

North East Derbyshire District Council

Cabinet

13 February 2019

Medium Term Financial Plan 2019/20 to 2022/23

Report of Councillor P R Kerry, Portfolio Holder with Responsibility for Finance

This report is public

Purpose of the Report

- To seek approval of the proposed budget for 2019/20 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2019/20 to 2022/23.
- To provide Elected Members with an overview of the Council's financial position in order to inform the decision making process.

1 Report Details

Introduction

1.1 This report presents the following budgets for Members to consider:

- General Fund – **Appendix 1 and 2**
- Housing Revenue Account (HRA) – **Appendix 3**
- Capital Programme – **Appendix 4**

In particular financial projections are provided for:

- 2018/19 Current Budget – current year budget, revised to take account of any changes during the financial year that will end on 31 March 2019.
- 2019/20 Original Budget – proposed budget for the next financial year. For the General Fund, this is the budget on which the Council Tax will be based. The HRA budget also includes proposals on increases to rents and charges.
- 2020/21 to 2022/23 Financial Plan - In accordance with good practice the Council agrees its annual budgets within the context of a Medium Term Financial Plan (MTFP). This includes financial projections in respect of the next three financial years for the General Fund, HRA and Capital Programme.

- 1.2 Once Cabinet has considered this report and the appendices, the recommendations agreed will be referred to the Council meeting of 18 February 2019 for members' consideration and approval.

General Fund

2018/19 Current Budget

- 1.3 In February 2018, Members agreed a budget for 2018/19 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.434m to balance the budget. It has therefore been necessary to actively manage budgets throughout the year and to remove savings from the budget once they have been agreed.
- 1.4 The Revised Budget was considered by Cabinet at its meeting on 28 November 2018. There have been no changes to the budget position since this time.
- 1.5 The final in year surplus will be dependent on the actual financial performance being in line with the revised budgets. Whilst these estimates reflect the position at the time of setting there can be some volatility from the budget to the outturn position. It was agreed that any surplus generated in the financial year be transferred to the Invest to Save Reserve to be available for financing future transformation plans and service developments.

2019/20 Original Budget and 2020/21 - 2022/23 Financial Plan

- 1.6 The proposed budget for 2019/20 currently shows a shortfall of £0.871m and the Council's first priority will be to balance next year's budget. However, given the scale of the challenge that faces the Council in future years it is important to ensure these savings are secured by underlying reductions in expenditure or increases in income. In particular the Council needs to maintain the momentum on the growth and transformation agenda to put itself in a better position to secure the projected financial savings needed, which will be critical due to the level of savings needed over this medium term financial plan. Further shortfalls are also budgeted for future years being £1.769m in 2020/21, £2.399m in 2021/22 and £2.783m in 2022/23 (**Appendix 1**).
- 1.7 The financial projection in respect of 2019/20 – 2021/22 was approved by Members in February 2018. The table below shows the movement from the February 2018 position to the updated figures now presented (at Appendix 1). The table also shows the movement on the estimated outturn for 2018/19.

	2018/19 Estimated Outturn £000	2019/20 Forecast £000	2020/21 Forecast £000	2021/22 Forecast £000
Opening Budget (surplus)/Budget Shortfall	545	1,390	1,723	2,046
Council Tax Increase 18/19	(111)	(111)	(111)	(111)
NNDR (Growth)/Loss - BR Reset *	(1,516)	(500)	144	117
Transformation, Income Generation/Cost Reduction /Business Redesign	(240)	(330)	(263)	(263)
Vacancy Management **	(194)	(224)	(174)	(174)
Cost Pressures	0	646	190	265
Expected Loss of New Homes Bonus	0	0	765	1,024
General Fund (surplus)/Budget Shortfall	(1,516)	871	2,274	2,904
NNDR Growth reserve *	1,516	0	(505)	(505)
Closing Budget (surplus)/Budget Shortfall	0	871	1,769	2,399

* NNDR growth from increased business rates income during the pilot year of 2018/19 has been ring fenced to mitigate the loss of income likely to result from a business rates reset in 2020/21. See also 1.12 – 1.13 and 1.18 – 1.20 below

** Each year the budget is based on a full establishment then vacancies are reviewed each quarter and corresponding savings taken to offset against the Council's overall savings target.

1.8 The main factors taken into account in developing the Council's financial plans are set out below.

Level of Government Funding

1.9 The current financial year (2018/19) is the third year of the four year settlement announced in December 2015. The Provisional Local Government Finance Settlement, announced in December 2018, provided an update and further clarity with respect to funding for 2019/20. The key issues affecting the Council are:

New Homes Bonus

- 1.10 The provisional allocations for New Homes Bonus have now been received for 2019/20 and have been included in the budget. The provisional allocation for 2019/20 is £0.926m
- 1.11 New Homes Bonus is not confirmed beyond 2019/20 and there is a real risk that the scheme will either be ended in 2020, or its value eroded over the next spending review period. So, estimates for 2020/21 exclude any new allocations for new homes bonus. This means that in 2020/21 the allocation drops to £0.402m, then £0.182m in 2021/22 and £0.111m in 2022/23. This loss of funding creates a significant budget pressure in the medium term financial plan.

Business Rates Retention

- 1.12 Members will be aware that the Council has been a member of the Derbyshire Business Rates Pool since its establishment in 2015/16. Being a member of the pool allows us to retain more of our Business Rates income locally.
- 1.13 As part of the changes to Business Rates Retention the Government sought bids from local authorities to be Business Rates pilots for 2019/20. The Derbyshire pool was successful in 2018/19 and a further bid was submitted for 2019/20. Unfortunately, as announced in the Settlement, the bid was unsuccessful but it has been confirmed that the previous pooling arrangements will be reinstated for 2019/20 for Derbyshire. The income from business rates included in the budget is therefore on this basis, updated for revisions from the settlement and taking account of the NNDR1 return.

The National Funding Settlement 2020/21

- 1.14 As reported in the 2018/19 quarter 1 budget monitoring report, a number of fundamental changes to local authority funding are currently being considered by the Government for incorporation into the 2020/21 Financial Settlement. The Fair Funding Review and the Business Rates Reset are both likely to have a negative impact on district councils.

Fair Funding Review

- 1.15 A further consultation paper on part of the Fair Funding Review was issued in December 2018 and it is still too early to say with any clarity what the impact of the Fair Funding Review will be but initial modelling is showing that resources will be directed to councils based on “highest need” which will impact negatively on most shire districts.
- 1.16 The risk of losses from the Fair Funding Review is also much greater for those councils who can raise income from council tax. This puts a greater burden on local decision making with regards to council tax setting each year.
- 1.17 As the review is still at consultation stage a full estimate of the likely impact of the Fair Funding Review has not been included in the medium term financial plan at this time. Members will be updated on the impact as soon as this becomes available.

Business Rates Reset

- 1.18 A consultation paper was released in December 2018 on Business Rates Retention Reform. The review focuses on resetting the business rates baseline therefore building any growth into a new baseline, effectively wiping out any growth gained since 2013/14. The local share for business rates retention is also likely to increase from 50% to 75% as part of this review, however it is likely that county councils will benefit most from this.
- 1.19 Modelling of the likely impact of the business rates reset has been performed and included in the medium term financial plan from 2020/21. It must be stressed these are just initial estimates and therefore subject to change following consultation.
- 1.20 To help mitigate against the losses caused by the business rates reset a transfer of £0.505m per annum from the NNDR Growth Protection Reserve into the General Fund has been made from 2020/21 if required.

Expenditure, income levels and efficiencies

- 1.21 In developing the financial projections covering the period 2019/20 -2022/23, a number of assumptions have been made:
- A pay award of 2% has been included in pay budgets.
 - Employer superannuation contributions are fixed throughout the plan.
 - Inflation specific budgets such as energy costs and fuel have been amended to reflect anticipated price changes.
 - With respect to planning fees, a base level for income has been included for all future years of £0.400m. Where income levels and the associated workload increase above this level, then part of the additional income may be used to fund additional costs such as agency staff in order to maintain performance levels.
 - Fees and charges – service specific increases as agreed by Members.

Additionally, the Council's transformation programme seeks to contribute to the financial challenges faced through the progression of innovative and forward thinking ideas.

Appendix 2 details the net cost of each cost centre by Directorate.

- 1.22 No provision has been made in the budget for costs that may be incurred as a result of Brexit. Should there be any significant impact on the Council's resources as a result this will be addressed at that time.

Council Tax Implications

Council Tax Base

- 1.23 In preparation for the budget, the Chief Finance Officer under delegated powers has determined the Tax Base at Band D for 2019/20 as 30,957.85

Council Tax Options

- 1.24 The Council's part of the Council Tax bill in 2018/19 was set at £186.39 for a Band D property. This was an increase of 1.99%.

- 1.25 The Council has a range of options when setting the Council Tax. The Government indicate what upper limit they consider acceptable. For 2019/20, District Councils are permitted to increase their share of the Council Tax by 3% or £5, without triggering the need to hold a referendum.
- 1.26 The table below shows some of the options and the extra revenue generated.

Increase	New Band D £	Annual Increase £	Weekly Increase £	Extra Revenue £
1.00%	188.25	1.86	0.03	57,702
1.50%	189.19	2.80	0.05	86,553
1.75%	189.19	3.26	0.06	100,979
2.00%	189.65	3.73	0.07	115,404
2.99%	191.96	5.57	0.10	172,529

- 1.27 The level of increase each year affects the base for future years and the proposed increase for 2019/20 is 1.75%, which will generate additional revenue of £100,979.

Financial Reserves – General Fund

- 1.28 The Council's main uncommitted Financial Reserves are the General Fund Working Balance of £2.0m and the uncommitted element of the Invest to Save Reserve of £2.3m. Due to the uncertainty surrounding local authority income, particularly in relation to the national financial settlement from 2020/21, and the fact that the Council has reduced budgets to a minimal level, it is important that the Council continues to review whether we have an acceptable General Fund Working Balance.

Housing Revenue Account (HRA)

2018/19 Current Budget

- 1.29 In February 2018, Members agreed a budget for 2018/19 including setting of rent levels in line with Government regulations with a reduction of 1%, effective from 1st April 2018. HRA fees and charges were also set, effective from the same date.
- 1.30 The Revised Budget was considered by Cabinet at its meeting on the 28 November 2018. A surplus of £0.930m was estimated, which was £0.526m higher than the original forecast. There have been no changes to the budget position since this time

- 1.31 The estimated surplus in the year will be dependent on the actual financial performance out-turning in line with the revised budgets. The surplus will be utilised to fund additional homes and/or improved services to Council tenants in future financial years and it was agreed that all surpluses be transferred to the HRA Development Reserve.
- 1.32 The working balance brought forward from 2017/18 was £3.0m. This will be retained at £3.0m with the forecast surplus of £0.930m being transferred to the Development Reserve.

2019/20 Original Budget and 2020/21 to 2022/23 Financial Plan

- 1.33 The proposed budget for 2019/20 currently shows a balanced position with a surplus of £0.762 being transferred to the Development Reserve. Based on the current information held future years will also generate surpluses which, it is proposed are also transferred to the Development Reserve. (**Appendix 3**).
- 1.34 The HRA budget makes the same assumptions as the General Fund budget for staff costs and inflation. There are however, some additional assumptions that are specific to the HRA. The main factors taken into account in developing the Council's financial plans for the HRA are set out within the sections below.

Level of Council Dwelling Rents

- 1.35 Government rent policy is currently that average rent levels will reduce by 1% per annum for four years from April 2016. Therefore 2019/20 is the final year of the reduction and income for dwelling rents has been included in the budget on this basis. For 2020/21 onwards rent policy reverts to CPIH +1% and this has been assumed in the forecasts.

Fees and Charges

- 1.36 Although the main source of income for the HRA is property rents, the HRA is also dependent for its financial sustainability on a range of other charges. These charges are set on the principle that wherever possible charges for services should reflect the cost of providing those services.
- 1.37 The Council currently receives income from the Supporting People Partnership (SPP) at Derbyshire County Council (DCC) towards the cost of the supported housing services, namely call monitoring and floating support. DCC advised Rykneld Homes Ltd, who deliver this service on the Council's behalf, last year that a full review of the services funded by the SPP was underway and that the current arrangements would end on 31 March 2019. Following negotiations with DCC, Rykneld Homes have decided to end the contract on 31 March. Rykneld Homes are now reviewing the implications of this for our tenants and will report the outcomes to Members.
- 1.38 As part of the budget setting, a review of non-dwelling rents has been undertaken to reflect demand, ensure consistency and meet costs incurred. The schedule of proposed charges is set out below:

	Weekly Charge 2018/19 £	Proposed Weekly Charge 2019/20 £	Proposed Weekly Charge 2020/21 £	Proposed Weekly Charge 2021/22 £	Proposed Weekly Charge 2022/23 £
Heating:					
Marx Court	7.22	7.51	7.81	7.95	8.15
Church Avenue	5.25	5.30	5.35	5.40	5.54
Garages:					
Private - new	9.60	9.60	9.60	10.00	10.25
Private - existing	9.60	9.60	9.60	10.00	10.25
Tenants - new	8.00	8.00	8.00	8.00	8.00
Tenants - existing	6.00	6.50	7.00	7.50	8.00
Garage Plots:					
Private - new	2.50	2.50	2.50	2.60	2.70
Private -existing	2.50	2.50	2.50	2.60	2.70
Garage Plots (annual):					
Private - new	170.00	170.00	170.00	180.00	180.00
Private - existing	160.00	170.00	170.00	180.00	180.00
Hard Standing	2.50	2.50	2.50	2.60	2.70
Garage in grounds	6.00	6.50	7.00	7.50	8.00

1.39 Rykneld Homes Ltd Management Fee

The majority of the funding available to Rykneld Homes is provided by way of a management fee from the Council for delivery of services in line with the Management Agreement. Whilst it is intended that this payment will form a regular source of income for Rykneld Homes against which it can effectively budget to meet its expenditure commitments it is recognised that on occasions the Council as sole shareholder may be required to contribute funds in order to help it manage any adverse cash flow issues which might arise.

1.40 The recommended management fee for 2019/20 remains at £9.902m. This is contained within two budgets on the HRA – Repairs and Maintenance (£5.028m) and Supervision and Management (£4.874m). The management fee is retained at the same level as the previous year to recognise growing budget pressures to the HRA mainly the continuing impact of the 1% rent decrease.

1.41 A further issue needs to be brought to the attention of Cabinet which concerns the fact that Rykneld Homes is a company wholly owned by the Council. As such the company's external auditors seek from the Council on an annual basis at the time of the audit of the Company's accounts a Letter of Comfort from the Council as the parent company. That letter of comfort fundamentally seeks reassurance regarding the fact that the Council will continue to provide financial support to the company over the coming financial year (which in the case of the 2018/19 accounts will be the 2019/20 financial year). On the basis that this report is approved then it is reasonable to provide such a letter of comfort from the Council. In addition it may be the case that specific representations are required in order to support the Auditors view that the Company remains a going concern. The reasonableness of providing such assurances will need to be considered at

that point in time when the Company's auditors approach the Council, and it is therefore recommended that delegated powers be granted to the Chief Financial Officer in consultation with the Portfolio Member for Finance to provide a response on behalf of the Council.

Financial Reserves - HRA

- 1.42 The Council's main uncommitted Financial Reserve for the Housing Revenue Account is the working balance of £3.00m. In addition to the Working Balance there are further reserves for the HRA specifically used to fund the Council's HRA capital programme. These are the Major Repairs Reserve and the Development Reserve.

Capital Programme

- 1.43 There will be a separate report to Council on 18 February 2019 concerning the Council's Treasury Strategies. The report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2018/19 Current Budget

- 1.44 In February 2018, Members approved a Capital Programme in respect of 2018/19 to 2021/22. Scheme delays and technical problems can often cause expenditure to slip into future years and schemes can be added or extended as a result of securing additional external funding. All slippage from 2017/18 has been accounted for in the 2018/19 estimated outturn position.
- 1.45 The Revised Capital Programme was considered by Cabinet at its meeting on the 28 November 2018. There have been no changes to the budget position since this time.

General Fund Capital Programme 2019/20 to 2022/23

- 1.46 The proposed Capital Programme for the General Fund totals £2.035m for 2019/20; £3.184m for 2020/21, £3.174m for 2021/22 and £1.219m for 2022/23.
- 1.47 The Council's assets require regular maintenance to ensure they remain safe and fit for purpose. It is also important for income generation that assets remain in a good condition and so remain lettable. The current capital programme allows for £0.150m a year to be spent on refurbishment of general fund assets. This really only allows for reactive work where need is greatest and doesn't address much of the work that needs to be carried out. A planned approach would however yield savings in running costs and energy efficiency benefits over time as works are completed and asset conditions improve. In December 2018, the Asset Management Group agreed that a recommendation be made to Cabinet to increase the capital programme to £0.500m per annum from 2019/20 to allow a move to a planned approach for asset refurbishment.

HRA Capital Programme 2019/20 to 2022/23

- 1.48 The proposed Capital Programme for the HRA totals £10.140m in 2019/20 then £9.5m per annum for 2019/20 – 2022/23. This includes the management fee payable to Rykneld Homes Ltd for the capital works undertaken on behalf of the Council. The capital fee has been agreed at £1.1m for 2019/20.
- 1.49 In addition, £1.35m has been included in the Capital Programme for 2019/20 to continue the EWI programme. This next phase will deliver a 30 year external envelope solution and structural repairs to the 63 “spooner” non-traditional properties at Heath and Pilsley during 2019/20.
- 1.50 Rykneld Homes have also asked the Council to consider an annual increase of £3m to the housing capital programme from 2019/20. This additional amount is requested to support the ongoing investment needed to maintain the stock to a lettable standard (for example increased roofing and window replacement programmes). This would increase the annual allocation by 30 percent to £12m. Given the additional amount requested it hasn't been included in the capital programme at this time. However, it will be reviewed over the coming months along with a review of the affordability of such additional spend in the context of the HRA 30 year business plan. The outcome of this review will then be reported back to Members for consideration.
- 1.51 An analysis of all the schemes and associated funding are attached at **Appendix 4** to this report.

Robustness of the Estimates

- 1.52 Under the provisions of the Local Government Act 2003, the Council's Section 151 Officer is required to comment on the robustness of the estimates made and on the adequacy of the financial reserves.

The Council's Section 151 Officer (The Head of Finance and Resources) is satisfied that the estimates are considered to be robust, employee costs are based on the approved establishment, investment income is based on the advice of the Council's Treasury Management Advisors and income targets are considered to be achievable.

Likewise, the Section 151 Officer is satisfied that the levels of reserves are considered to be adequate to fund planned expenditure and potential issues and risks that face the Council.

2 Conclusions and Reasons for Recommendations

- 2.1 This report presents a budget for consideration by Cabinet. It seeks to ensure approval to budgets in respect of the General Fund, the Housing Revenue Account and the Capital Programme.

3 Consultation and Equality Impact

- 3.1 The Council is required to consult with stakeholders on the proposed budget. This consultation is part of the Council's service planning framework and has effectively been taking place throughout the financial year. These mechanisms include active participation in the Local Strategic Partnership, a range of meetings with local groups and associations and a performance management framework. These meetings help to inform the Council's understanding of what is expected of it by our local communities.
- 3.2 There are no equality impact implications from this report.

4 Alternative Options and Reasons for Rejection

- 4.1 Alternative options are considered throughout the report.

5 Implications

5.1 Finance and Risk Implications

- 5.1.1 Financial issues and implications are covered in the relevant sections throughout this report.
- 5.1.2 The Council has a risk management strategy and associated framework in place and the Strategic Risk Register is regularly reviewed through the Council's performance management framework. Strategic risks along with the mitigation in place to ensure such risks are manageable are reported to the Audit and Corporate Governance Scrutiny Committee at each meeting. The risk of not achieving a balanced budget is outlined as a key risk within the Council's Strategic Risk Register and is therefore closely monitored through these practices and reporting processes.

5.2 Legal Implications including Data Protection

- 5.2.1 The Council is legally obliged to approve a budget prior to the commencement of the new financial year in April 2019. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.
- 5.2.2 The recommended budget for the General Fund, Housing Revenue Account and Capital Programme complies with the Council's legal obligation to agree a balanced budget.
- 5.2.3 There are no Data Protection issues arising directly from this report.

5.3 Human Resources Implications

- 5.3.1 These are covered in the main report and supporting appendices where appropriate.

6 Recommendations

- 6.1 That all recommendations below are referred to the Council meeting of 18 February 2019.

The following recommendations to Council are made:

- 6.2 That the view of the Chief Financial Officer, that the estimates included in the Medium Term Financial Plan 2019/20 to 2022/23 are robust and that the level of financial reserves whilst at minimum levels are adequate, be accepted.
- 6.3 That officers report back to Cabinet and the Audit and Corporate Governance Scrutiny Committee on a quarterly basis regarding the overall position in respect of the Council's budgets. These reports to include updates on achieving the savings and efficiencies necessary to secure a balanced budget for 2019/20 and future years.

GENERAL FUND

- 6.4 A Council Tax increase of £3.26 is levied in respect of a notional Band D property (1.75%).
- 6.5 The Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report be approved as the Current Budget 2018/19, as the Original Budget 2019/20, and as the financial projections in respect of 2020/21 to 2022/23.
- 6.6 That any under spend in respect of 2018/19 be transferred to the Invest to Save Reserve.
- 6.7 On the basis that income from Planning Fees is anticipated to exceed £0.400m in 2019/20, the Chief Executive in consultation with the Leader be granted delegated powers to authorise such additional resources as are necessary to effectively manage the resultant increase in workload.

HOUSING REVENUE ACCOUNT

- 6.8 That Council sets its rent levels in line with Government regulations, reducing rent levels by a further 1% from 1st April 2019.
- 6.9 That the increases in respect of all other charges be implemented in line with the table shown at 1.30 above with effect from 1 April 2019.
- 6.10 The Medium Term Financial Plan in respect of the Housing Revenue Account as set out in **Appendix 3** of this report be approved as the Current Budget in respect of 2018/19, as the Original Budget in respect of 2019/20, and the financial projection in respect of 2020/21 and 2022/23.

- 6.11 That the Management Fee for undertaking housing services at £9.902m and the Management Fee for undertaking capital works at £1.1m to Rykneld Homes in respect of 2019/20 be approved.
- 6.12 That Members endorse the section in the current Financial Protocol which enables the Council to pay temporary cash advances to Rykneld Homes in excess of the Management Fee in order to help meet the cash flow requirements of the company should unforeseen circumstances arise in any particular month.
- 6.13 That Members note the potential requirement to provide Rykneld Homes with a 'letter of comfort' to the company's auditors and grant delegated authority to the Council's Chief Financial Officer in consultation with the Portfolio Member for Finance to agree the contents of that letter.

CAPITAL PROGRAMME

- 6.14 That the Capital Programme as set out in **Appendix 4** be approved as the Current Budget in respect of 2018/19, and as the Approved Programme for 2019/20 to 2022/23.

7 Decision Information

<p>Is the decision a Key Decision?</p> <p>A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p><i>BDC: Revenue - £75,000</i> <input type="checkbox"/></p> <p><i>Capital - £150,000</i> <input type="checkbox"/></p> <p><i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/></p> <p><i>Capital - £250,000</i> <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	<p>Yes</p>
<p>Is the decision subject to Call-In?(Only Key Decisions are subject to Call-In)</p>	<p>Yes</p>
<p>Has the relevant Portfolio Holder been informed</p>	<p>Yes</p>
<p>District Wards Affected</p>	<p>All</p>
<p>Links to Corporate Plan priorities or Policy Framework</p>	<p>All</p>

8 Document Information

Appendix No	Title
1	General Fund Summary
2	General Fund Detail
3	Housing Revenue Account
4	Capital Programme
Background Papers	
Budget working papers	
Report Author	Contact Number
Dawn Clarke - Head of Finance and Resources	01246 217658
Jayne Dethick - Chief Accountant	01246 217078

AGIN 4 (CAB 0213) 2019 - MTFP