs	173	173	173
Pumping Station Replacement	120	120	120
New Build Programme	2,280		
Total Programme	7,349	4,036	3,136

Funding	2019/20 £000's	2020/21 £000's	2021/22 £000's
Major Repairs Reserve	4,369	3,336	3,136
Capital Receipts	340	280	
HCA Grant	210	210	
S.106 Commuted Sums	530	210	
Borrowing	1,900		
Total Funding	7,349	4,036	3,136

2.21 As with the General Fund, much of the HRA programme is of a relatively routine nature and again, subject to Council approval, officers will be given authority to progress schemes in 2019/20 based on the information contained within Appendices B and D. Projects for which Detailed Business Cases will be required for Executive consideration before actual work commences are:

- HRA new build programme

For these 'non-routine' schemes, detailed business cases will be brought to the Executive for approval in due course.

Programme for Growth

- 2.22 The 'Programme for Growth' is the Council's strategic programme to support delivery of its Corporate Plan. The programme comprises a range of cross cutting projects designed to 'make Selby a great place'. The current Programme was approved as part of the 2018/19 budget and in-year progress reports have been presented to both Executive and the Overview and Scrutiny Committee (both separately and as part of the quarterly finance updates).
- 2.23 Following a Corporate Peer Challenge in November 2017, the Programme was reviewed and refocussed. Prioritisation of resources is crucial to ensure delivery of the intended outcomes within the budget available.
- 2.24 The approved budget totals £10.9m and has been committed to funding the new Economic Development and Regeneration Service and other internal capacity across the Council required to deliver the growth ambitions set out in the Corporate Plan (including the Economic Development Framework and Action Plan and the Programme for Growth).
- 2.25 The programme is funded by New Homes Bonus (to date up to £880k p.a.), and business rates receipts from renewable energy facilities.
- 2.26 Following Executive approval (at their meeting on 10 January 2019) to reprioritise available resources to sustain internal capacity, the Programme budget is summarised overleaf:

Special Projects/Programme for Growth	Programme Budget £000's
Staffing Resources	3,643
Project Delivery	7,119
Unallocated	172
Total Programme	10,934

2.27 **Appendix E** sets out the current programme.

Reserves

2.28 The Council has a robust reserves strategy which is reviewed annually as part of the refresh of the MTFs. A forecast of reserve balances based on the MTFs assumptions and draft budget, is set out at **Appendix F**. As at 31 March 2019 reserves are forecast at:

Reserves	31 March 2019 £000's
General Fund	
Commitments	4,259
Growth and improvement	4,851
Risk	5,776
Total General Fund Reserves	14,886
HRA	
Balances	2,267
Major Repairs	3,478
Total HRA Reserves	5,745
Capital receipts (from asset sales)	4,468

2.29 Reserves to fund commitments are replenished by regular revenue contributions to ensure they remain sustainable.

2.30 Reserves for growth and improvement include £700k for the Programme for Growth (from New Homes Bonus and the Business Rates windfall and subject to spend profile) and £3.6m in S106 affordable housing commuted sums, which must be spent on affordable homes. Reserves to manage risk include £3.6m from Business Rates to support the revenue budget (per MTFs) and £1.5m General Working Balance.

2.31 The HRA reserves are General Balances and the Major Repairs Reserve (MRR) which are ring-fenced for the HRA. The HRA capital programme will require £4.4m from the MRR in 2019/20.

2.32 These earmarked reserves provide the financial capacity to fund the capital

programmes and other irregular expenditure. Including the proposals within this draft budget it is estimated that in total £8.3m will be required from reserves to fund on-going projects and new proposals.

- 2.33 Contributions to reserves (including capital receipts) of £16.1m are forecast for the year which includes resources set aside to support future revenue budgets and subject to savings delivery, future investments.

3. Alternative Options Considered

- 3.1 The MTFS sets out scenarios and options for key assumptions and the options considered for Council Tax are set out in paragraph 2.5.

4. Implications

4.1 Legal Implications

- 4.1.1 None as a result of this report.

4.2 Financial Implications

- 4.2.1 As set out in the report.

4.3 Policy and Risk Implications

- 4.3.1 As part of the annual budget process a risk assessment of the Council's major budgets is undertaken. The continuing uncertainty in the wider economy as Brexit approaches, cuts to public sector funding and the uncertainty within the funding regime, mean greater financial risk for the Council. Areas that are particularly high risk are central government funding and income generation (across key services such as planning, car parking and leisure) along with savings, and inflationary and demand led cost pressures – in services such as waste and recycling.
- 4.3.2 The Council's contingency budgets, earmarked reserves and general balances provide a buffer for these risks and are crucial to ensure sustained financial resilience and viability.

4.4 Corporate Plan Implications

- 4.4.1 The draft budget proposals are in accordance with the Medium Term Financial Strategy approved by Council in September and support delivery of the Council corporate objectives and priorities.

4.5 Resource Implications

- 4.5.1 The draft budget proposals include provision for the resources necessary to deliver the Council's objectives.

4.6 Other Implications - None.

4.7 Equalities Impact Assessment

4.7.1 There are no particular equality implications arising from the proposals set out in the report.

5. Conclusion

5.1 The draft General Fund Net Revenue Budget for 2019/20 totals £19.179m (£18,039 after planned savings of £1.141m). It assumes a Council Tax rise of £3 for a Band D property and after the application of Central Government funding, transfers to reserves, and savings is a 'balanced budget'. Savings of £214k are forecast for the HRA.

5.2 Plans are in place to deliver a range of General Fund and HRA savings through a combination of efficiency and income generation but more will be required over the medium term. The pace of savings is such that reserves will be required to support the revenue budget in the shorter term. The MTFs provides resources in the Business Rates Equalisation Reserve for this support – subject to delivery of savings, £1m is planned to be drawn down over the 2 years 2020/21 and 2021/22.

5.3 Progress is being made against the proposals identified within the approved plan but with risk to the Council's core funding further opportunities for efficiency will continue to be sought.

5.4 The budget also provides for a capital programme to meet General Fund and HRA needs and includes the remaining resources to support the Programme of Growth – the Council's strategic programme which aims to deliver its Corporate Plan priorities, generating economic growth and sustainable income for the Council as core government funding reduces.

6. Background Documents

None

7. Appendices

A – Revenue estimates

B – Growth bids

C – Savings

D – GF Capital programme and Housing Investment Programme

E – Programme for Growth

F – Reserves

G- Extract from Policy Review Minutes 22/01/2019

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