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Ward(s) Affected: All
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Title: Draft Revenue Budget and Capital Programme 2020/21 and Medium Term Financial Plan

Summary:

This report presents the draft revenue budget; capital programmes and proposals for the Programme for Growth for 2020/21 to 2022/23. The 2020/21 budgets show a forecasted balanced budget after taking into account planned savings and reserve transfers.

In 2020/21 it is proposed that £9.89m is transferred to the Special Projects Reserve to support delivery of the Council's new Corporate Plan objectives. In accordance with the approved Medium Term Financial Strategy (MTFS), the allocation of these receipts will be subject to confirmation as part of the next MTFS refresh and budget for 2021/22 although indicatively, it is planned that these will be allocated to the Programme for Growth.

The Medium Term Financial Plan (3 year draft budget) shows there is an underlying gap between core spending and current assumed core funding as a result of New Homes Bonus being phased out and the renewable energy business rates windfalls ceasing. Beyond 2020/21 we await the outcome of the Government's Fair Funding Review, further consultation on the future of New Homes Bonus and reform of the Business Rates Retention System, to confirm the need for and level of future savings.

Whilst there is capacity in reserves to smooth the impact of savings, the on-going use of reserves to support the revenue budget 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 recurring revenue budget growth proposals along with Capital Programme proposals for the General Fund and Housing Revenue Account (HRA) which are funded from reserves, external funding and borrowing, along with outline proposals for an extended Programme for Growth.

Recommendations:

It is recommended that the draft budgets, bids and savings be approved for public consultation with effect from 13 December 2019 and submitted to Policy Review for comments.

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 17 September 2019. 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). A refreshed HBP, which aligns with the overarching financial framework set out in the MTFS, is elsewhere on this agenda.
- 1.3 The MTFS takes account of the Government's indicative one year roll-over spending review which was announced in September 2019. The MTFS recognises on-going reductions to Government 'incentive' funding (New Homes Bonus and renewable energy business rates) along with risk and uncertainty surrounding the fair funding review and the business rates retention system reset from 2021/22 as the key issues for the Council's finances.
- 1.4 At the time of writing this report we await the Government's provisional Local Government Finance Settlement – any necessary changes as a result of the settlement will be incorporated into the final budget proposals to be considered by the Executive in February 2020. The MTFS highlights the wider economic risks associated with the UK's exit from the European Union although realistic quantification of those risks is still not possible.
- 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 MTF5 includes a Consumer Price Index (CPI)+1% increase in housing rents – 2019/20 was the final year of the Government's 4 year plan to reduce social housing rents by 1% year on year.
- 1.7 The MTF5 also confirms the Council's reserves strategy - fundamentally avoiding the use of reserves 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 2020/21 to 2022/23 are presented at **Appendix A**, the proposed capital programmes are shown at **Appendix D** and the Programme for Growth is at **Appendix E**.

General Fund Revenue Budget

- 2.2 The draft budget includes provision for 'contractual' and other unavoidable inflation on expenditure, as well as inflation on income from the Council's discretionary fees and charges. This includes an increase in Internal Drainage Board (IDB) levies of 11.3% over the 3 years to 2022/23 (of which Danvm IDB is 27.6%). A 2% provision for an annual pay award has also been included, although it should be noted that the trade unions have submitted a pay claim including 10% pay rise for 2020 – every 1% additional award above the 2% provision would add circa £82k p.a. to the Council's pay budget. A 5% vacancy factor is included to help mitigate the rising pay bill and manage other cost pressures within the budget but cost increases above the rate of inflation would inevitably add to the on-going savings requirement.
- 2.3 £295k committed growth i.e. base budget growth which cannot be avoided, is included where considered necessary (**see Appendix B**):
- Minimum revenue provision for internal works to the Summit £33k p.a. over the life of the current contract;
 - A recurring £120k p.a. loss of recycling income due to changes to the global markets for recycled materials;
 - A current one-year reduction in planning fee income of £143k in 2020/21 due to the on-going downturn in larger planning applications – which emerged in 2018/19 and the trend continues into 2019/20.
- 2.4 The draft budget also includes bids for discretionary growth. **Appendix B** identifies revenue and capital proposals. Most of the growth bids are funded from reserves established for this purpose but a small number will, if approved, add to the base budget. In total, recurring discretionary base budget growth is estimated at £139k p.a. which will increase the long term savings requirement. These are:

- The extension of posts in Revenues and Benefits which help to maximise income from Council Tax and overpaid housing benefits - £56k p.a.
- Essential work to closed burial grounds - £10k p.a.
- On-going revenue costs associated with new ICT systems - £18k p.a. (purchase of systems etc is covered by the ICT reserve)
- Increased capacity in the human resources support - £50k p.a.
- Additional new vehicle fleet running costs - £5k p.a.

2.5 Following deferral of the 3 year Spending Review and reset of the business rates system, the draft budget includes an assumed £9m from renewable energy business rates in 2020/21. In accordance with the MTFs these receipts will be transferred to 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 2021/22 although indicatively, it is planned that these will be allocated to the Programme for Growth.

Indicative Local Government Finance Settlement

2.6 In September 2019 the Chancellor announced that the scheduled Comprehensive Spending Review would be delayed for a year and indicated that the Local Government Finance Settlement would largely be a one year roll-over of 2019/20 – uplifted for CPI. Therefore the MTFs assumed the following, which have been incorporated into the draft budget, pending the actual settlement announcement:

- Business Rates Baseline funding £2.281m (safety net level) to reflect Selby's anticipated non-pool status in 2020/21;
- New Homes Bonus – £1.988m in 2020/21;
- Rural Services Delivery Grant £108k.

2.7 Beyond 2020/21 the funding system is subject to review. For 2021/22 onwards the MTFs assumes current Business Rates Baseline (plus inflation) plus a small amount of growth within the savings plan (£100k in 2021/22 plus a further £100k in 2022/23).

2.8 Whilst the outlook for New Homes Bonus remains unclear, there is speculation about its continuation in some form. Accordingly, the draft budget takes a less pessimistic view than the approved MTFs and assumes that this funding will taper out over the next 3 years. Given the spending pressures facing the Council, rather than drawing down reserves as planned, the draft budget applies New Homes Bonus to the revenue budget in the first instance but in the medium term we continue to plan for the full withdrawal of this income stream. Should the assumed New Homes Bonus receipts not be forthcoming then there are sufficient receipts in the Business Rates Equalisation Reserve to compensate.

Council Tax

- 2.9 The approved MTFs mid-case assumes a Council Tax increase of £5 for a Band D property for 2020/21. A £5 increase will take the Council average Band D charge from £178.22 to £183.22 – a rise of just under 10p per week.
- 2.10 The tax base for Council Tax setting purposes has been calculated at 31,989 - a 1.89% increase on 2019/20. The MTFs assumed a 1% increase, so this additional growth will generate a further recurring £51k towards the cost of Council services. In total therefore, the Council Tax yield is estimated at £5.861m for 2020/21.
- 2.11 Taking the Council's overall service requirements and funding assumptions together, the estimated position for 2020/21 is summarised below with more detail at **Appendix A**:

General Fund	2020/21 £000's
Net Budget before contribution to/(from) Reserves*	15,077
Contributions to Reserves	10,351
Contributions from Reserves	(6,014)
Net Draft Revenue Budget (including reserve transfers)	19,414
RSG	0
Business Rates Baseline (safety net)	(2,281)
New Homes Bonus	(1,988)
Special & Specific Grants	(83)
Rural Services Delivery Grant	(108)
Renewable Business Rates Income	(9,019)
Council Tax	(5,861)
Collection Fund Deficit – Council Tax	(74)
Total Funding	(19,414)
Net Budget (Surplus)/Deficit	0

* After planned savings

- 2.12 Subject to the assumptions and risks within the budget and identification of further savings, the transfer to the Special Projects Reserve is estimated at £763k for 2020/21 and £179k for 2021/22 and then subject to savings delivery, a drawn down of £266k from the Business Rates Equalisation Reserve for 2022/23 (see **Appendix A**).

Housing Revenue Account

- 2.13 The HRA budgets have been prepared using the same assumptions on pay and price inflation as included in the General Fund and assumptions on rent changes are based on the Government's formula. In 2020/21 the CPI+1% increase has been applied.

2.14 The draft HRA budget also includes bids for discretionary growth. **Appendix B** identifies revenue and capital proposals. Most of the growth bids relate to improvements to the housing stock and are funded from the Major Repairs Reserve but again, a small number will, if approved, add to the base budget. In total recurring discretionary base budget growth is estimated at £175k p.a. which will increase the long term savings requirement within the HRA. These are:

- Staff uniforms - £500 p.a.
- Additional new vehicle fleet running costs - £30k p.a.
- Establishment changes £10k p.a.
- Review of trades team in line with the draft Business Plan - £134k

2.15 The estimated position on the HRA for 2020/21 is shown below, which aligns with the draft Business Plan. The HRA savings plan is on track to achieve although the timing is dependent upon implementation of the new housing system. However, opportunities for further efficiency will continue to be sought in order to maximise the resources available for investment in the service.

HRA	2020/21 £000's
Total Net Budget*	8,441
Less Dwelling Rents	(12,157)
Net Surplus available for Major Repairs	(3,716)

*After planned savings

2.16 Before consideration of the Housing Investment Programme requirements, a surplus position is anticipated for 2020/21. 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 2020/21 total £6.2m (£4m previously approved and £2.2m new bids) which, if approved, will require a £5.5m drawdown from the Major Repairs Reserve. **Appendix F** shows the forecast on this reserve assuming all bids are approved.

2.17 Looking ahead the refreshed HRA Business Plan sets out the long term requirements for the Housing Revenue Account whilst balancing savings and investments within the context of a sustainable HRA.

Savings

2.18 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.

2.19 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, as emphasised in the MTFs, 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.

2.20 The draft budget for the General Fund and HRA, includes planned savings of £1.8m for 2020/21 rising to £2.2m for 2021/22 and to £2.5m by 2022/23.

2.21 The savings plan has been reassessed as part of the budget process and the revised plan is set out at **Appendix C**. Key changes include:

- Removal of the income generation saving;
- Removal of commercial investment income – funds applied to match funding Station Master Plan project and pending business cases;
- Re-profiling of the Business Rates growth;
- A reduction in the planning service saving;
- An increase the saving anticipated from the environmental contract;
- The addition of a pension contribution saving following the latest triennial valuation and gains on the deficit payment made by the Council;
- The addition of an efficiency saving from the introduction of Council Tax penalties;
- The addition of a saving from extending the Empty Homes Council Tax Premium.

2.22 Taking the proposals for Council Tax, growth, reserve transfers and assumptions on Government funding, the draft budget shows that by 2022/23 further savings will be required in addition to those currently planned. The table below summarises the current plan and shows the additional savings estimated based on this draft Medium Term Financial Plan.

GF Savings Summary	2020/21 £000's	2021/22 £000's	2022/23 £000's
Low risk/completed	408	409	410
Medium risk/in progress	1,129	1,213	1,213
High risk/not started	0	100	200
New target – to be identified	0	0	276
Cumulative Savings	1,537	1,722	2,099
Annual Savings	761	184	377

HRA Savings Summary	2020/21 £000's	2021/22 £000's	2022/23 £000's
Low risk/completed	23	23	24
Medium risk/in progress	195	195	195
High risk/not started	0	0	0
New target – to be identified	0	170	175
Cumulative Savings	218	388	394
Annual Savings	218	170	6

- 2.23 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 savings plan is presented at **Appendix C**.

General Fund Capital Programme

- 2.24 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**.
- 2.25 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 2020/21 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 – a full review of industrial unit assets will be undertaken before expenditure is approved;
 - Purchase of land;
 - Selby and District Housing Trust loans – these loans are subject to viable business cases and variable subsidies within the overall funding package available. Although no new bids are proposed as part of this budget – current budgets are expected to be re-profiled over the coming 3 years.

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

- 2.26 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	2020/21 £000's	2021/22 £000's	2022/23 £000's
Asset Management	1,219	252	116
Grants & Loans	512	482	482
ICT Replacement	249	369	174
Total Programme	1,980	1,103	772
Funding			
Capital Receipts	1,148	180	180
Grants	402	402	402
Reserves	430	521	190
Total Funding	1,980	1,103	772

- 2.27 Projects include: acquisition of land to facilitate affordable housing; the enhancement of existing assets such as the car parks, play areas and industrial units; Disabled Facilities Grants 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

- 2.28 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	2020/21 £000's	2021/22 £000's	2022/23 £000's
Energy Efficiency Programme	490	500	510
Health & Safety Improvement Programme	707	669	555
Property refurbishment Programme	3,707	3,616	3,678
Investment Programme	572	583	427
Empty Home Programme	700		
Vehicle Fleet	61		
Total Programme	6,237	5,368	5,170
Funding			
Major Repairs Reserve	5,537	5,368	5,170
Capital Receipts	280		
HCA Grant	210		
S.106 Commuted Sums	210		
Total Funding	6,237	5,368	5,170

2.29 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 2020/21 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 (although no new bids are proposed as part of this budget – current budgets are expected to be re-profiled over the coming 3 years)

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

Programme for Growth

2.30 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 regular progress reports have been presented to both Executive and the Overview and Scrutiny Committee.

2.31 Following a Corporate Peer Challenge in November 2017, the Programme was reviewed and refocused with resources diverted into additional staffing capacity. The approved programme totals £10.9m over the 3 years from 2017/18 to 2019/20 although latest forecasts show that, given the complex nature of some of the schemes, it will take a further 3 years to deliver the programme.

2.32 The Programme is funded by New Homes Bonus and some business rates receipts from renewable energy facilities. At the end of 2019/20 it is forecast that there will be £8.479m available in the Special Projects Reserve for allocation to the Programme for Growth with the potential for a further £9.1m from April 2021. The draft budget proposes that these monies be made available to extend the programme to enable the priorities identified within the new Corporate Plan to be taken forward.

2.33 At this stage plans are in outline only and further engagement with Council members will be undertaken before an extended programme is finalised. However, some initial projects have been identified and are set out at Appendix E. It is stressed that these proposals are indicative only and subject to full business case approval before any expenditure would be authorised.

2.34 On-going staff capacity to deliver the programme remains crucial and accordingly new programme proposals allow for the extension of a number of posts over the coming 3 years.

2.35 The current budget and new proposals are summarised below:

Special Projects/Programme for Growth	Current Programme Budget £000's	Proposed New Programme Budget £000's	Indicative Future Programme* £000's
Staffing Resources	3,643	1,964	
Project Delivery	7,292	4,280	8,000
Unallocated	0	2,235	1,019
Total Programme	10,935	8,479	9,019

*Subject to receipts of renewable energy business rates

2.36 **Appendix E** sets out the current programme and proposals for a new and extended programme.

Reserves

2.37 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 2020 reserves are forecast at:

Reserves	Forecast 31 March 2020 £000's
General Fund	
Commitments	3,650
Growth and improvement	13,268
Risk	7,975
Total General Fund Reserves	24,893
HRA	
Balances	1,500
Major Repairs	7,794
Total HRA Reserves	9,294
Capital receipts (from asset sales)	3,422
Restricted Funds (s106/CIL)	8,541

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

2.39 Reserves for growth and improvement include £4.18m for the Programme for Growth (from New Homes Bonus and the Business Rates windfall) which is fully committed and subject to spend profile and £8.479m in the Special Projects reserve which is available for allocation. Reserves to manage risk

include £5.793m from Business Rates to support the revenue budget (per MTF5) and £1.5m General Working Balance.

- 2.40 These earmarked reserves provide the financial capacity to fund the capital programmes and other irregular expenditure. Including the proposals within this draft budget for 2020/21 it is estimated that in total £8.522m will be required from General Fund and £1.428m from Capital reserves to fund on-going projects and new proposals.
- 2.41 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 £5.537m from the MRR in 2020/21.
- 2.42 Contributions to reserves (including capital receipts) of £16.1m are forecast for 2020/21 (subject to the receipt of £9m renewable energy business rates), which includes resources set aside to support future revenue budgets and subject to savings delivery, future investments.

3. Alternative Options Considered

The MTF5 sets out scenarios and options for key assumptions including Council Tax.

4. Implications

4.1 Legal Implications

None as a result of this report.

4.2 Financial Implications

As set out in the report

4.3.1 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 and the uncertainty within the public sector funding regime, mean greater financial risk for the Council. Areas that are particularly high risk are central government funding and income (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. The MTF5 quantified additional financial risk of £300k - £500k.

- 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

The draft budget aims to support delivery of the Council's 'Corporate Plan'.

4.5 Resource Implications

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

4.6 Other Implications

N/A

4.7 Equalities Impact Assessment

There are no equalities issues as a direct result of this report.

5. Conclusion

5.1 The draft General Fund Net Revenue Budget for 2020/21 totals £19.4m. It assumes a Council Tax rise of £5 for a Band D property and after the application of Central Government funding, transfers to reserves, and savings of £1.538m is a 'balanced budget'. Savings of £218k are forecast for the HRA.

5.2 Plans are in place to deliver the expected General Fund and HRA savings through a combination of efficiency and income generation. Resources remain available in the Business Rates Equalisation Reserve to support the revenue budget should this be necessary.

5.3 Progress is being made against the proposals identified within the approved plan but with risk to the Council's core funding and further savings expected to be required over the medium term, 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 proposals to extend 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

Medium Term Financial Strategy approved by Council September 2019

7. Appendices

A – Revenue estimates

B – Growth – commitments and bids

C – Savings

D – GF Capital programme and Housing Investment Programme

E – Programme for Growth

F – Reserves

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