Selby District Council

REPORT

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Item 6 - Public

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Executive Member:	**Councillor Cliff Lunn, Lead Executive Member for Finance and Resources**
Lead Director:	**Karen Iveson, Chief Finance Officer**

Title: Draft Revenue Budget and Capital Programme 2018/19 and Medium Term Financial Plan

Summary: This report presents the draft revenue budget; capital programmes and outline Programme for Growth for 2018/19 to 2020/21. The 2018/19 budgets show a forecasted deficit of £6k (before further planned savings) on the General Fund and a £885k surplus on the HRA, which is required to fund the housing capital programme. Over the next 3 years a total funding shortfall of £3.7m is forecast on the General Fund. The report identifies a number of mounting budget pressures and acknowledges that an increase in General Fund savings is required. £2.4m of reserves has been earmarked previously to support the revenue budget pending delivery of savings. To date £377k has been used, a further £668k is planned to be used in 2018/19 and then £81k in 2019/20. The on-going use of reserves to support the revenue budget in this way is not sustainable and therefore as part of the next refresh of the MTFS, options for future savings will be sought in the context of emerging budget risks.

Recommendations:

It is recommended that:

i. **the draft budgets, bids and savings be approved for public consultation and submitted to Policy Review for comments;**

ii. **options for additional savings are invited as part of the consultation.**

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

1. Introduction and background

1.1 The Council approved its Medium Term Financial Strategy (MTFS) on 19 September 2017. The MTFS covers both General Fund activities and for the first time, 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 being planned 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 (now confirmed) which shows core General Fund funding reducing by £1m from £3.4m in 2016/17 to £2.4m in 2019/20 and a further reduction of around £900k in New Homes Bonus. The MTFS recognises risk and uncertainty surrounding 100% business rates retention and on-going reductions to Government funding (Revenue Support Grant and New Homes Bonus) as the key issues for the Council's finances and confirms the Council's strategic approach to 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.

1.4 From the HRA perspective the MTFS includes a 1% reduction in housing rents – 2018/19 is the 3rd year of the Government's 4 year plan to reduce social housing rents by 1% year on year.

1.5 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.

2. The Report

2.1 The draft revenue budgets for the 3 years from 2018/19 to 2020/21 are presented at **Appendix A** and the proposed capital programmes are shown at **Appendix B**.

General Fund Revenue Budget

2.2 Taking the Council's overall service requirements together, and after appropriations to and from reserves, the estimated position for 2018/19 is:

	2018/19 £000's
Total Net Budget	**10,494**
Council Tax	(5,403)
RSG(per multi-year finance settlement)	(265)
Business Rates Baseline (Safety Net)	(2,192)
New Homes Bonus (to be confirmed)	(1,529)
Special & Specific Grants	(167)
Collection Fund Deficit – Council Tax	95
Renewable Business Rates Income (t.b.c.)	0
Total Funding	**9,462**
Deficit Before Planned Savings	**1,032**
Current Savings Target	(358)
Drawdown from Business Rates Equalisation Reserve	(668)
Net Deficit to be met by additional savings	**6**

2.3 The draft budget includes provision for inflation where considered necessary and provision for a 1% pay award for the coming 3 years plus a further pay contingency of 0.5% for 2018/19 and 1% for 2019/20 and 2020/21 – a 2% vacancy factor has also been included to help mitigate the rising pay bill. Committed growth, (for example 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. The General Fund revenue budget also includes contingencies totalling £150k in 2018/19 and £300k in 2019/20 and 2020/21.

2.4 At this stage the draft budget excludes assumptions regarding renewable energy business rates in 2018/19 although it is anticipated that these will be confirmed prior to the budget being considered by Council in February. The receipt in 2017/18 is £7.6m and a similar sum could be available in 2018/19. It is assumed that any such receipts will be transferred in full to the Special Projects Reserve and therefore will not impact on the overall base budget for the coming year. In accordance with the approved MTFS, such receipts will be subject to allocation as part of the next MTFS refresh and budget for 2019/20.

2.5 The estimated deficit of £1.032m for 2018/19 and £2.711m for the following 2 years gives **a total funding shortfall of £3.744m over the 3 years to 2020/21**; and there remain a number assumptions and related risks within the budget.

Council Tax

2.6 The approved MTFS assumes a Council Tax increase of £5 for a Band D property for 2018/19. A £5 increase will take the Council average Band D charge from £170.22 to £175.22 – a rise of under 10p per week. This assumption is in line with that used by the Government in their assessment of the multi-year settlement offer. The tax base for

Council Tax setting purposes has been calculated at 30,837 which gives a Council Tax yield of £5.4m for 2018/19.

Housing Revenue Account

2.7 The HRA budgets have been prepared using assumptions on rent changes based on the Government's formula. In 2018/19 the 1% reduction (part of the Government's 4 year plan) has been applied.

2.8 The estimated position HRA for 2018/19 is shown below which is around £300k short of the position estimated when the forecasts were updated in February 2016. The previous HRA savings action plan has been achieved and therefore further savings will be sought.

	2018/19 £000's
Total Net Budget	**11,055**
Less Dwelling Rents	(11,940)
(Surplus) / deficit transferred to Balances/MRR	**(885)**

2.9 A surplus position is anticipated for 2018/19 which will be required to meet the capital programme. Future surpluses will be transferred to the Major Repairs Reserve to either repay debt or spend on the future HRA capital programme, including new build projects. The HRA also includes a contingency of £75k.

Savings

2.10 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.

2.11 The Council has made good progress against its savings target to date, but 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 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 charging for services and trading externally;
- **Commissioning** from and with partners to achieve shared efficiencies and reduce the demand for public sector services.

2.12 A further important part of the Council's approach to balancing its revenue budget is the investment in economic and housing growth to drive growth in Council Tax and Business Rates which in turn will reduce the gap between service costs and core funding.

2.13 Taking the proposals for Council Tax, growth, and reserve transfers and assumptions on Formula Grant the MTFS set targets for savings at circa £1m by 2018/19 and £1.7m by 2019/20. The estimated deficit for 2018/19 is broadly in line with the MTFS but looking ahead to 2019/20 mounting cost pressures have increased the savings requirement, with a further £450k above the current target and £150k above the savings identified in the current savings plan. 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 lasted savings plan is presented at **Appendix D**.

General Fund Capital Programme

2.14 The General Fund capital programme includes previously approved projects as well as new growth – a summary of the growth proposals is shown at **Appendix C** and the draft capital programme is attached at **Appendix B.**

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

Programme	**2018/19 £000's**	**2019/20 £000's**	**2020/20 £000's**
Asset Management works	537	338	334
Grants & loans	377	377	377
ICT Replacement	394	245	149
Housing developments	3,143		
Total Programme	**4,451**	**960**	**860**
Funding			
Capital Receipts	30	30	30
Grants	347	347	347
Reserves	931	583	483
S106 Commuted Sums	140		
Borrowing	3,003		
Total Funding	**4,451**	**960**	**860**

2.16 Projects include enhancement of existing assets such as car parks, Selby and District Housing Trust developments, Disabled Facilities Grants and ICT projects. The latter cover a range of replacement and new systems, hardware and infrastructure (including a replacement asset management system) – funding for ICT projects is covered by the ICT Replacement Reserve.

Housing Investment Programme

2.17 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 C** and the updated HIP is at **Appendix B**. The following is a summary of the draft programme:

Programme	**2018/19 £000's**	**2019/20 £000's**	**2020/21 £000's**
Electrical works	240	240	240
Central heating	295	545	545
Roof replacements	220	400	
Damp works	220	220	220
Doors	120	120	120
Kitchens and bathrooms	160	160	160
Fencing & Gates	40	40	40
Pointing	300	300	300
New Build Programme	1,200	1,440	
Estate Enhancements	133	100	
Empty Homes	600	700	700
Other	603	535	390
Total Programme	**4,131**	**4,800**	**2,715**
Funding			
Major Repairs Reserve	2,206	2,640	2,015
Capital Receipts	565	310	280
HCA Grant	180	210	210
S.106 Commuted Sums	180	420	210
Borrowing	1,000	1,220	
Total Funding	**4,131**	**4,800**	**2,715**

2.18 In addition to the programmes above, work is in progress on proposals for increasing housing development which could impact on both General Fund and Housing Revenue Account capital programmes. At this stage the draft capital programmes only include budgets to support the existing housing development strategy – the programmes will be updated should Council ultimately decide to increase delivery beyond the current programme.

Programme for Growth

2.19 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 2017/18 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).

2.20 Following a Corporate Peer Challenge in November 2017, the current Programme will be reviewed and where appropriate refocussed. Prioritisation of resources will be crucial to ensure deliver of the intended outcomes within the budget available and proposals will be brought before the Executive for approval in due course.

2.21 For the purposes of planning, the MTFS indicated an initial sum of £10m would be made available over the 3 years from 2017/18 to 2019/20. In accordance with the approved budget, to date £1m p.a. (£3m in total) 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. A further £1.45m has been allocated to Programme for Growth projects.

2.22 The programme is funded by New Homes Bonus (currently up to £880k p.a.), and business rates receipts from renewable energy facilities. At this stage further economic development and other initiatives are anticipated but more detailed work on the proposals is needed. It is therefore proposed to allocate indicative funding at programme level pending formulation of more detailed project options.

2.23 Taking account of projects already in train and subject to confirmation of New Homes Bonus and Business Rates receipts, outline proposals for the remainder of the Programme are set out below:

Special Projects/Programme for Growth	**2018/19 £000's**
Balance brought forward 1 April 2018 (subject to spend in 2017/18 per Q2 Finance Update)	115
Financed from Special Projects Reserve	8,050
Total Resources	**8,165**
Estimated project spend/commitments	2,615
Budget available for allocation	**5,550**

2.24 Allocation of funding to specific projects beyond those already approved, will be subject to formal decision making as set out in the governance framework approved by the Executive in September 2017.

Reserves

2.25 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 E**. As at 31 March 2018 reserves are forecast at:

Reserves	**31 March 2018 £000's**
General Fund	
Commitments	4,620
Growth and improvement	6,825
Risk	6,395
Total General Fund Reserves	**17,840**
HRA	
Balances	2,266
Major Repairs	3,596
Total HRA Reserves	**5,862**

Capital receipts (from asset sales)	**4,030**

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

2.27 Reserves for growth and improvement include £4.340m for the Programme for Growth (from New Homes Bonus and the Business Rates windfall) and £2.116m in S106 affordable housing commuted sums, which must be spent on affordable homes. Reserves to manage risk include £3.414m from Business Rates to support the revenue budget (per MTFS) and £1.5m General Working Balance.

2.28 The HRA reserves are General Balances and the Major Repairs Reserve (MRR) which are ring-fenced for the HRA. The overall estimated surplus of £885k on the HRA for 2018/19 will be transferred to the MRR. The HRA capital programme will require £2.206m from the MRR in 2018/19.

2.29 These earmarked reserves provide the financial capacity to fund the capital programmes and other irregular expenditure. Based on the proposals within this draft budget it is estimated that £5.464m will be required from reserves to fund growth bids and projects, with potentially a further £668k required to support the revenue budget (subject to savings delivery). Reserves contributions of £6.787m are forecast for the year, although further Business Rates windfalls are not expected to be confirmed until April 2018.

Budget Risk Assessment

2.30 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, 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.

2.31 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.

2.32 Looking ahead North Yorkshire County Council is consulting on proposed changes to the recycling credit system – the proposals, which include removing all credits for recycled garden waste, could mean a net loss of income to Selby of circa £300k p.a. based on modelling undertaken by the County Council. Selby is the only district in North Yorkshire not to charge for its green waste service and consequently our recycling rates are higher than the other districts which means Selby would be hardest hit by the proposal should it go ahead. This issue is under review and discussions with the County Council are on-going. Should this risk ultimately materialise, options will be brought forward for consideration by members in due course.

2.33 In accordance with the approved MTFS the aim will be to manage any on-going cost pressures within the base budget.

3. Legal/Financial Controls and other Policy matters

3.1 Legal Issues

3.1.1 None as a result of this report.

3.2 Financial Issues

3.2.1 As set out in the report.

4. Conclusions

4.1 The draft General Fund revenue budget for 2018/19 assumes a Council Tax rise of £5 for a Band D property and requires savings and/or reserve contributions to balance a £1m deficit in 2018/19 rising to a £1.5m deficit by 2020/21.

4.2 The budget provides for a capital programme to meet General Fund and HRA needs and also includes 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.

4.3 A General Fund savings target of circa £1.5m is proposed, to balance the budget over the next 3 years given our assumptions on central Government funding and savings of approximately £200k are forecast for the HRA. The pace of savings is expected to be such that support from reserves will be required to balance the revenue budget in the shorter term. The MTFS includes £2.4m in the Business Rates Equalisation Reserve to provide this support – with £749k planned to be drawn down over the next 2 years.

4.4 Progress is being made against the savings identified within our approved plan but more will be needed to meet the deficit in future years. Further opportunities will be brought forward for consideration as part of the next MTFS refresh.

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Appendices:
A – Revenue estimates
B - Capital programmes
C - Growth bids
D - Savings
E - Reserves