APPENDIX A

SELBY DISTRICT COUNCIL

Report Reference Number: E/19/12

To:	**Executive**
Date:	**5 September 2019**
Status:	**Non Key Decision**
Ward(s) Affected:	**All**
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Lead Executive Member:	**Councillor Cliff Lunn – Lead Executive 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 delays to the Fair Funding Review and the reform of the Business rates Retention system, following HM Treasury's announcement there will be a one year settlement for 2020/21 and the system will be reviewed in 2020. It is assumed therefore, that the settlement for 2020/21 will be a roll-forward from 2019/20 which could result in a further year the renewable energy business rates windfall. Should the Local Government Finance Settlement be announced early then any necessary changes will be incorporated into the draft Budget as part of the process during the autumn.

The MTFS identifies risk and uncertainty around business rates retention, on-going reductions to Government funding and wider economic uncertainty at the prospect of a no-deal Brexit.

The MTFS confirms the Council's strategic approach to continuing to reduce 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.

Following the district elections in May 2019, a number of emerging cost pressures have been identified Some resources are available for allocation from the Special Projects Reserve in 2020/21 but these are not recurring and therefore any additional on-going costs would increase the need for base budget savings.

Progress is being made against our savings targets but we are lagging behind profile and therefore additional drawdown from the Business Rates Equalisation Reserve is expected.

Based on the assumptions within the MTFS the savings requirement is estimated to rise to £2.4m over the next 3 years.

Recommendations:

It is recommended that:

i) **The Medium Term Financial Strategy be submitted to Council for approval;**

Reasons for recommendation

To set the framework for the 2020/21 budget and Medium Term Financial Plan to 2022/23.

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. The 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 2020/21.

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 would be phased out. Since then these plans have been scaled back and the Government is now piloting 75% Business Rates Retention in 2019/20. The reform of the Local Government Finance System was anticipated from 2020/21 but as result of political challenges nationally and the prospect of the no-deal Brexit HM Treasury has announced there will be a one year settlement for 2020/21 and the system will be reviewed in 2020.

2.3 It is assumed therefore, that the settlement for 2020/21 will be a roll-forward from 2019/20 which could result in a further year the renewable energy business rates windfall. However, it is not proposed to allocate or commit these funds until they are confirmed. Should the Local Government Finance Settlement be announced early then any necessary changes will be incorporated into the draft Budget as part of the process during the autumn.

2.4 For the HRA the MTFS aligns with the refreshed HRA Business Plan and models the on-going a CPI +1% increase in housing rents following 4 years of 1% reductions (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 (2.8%) for 2020/21, although a maximum of 3% was allowable under referendum principles for 2019/20.

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 Following the district elections in May 2019, a number of emerging cost pressures have been identified, including: street contract service standards, additional ICT investment and internal capacity issues. Some resources are available for allocation from the Special Projects Reserve in 2020/21 but these are not recurring and therefore any additional on-going costs would increase the need for base budget savings.

2.8 Based on the assumptions updated within the MTFS, taking the forecast resources available and assuming costs are contained within the net revenue budget, the estimated deficit before planned savings is £2.4m; after planned savings the residual shortfall on the General Fund is estimated at £402k by

2022/23. Without planned savings, across the 4 years, including this current year the total shortfall would be £7.2m.

2.9 Given the risk within our savings programme £7m has been held back in the Business Rates Equalisation Reserve in addition to 3 years safety net top up per current policy. Delays to our savings plans in 2019/20 make it likely that additional resources will have to be drawn down to support the revenue budget. 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.

2.10 The HRA is experiencing its own challenges following 4 years of rent reductions. Savings are planned in order to maximise in-year HRA surpluses whilst setting aside sufficient sums to repay the self-financing debt. Revenue surpluses are transferred to the Major Repairs Reserve to fund enhancements to the Council's housing stock and a long term programme to deliver a decent homes 'plus' standard and support 1-for-1 replacement of homes sold through right-to buy.

2.11 Whilst revenue resources are challenging, capital receipts remain relatively buoyant which will enable the Council's 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. Proposals for changes to our recycling arrangements and street scene vehicle fleet have also been included within our capital plans.

3. Alternative Options Considered

3.1 The MTFS models mid, best and worst case scenarios, which are set out at Appendix A.

4. Implications

4.1 Legal Implications

None as a direct result of this report.

4.2 Financial Implications

4.2.1 The financial issues are highlighted within the body of the report. The estimated deficit rises to £2.4m by 2022/23. Work is progressing towards the target but there is a shortfall forecast in 2019/20. This can be off-set by savings in-year and/or an additional draw down from the Business Rates Equalisation Reserve but focussed effort is needed to bring this back on track.

4.2.2 Further opportunities for savings will be brought forward for consideration as part of the forth coming budget round.

4.3 Policy and Risk Implications

4.3.1 The MTFS is based upon the Council's current policy framework and where there are opportunities to vary this framework these are identified within the report – for example the level of Council Tax and the replenishment/use of reserves.

4.3.2 The MTFS identifies and where possible quantifies (in outline) the risks to the Council's financial position and presents appropriate mitigations – for example the risk inherent within the Local Government Finance Settlement is mitigated through the Business Rates Equalisation Reserve.

4.4 Corporate Plan Implications

4.4.1 The MTFS underpins delivery of the Council's Corporate Plan and whilst this is currently under review it is anticipated that the broad thrust will remain although some changes in priorities are expected.

4.5 Resource Implications

4.5.1 The MTFS assesses the financial resources available to the Council over the coming 10 years. Based on the assumptions within the strategy a recurring shortfall is expected.

4.6 Other Implications

4.6.1 As set out in the report.

4.7 Equalities Impact Assessment

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.

5. Conclusion

5.1 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.

5.2 There remains risk within the Local Government funding system and at this stage a cautious stance has been taken regarding the fair funding review and business rates 'reset' now expected after 2020/21.

5.3 The mid-case assumes a £5 (2.8%) increase in Council Tax and for the HRA the MTFS models an CPI+1% increase in housing rents.

5.4 There is also uncertainty over New Homes Bonus, the economic situation as a result of a no-deal Brexit, 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.

5.6 Over the next 3 years the savings requirement is expected to rise to £2.4m p.a. Given the size of the deficit and delays to the savings programme it is likely that additional reserves will be needed, although this is not a sustainable solution.

5.7 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.

5.8 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.

6. Background Documents

Approved MTFS Update September 2018

Approved Budget February 2019

7. Appendices

Appendix 1 - Medium Term Financial Strategy Update September 2019

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