

Selby District Council

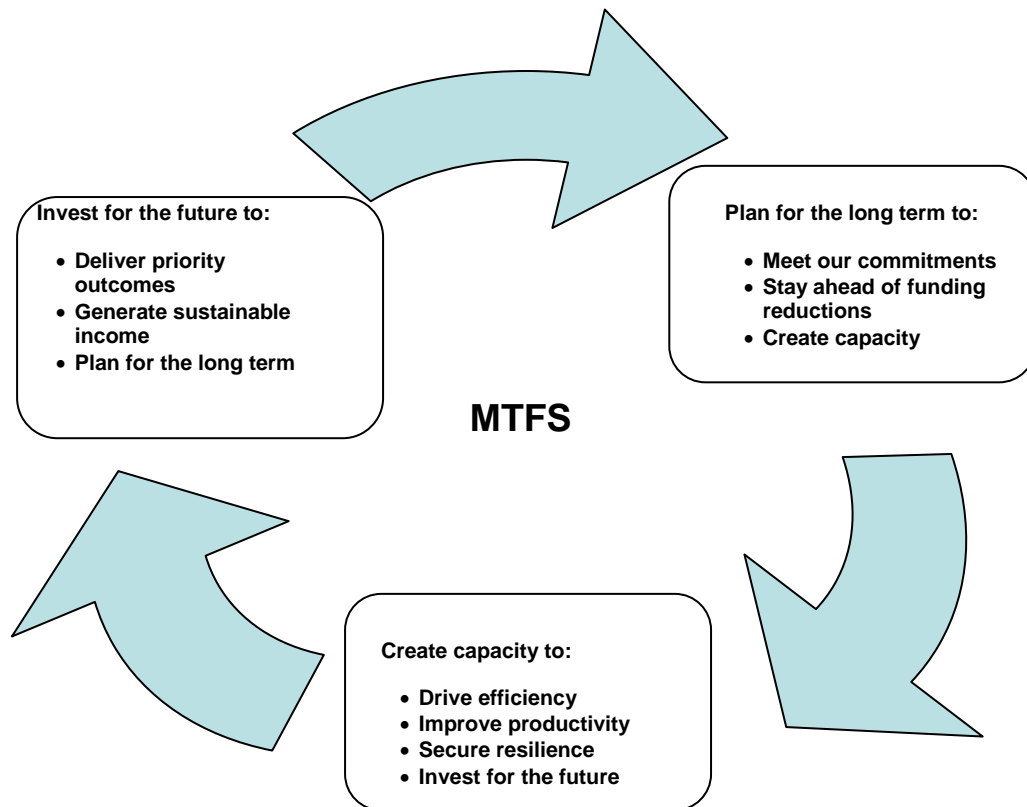
Medium Term Financial Strategy Update September 2019

1. Introduction and Background

- 1.1 This paper presents an update to the General Fund Medium Term Financial Strategy approved by Council in September 2018 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 has been undertaken in parallel with this update and this strategy provides the financial framework for this work.
- 1.2 At this stage the impacts of Brexit, on public sector finances are still not clear as the prospect of the UK exiting the European Union on 31 October 2019 with no deal, is growing. As a result, the Government's proposals for a reviewed Local Government funding system have been delayed. HM Treasury has announced that there will be a one year settlement for 2020/21 and the system will be reviewed in 2020.
- 1.3 The outlook for the devolution agenda also 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 of major uncertainty, the key drivers for the financial strategy remain unchanged.
- 1.5 In 2017/18 we refreshed our Corporate Plan and with it restated the Council's priorities through to 2019/20. Following the May 2019 district election the Corporate Plan is now under review. Early indications suggest no significant departures from the current plan although some refreshing and refining of priorities is expected. 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**. This 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

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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 2020/21 to 2029/30 and are attached at **Appendix A**. More detailed best and worst case scenarios are modelled for the HRA as part of the HRA Business Plan. 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 July 2019, the bank rate is projected to remain at 0.75% through to September 2020 when a rise to 1.00% is predicted. However these assumptions are based upon a reasonable Brexit outcome but should this not materialise by 31 October then a cut in Bank Rate could swiftly follow.
- 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. 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 accordingly the 2019/20 approved savings plan includes an increase the General Fund cap to £350k from 2019/20 onwards:

	2019/20*	2020/21	2021/22	2022/23
Average rate %	0.9	1.25	1.5	1.75
GF Interest £000's	350	350	350	350
HRA Interest £000's	135	135	135	135
Total Interest £000's	485	485	485	485

**2019/20 Quarter 1 Treasury Management Report*

- 2.3 Given the economic uncertainty as a result of Brexit there is a risk that interest rates could reduce and balances are expected to fall over time therefore the cap will be kept under review. 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 June 2019 CPI inflation was running at 2% in contrast to average weekly earnings which peaked at 3.5% in the 3 months to December 2018 before falling to 3.4% more recently. The Bank of England forecast CPI to remain around the 2% level over the next 2 years although a no deal Brexit could prompt a rise to around 4%, primarily as a result of imported inflation on the back of a weakening pound. The MTFs assumptions on inflation therefore range from 2% to 4%, although a provision for inflation will only be provided on contractual budgets and staff pay, which builds in a level of risk mitigation.

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 provided a multi-year settlement (2017/18 – 2019/20) to Local Authorities although reserved the right to alter the figures due to unforeseen circumstances or ‘shocks’ in the system. The Government confirmed the multi-year settlement in its final year and following consultation, removed proposals on negative RSG. It was assumed that this would be rolled into the new settlement from 2020/21 so any benefit would be for one year only but delays to the Fair Funding review and the review of the Business Rates retention system mean that it is considered more likely that this will be rolled on a further year.

Local Government Finance Settlement	15/16 £000's	16/17 £000's	17/18 £000's	18/19 £000's	19/20 £000's	20/21 £000's *	21/22 £000's *
RSG	1,756	1,121	593	265	0	0	0
BRBF	2,232	2,250	2,294	2,365	2,554	2,466	2,515
Tariff adjustment					-101	-103	-105
SFA	3,988	3,371	2,887	2,630	2,554	2,466	2,410
RSDG	0	134	108	135	408	108	0
TG	0	11	11	0	0	0	0
Total	3,988	3,516	3,006	2,765	2,554	2,574	2,410

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

- 2.8 The settlement shows a real term core funding reduction of approximately £1.9m from 2015/16 to 2019/20 with RSG being completely phased out over the period and it this reduction which is driving the residual savings requirement.
- 2.9 The Government has now shelved plans for Local Government to retain 100% of Business Rates in future and is piloting a 75% retention system in 2019/20 – Selby is part of the North and West Yorkshire 75% pool pilot. Under the terms of the pilot RSDG is included in the BRBF in 2019/20. Looking ahead to 2020/21, with the current uncertainty over

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the future for Local Government funding beyond 2019/20, it is assumed that the Council will revert to the 50% scheme.

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 (£8.865m p.a. in 2019/20). It is anticipated that this financial situation will continue for a further year until the system is reset from 2021/22 although it would not be prudent to make plans for spending this income until this is confirmed.
- 2.12 In 2019/20 Selby is part of the North and West Yorkshire Business Rates Pool which is piloting 75% retention. Under the pilot arrangements the safety net threshold is 95% (not the 92.5% under the 50% scheme) and therefore Selby is benefitting by around £60k in 2019/20.
- 2.13 Our forecast for 2019/20 is based on our NNDR1 return taking account of the 2017 revaluation, any revaluations and the latest intelligence on appeals, business growth and closures known at that time. Thereafter the 50% baseline is assumed:

Business Rates Income	Actual 2018/19 £000's	Forecast 2019/20 £000's	Estimate 2020/21 £000's	Estimate 2021/22 £000's
Selby's share of retained income	-761	-2,187		
Safety-Net Payment	2,949	4,614		
Safety-Net	2,188	2,427	2,281	
Transfer from BRER	177	127	185	
= Baseline	2,365	2,554	2,466	2,410
Assumed growth	0	0	0	0
Renewable Energy/Surplus*	7,820	8,865	9,000	0

* Forecast/estimate updated following Drax revaluation

- 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. The figures for 2019/20 do include a downward revaluation for Eggborough Power Station and a revaluation of Drax. As Selby is below the safety net, no growth above our baseline funding is anticipated for the foreseeable

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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 Government's evaluation of NHB and consultation early in 2016 resulted in 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, with the Government considering alternative ways to incentivise housing growth alongside the reformed system of Local Government funding. Given the delays to the Fair Funding review it is assumed that the scheme will continue for a further year and the mid-case assumes a prudent level of growth in 2020/21 - New Homes Bonus forecasts are therefore:

New Homes Bonus	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £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	405	
Year 8			415	415	415	0
Year 9				767	767	0
Year 10					400	0
Total	2,446	1,966	1,541	1,955	1,988	0

- 2.17 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 a managed reduction in revenue support to help mitigate the risk of loss should the scheme ultimately be brought to a close. Growth in receipts above these levels or receipts from any new scheme is assumed to be allocated to the Programme for Growth.

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Special and Specific Grants

- 2.20 The Council is in receipt of a number of additional grants for 2019/20 which may continue into the future:

Grants	2018/19 £000's	2019/20 £000's	2020/21 £000's	2021/22 £000's
Rural Services Delivery Grant*	135	408	108	0
Transition Grant	0	0	0	0
Other Grants	0	105	83	0
Total Grants	135	105	191	0

*RSDG rolled into Business Rates Baseline in 2019/20 to reflect 75% retention system pilot

- 2.22 Future funding is dependent upon the outcome of the new Business Rates Retention system – which will be delayed until 2020. For 2020/21 it is assumed that the current position is rolled on for a further year. Beyond 2021 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. However, reductions in such grants add further pressure to our savings requirements (as we have seen with Council Tax and Housing Benefit Administration Grants).

Council Tax

- 2.23 A Council Tax Base of 31,395.15 has been estimated for 2019/20 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 156 Band D equivalents to our Tax Base which equates to around £28k p.a. at the current Band D charge (£178.22).
- 2.24 At this stage the Government has not proposed changes to the council tax referendum principles that were used in 2019/20 although an update is expected alongside the provisional local government finance settlement. The current principles are to allow district councils to increase their Band D charge by up to £5 or 3% (whichever is the higher) without triggering a referendum. It is not clear if the government will hold this line for 2020/21 or revert back to the previous £5 or 2% threshold. The mid-case assumes a £5 increase which is slightly less than the potential 3% maximum the government would assume for Selby if the current principles remain.

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- 2.25 A £5 (2.8%) increase equates to an increase of 9.6p per week for 2020/21. A 1.99% rise (in line with inflation assumptions) has been modelled for 2021/22 onwards:

	2019/20	2020/21	2021/22	2022/23
Tax Base with 1% growth	31,395	31,709	32,026	32,346
Band D Charge £	178.22	183.22	186.87	190.59
% Increase	1.81	2.81	1.99	1.99
Council Tax Income £000's	5,595	5,810	5,985	6,165
Collection Fund Surplus/(Deficit)	0	0	0	0

- 2.26 Subject to the referendum principles, should the Council wish to consider an alternative policy on Council Tax:
- a 2.99% increase would take the Band D charge to £183.55 (an additional increase of 33p p.a.) and raise an additional £10k in 2020/21 – £107k over the life of the MTFs,
 - and a 1.99% increase in 2020/21 would reduce income by £46k – a loss of circa £468k over the life of the MTFs.

The best case scenario incorporates the 2.99% increase and the worst case a 1.99% increase.

Service Income

- 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 over the next 3 years. 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.

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

Service Income	2019/20	2020/21	2021/22	2022/23
	£000's	£000's	£000's	£000's
General Fund				
Waste Collection & Recycling	1,374	1401	1,430	1,458
Planning	1,154	1,154	1,154	1,154
Car Park Income	355	355	355	355
Selby Leisure Centre / Summit	448	457	466	475
Commercial Property Rental	377	385	392	400
Lifeline Private Clients	273	278	284	290
Court Fees / Summons Costs	155	158	161	164
Land Charges Search Fees	151	154	157	160
Miscellaneous Fees & Charges	288	294	300	306
Licences	133	136	138	141
Total Service Income	4,708	4,772	4,838	4,904
Current Income Growth Target (per savings plan)	12	120	185	185
Total Target Income GF	4,720	4,892	5,023	5,089

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% (max) 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. The assumption on void properties has increased from 1% to 2% and doubtful debts remain unchanged with 1% in respect of general debt and 3% in respect of universal credit, applied.

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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 The HRA Business Plan includes the aspiration for 1 for 1 replacement of homes sold through right-to-buy. 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	2019/20	2020/21	2021/22	2022/23
Number of dwellings (mid-year average)	3,045	3,044	3,044	3,044
Average Rent - Rent Restructuring £	82.43	84.90	87.45	90.07
Net Rent Income £000's	11,545	11,889	12,246	12,613

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	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
HRA Garage Rents	103	105	107	109

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.

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- 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 currently £1.26m p.a. (rising to £2.28m in 2022/23) and interest payable is £2.4m p.a. reducing to £1.8m. The amount of borrowing allowable within the HRA is no longer subject to a 'debt cap' and therefore borrowing is available to support future capital investment subject to this being prudent and affordable.
- 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 2016/17, 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. 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. Going forward it is advised that the level of contributions be increased to £300k p.a. to sustain this reserve. It is proposed that this increase is phased in over the next 3 years.
- 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 was approved in 2018/19 - £250k has been 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

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maintained at £200k p.a. pending a more detailed view of future spending needs.

- Special Projects Reserve - 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 which is currently used to fund the Council's 'Programme for Growth'. At 31 March 2020 it is estimated that £8.5m will be available for allocation to extend the Programme and/or support other non-recurring spending priorities as well as increase capacity to deliver the programme. Proposals will be brought forward as part of the forthcoming budget round. **However, it 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.**
- s106 and Community Infrastructure Levy Reserves – these reserves are restricted to the uses specified through the planning process. They include affordable housing commuted sums, general s106 receipts and Community Infrastructure Levies (CIL). Affordable housing commuted sums are ring-fenced 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. Other s106 sums and CIL are held pending allocation to infrastructure and related uses.
- 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.

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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 removed from the budget. Future requirements 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 2021/22. 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 2020/21 and the mid-case forecast on savings requirements suggests that a figure of £7.6m would be prudent to hold back to cover the current savings requirement, planned drawdowns 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. With growing demands in this area an additional £250k transfer from the Contingency Reserve was approved last year which should be sufficient to support the potential new local plan. The on-going adequacy of this reserve will be kept under review.
- 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 2020/21 to 2022/23

Costs

- 3.1 It is assumed that on average costs will increase in line with inflation. Whilst cuts in general grant continue, demand led recurring 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 The single largest cost to the Council is its employees. In 2019/20 the Council's payroll budget is approximately £8.4m including circa £1.0m to directly support the Programme for Growth. This includes a 5% vacancy factor. Provision for a 2% pay award has been factored into our current medium term financial plan but there is a risk of above inflationary increases which will ultimately increase the need for revenue savings. Generally speaking there is downward pressure on staffing budgets meaning underspends and associated capacity issues. Work on our approach to Organisational Development is in progress but as a small authority we often find it difficult to compete particularly in professional services such as planning.
- 3.3 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. In the shorter term this

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continues to require support from the Council's reserves and the Council has approved fixed term funding through the Programme for Growth. The fixed term nature of some posts has resulted in recruitment difficulties and some consequential delays to the programme. Furthermore, as work on the programme progresses and some fixed term posts near their end date there are risks to programme delivery.

3.4 In addition there are a number of emerging priorities and risks that are currently being monitored and strategic choices which may require funding:

- Climate change – direct interventions which could be off-set by potential investment in renewable energy to deliver revenue returns;
- St Cleaning and grounds maintenance – potential for a review of service standards and one-off costs associated with new recycling service;
- Continuing ICT investment to enable transformational change e.g. modern committee system;
- Brexit – as the likelihood of a no deal grows there is greater future economic uncertainty which could have far reaching impacts on the public sector.

3.5 One-off projects, for example to support future growth can be funded through reserves supported by renewable business rates and new homes bonus (whilst we have them), issues which have recurring impacts will add pressure to the base budget. At this stage a broad estimate of the additional recurring costs could be in the region of £300k - £500k p.a. but further work would be required, to fully assess.

3.6 Impacts of this magnitude would be impossible to contain within the revenue budget and therefore the savings gap would inevitably widen. The worst case scenario builds in these additional costs and shows that by 2021/22 the recurring deficit on the revenue budget would be around £3m, and without savings, available reserves would be fully depleted within the next 3 years

Income

3.7 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.

3.8 The windfall from Business Rates income will have a significant positive impact on our General Fund financial position at least in the

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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.

- 3.9 Whilst the Government's review of Local Government Funding and the Business Rates Retention system are delayed it is impossible to predict with confidence, the level of resources we can expect beyond 2019/20.
- 3.10 Housing rents are subject to the Government's control. 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, it is assumed that the maximum CPI + 1% will be applied in line with government policy for a 5 year period but as highlighted in paragraph 2.32 above this could be subject to change.

Net Budget Forecast (Mid-Case)

- 3.11 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	Revised 2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Council Tax	-5,595	-5,810	-5,985	-6,165
Council Tax Collection Fund Surpluses/Deficit (-/+)	23	0	0	0
Business Rates Collection Fund Surpluses	-8,865	-9,000	0	0
Business Rates*	-2,427	-2,281	-2,410	-2,458
Rural Services Delivery Grant	0	-108	0	0
New Homes Bonus	-1,955	-1,988	0	0
Other Non-Service Grants	-105	-83	0	0
Total Resources	-18,925	-19,270	-8,395	-8,623
Net Budget Prior to Planned Savings	20,065	20,932	10,457	10,997
Forecast Surplus/Deficit (-/+)	1,140	1,662	2,062	2,374
Planned Savings	1,140	1,607	1,972	1,972
Forecast residual Deficit	0	55	90	402

*2019/20 Updated for Drax revaluation

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Housing Revenue Account	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Dwellings Rents	-11,545	-11,889	-12,246	-12,613
Garage Rents	-103	-105	-107	-109
Total Resources	-11,648	-11,994	-12,353	-12,722
Net Service Costs	7,083	6,789	6,841	6,936
Planned Savings	-214	-214	-214	-214
MRP	1,260	1,260	1,260	2,282
Forecast Surplus/Deficit (-/+) transferred to MRR to fund the capital programme	-3,519	-4,159	-4,466	-3,718

- 3.12 The General Fund shows a forecast deficit of £1.7m before planned savings in 2020/21, rising to £2.4m in 2022/23. Planned savings would reduce this deficit, leaving a residual shortfall of £402k by 2022/23.
- 3.13 The HRA shows a forecast surplus on its revenue activities but pressures arising from stock conditions and the previous 4 years rent reductions means that financing the required improvements will be challenging in the short to medium term and therefore cash flows will have to be carefully managed.
- 3.13 The on-going risk to the Council's funding (General Fund and HRA) means that we will need to strike a 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 requirement for savings on the General Fund is £2.4m by 2022/23.
- 4.3 The Council has a good track record for delivering savings, but in 2018/19 progress was behind profile and at the end of quarter 1 of 2019/20 progress is still lagging behind. Risk to delivery of the savings

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plan is recognised and circa £7m of reserves have been earmarked to mitigate non-delivery in the shorter term, as 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.

4.5 The General Fund savings forecast for 2019/20 currently total £830k against a target of £1.14m. 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	Revised 2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Estimated Deficit (mid-case)	1,140	1,662	2,062	2,374
Low risk	830	372	372	372
Medium risk	0	875	925	925
High risk	0	360	675	675
Total per plan	830	1,607	1,972	1,972
Current Shortfall	310	55	90	402
HRA Savings Summary	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's
Assumed residual target	214	214	214	214
Low risk	19	12	12	12
Medium risk	0	194	194	194
High risk	0	8	8	8
Total per plan	19	214	214	214
Current Shortfall	195	0	0	0

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

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4.6 **It is stressed 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 The current savings plan is attached at **Appendix C**. 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 Plans are currently being formulated for a change to the Council's recycling arrangements and the Executive resolved at its meeting in June 2019 to provide for the replacement of the current box system for a wheeled bin system (subject to public consultation). A sum of £1.4m is earmarked from capital receipts to cover this one-off cost should this ultimately be agreed. Thereafter replacement bins will be covered by the street scene contract.

5.3 In addition, there is the potential for the Council to purchase the replacement refuse/recycling vehicle fleet which is currently provided within our Street Scene contract. The estimated capital cost is circa £4m. Given the recurring nature of this cost (the fleet will need to be replaced every 10 years) it would be prudent to fund through borrowing over the life of the vehicles to ensure that financial capacity is retained within the Council's revenue budget and that the service is financially sustainable going forward.

5.4 After earmarking £1.4m for wheeled bins, there is currently around £3.6m 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

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Council's affordable homes development strategy and deliver new build homes across the district.

- 5.5 In addition s106 affordable housing commuted sums are anticipated, 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 and proposals will be brought forward for approval in due course.
- 5.6 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 current 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 and then revised in January 2019:

Programme for Growth 3	Projects £000
Total Allocated to projects	7,346
Internal capacity	3,642
Assumed remaining project delivery fund (subject to available resources)	5
Funding from Special Projects Reserve	10,993

- 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 £8.5m available in the 'Special Projects Reserve' for allocation in 2020/21.**
- 6.4 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

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in central Government funding and provide the capacity for further reinvestment.

- 6.5 There may also 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 although this will now be delayed until 2021/22. At this stage a cautious stance has been taken and whilst a delay could lead to further renewable energy receipts in 2020/21 these can only be allocated when they are confirmed.
- 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 Based on the assumptions in this strategy, the savings requirement is anticipated to rise to £2.4m by 2022/23 (although this does not take into account growth beyond the standard, mid-case assumptions contained in this MTFS). After delivery of planned savings the residual shortfall is forecast to be £402k.
- 7.5 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 continue to 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.
- 7.6 Over the next 10 years there is capacity within the HRA Business Plan to support additional capital expenditure but we will need to balance 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 progressed this budget will be updated as required.

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- 7.7 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.
- 7.8 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.