

North East Derbyshire District Council

Council

19 February 2018

Medium Term Financial Plan 2018/19 to 2021/22

**Report of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy,
Finance and Regeneration**

This report is public

PLEASE NOTE:

**Attached is the report that will be considered by
Cabinet on 14 February 2018.**

North East Derbyshire District Council

Cabinet

14 February 2018

Medium Term Financial Plan 2018/19 to 2021/22

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

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Purpose of the Report

- To seek approval of the proposed budget for 2018/19 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2018/19 to 2021/22.
- 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:

- 2017/18 Estimated Outturn Position – current year budget, revised to take account of changes during the financial year that will end on 31 March 2018.
- 2018/19 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.
- 2019/20 to 2021/22 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 19 February 2018 for members' consideration and approval.

General Fund

2017/18 Estimated Outturn

- 1.3 In February 2017, Members agreed a budget for 2017/18 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.363m 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 22 November 2017. When taking account of in year cost reductions and/or income generation identified, the original efficiencies of £0.363m have been found plus additional efficiencies of £0.057m. This creates an improved position of £0.420m and the key factors underlying this improvement are detailed below:

	£000's
Building Control Fees	21
Waste Recycling Contract	25
Vacancy Management	111
Increase in Planning Income	210
Utilities	21
Miscellaneous Expenditure Reductions	32
Total Increase in Income / Reduction in Expenditure	420

- 1.5 The estimated in year surplus £0.057m is dependent on the actual financial performance out-turning 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.

2018/19 Original Budget and 2019/20 - 2021/22 Financial Plan

- 1.6 The proposed budget for 2018/19 currently shows a shortfall of £0.545m 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. Further shortfalls are also budgeted for future years being £1.502m in 2019/20, £1.835m in 2020/21 and £2.158m in 2021/22 (**Appendix 1**). The main factors taken into account in developing the Council's financial plans are set out below.

Level of Government Funding

- 1.7 The current financial year (2017/18) is the second year of the four year settlement announced in December 2015. The Provisional Local Government Finance Settlement, announced in December 2017, provided an update and further clarity with respect to Revenue Support Grant, New Homes Bonus and Business Rates Retention. The key issues affecting the Council are:

Revenue Support Grant

- 1.8 The provisional settlement has confirmed that Revenue Support Grant will continue to be phased out in line with the four year settlement. The Council was due to receive grant for the final year in 2018/19 but due to the award of pilot status for 100% business rates retention (see below) funding will be through business rates rather than grant.

New Homes Bonus

- 1.9 Due to the uncertainty created by the consultation on the future of New Homes Bonus payments, prudent estimates were included in the budget. The provisional allocations have now been received from Government and the estimates updated. The Council is forecast to receive £0.920m in 2018/19, rising to £1.184m in 2019/20, £1.167m in 2020/21 and £1.206m in 2021/22. This is wholly dependent on the number of new homes forecast being delivered therefore may fluctuate over this period.

Business Rates Retention

- 1.10 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.
- 1.11 As part of the changes to Business Rates Retention the Government sought bids from pools to be 100% Business Rates pilots for 2018/19. The settlement, announced in December 2017, confirmed the Derbyshire Business Rates pool had been accepted as one of ten pilot pools for 2018/19. At this stage it is assumed that the pilot is only for one year.
- 1.12 Whilst the full impact on the Council is still to be confirmed, initial indications suggest an increase in income of £0.550m on the previous year. However, as a consequence of being a 100% pilot authority the Revenue Support Grant due will longer be received, which is a loss of £0.341m. Therefore the forecast net benefit of being a 100% Business Rates pilot authority in 2018/19 is estimated at £0.209m.
- 1.13 Income for Business Rates for 2019/20 and future years reverts back to existing pool arrangements of 50% rates retention. These figures have been revised after receiving updated baseline funding level information and tariff amounts in the settlement.

Expenditure, income levels and efficiencies

- 1.14 In developing the financial projections covering the period 2018/19 -2021/22, a number of assumptions have been made:
- A pay award of 2% has been included in staffing 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.

Council Tax Implications

Council Tax Base

- 1.15 In preparation for the budget, the Chief Finance Officer under delegated powers has determined the Tax Base at Band D for 2018/19 as 30,656.59

Council Tax Options

- 1.16 The Council's part of the Council Tax bill in 2017/18 was set at £182.75 for a Band D property. This was an increase of 2.8%.
- 1.17 The Council has a range of options when setting the Council Tax. The Government indicate what upper limit they consider acceptable. For 2018/19, District Councils are permitted to increase their share of the Council Tax by 3% or £5, without triggering the need to hold a referendum.
- 1.18 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%	184.58	1.83	0.04	56,025
1.99%	186.39	3.64	0.07	111,489
2.8%	187.87	5.12	0.09	156,870
2.99%	188.21	5.46	0.11	167,403

- 1.19 The level of increase each year affects the base for future years and the proposed increase for 2018/19 is 1.99%, generating additional revenue of £111,489.

Financial Reserves – General Fund

- 1.20 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 £1.0m. Due to the uncertainty surrounding local authority income 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)

2017/18 Estimated Outturn

- 1.21 In February 2017, Members agreed a budget for 2017/18 including setting of rent levels in line with Government regulations with a reduction of 1%, effective from 1st April 2017. HRA fees and charges were also set, effective from the same date.
- 1.22 The Revised Budget was considered by Cabinet at its meeting on the 22 November 2017. A surplus of £0.669m was estimated, which was £0.002m higher than the current budget of £0.667m. The key factors for the improvement were detailed in the report but were mainly reductions in expenditure.
- 1.23 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 improved services to Council tenants in future financial years and it was agreed that all surpluses be transferred to the HRA development reserve.
- 1.24 The working balance brought forward from 2016/17 was £3.0m. This is forecast is to be retained at £3.0m with the forecast surplus of £0.669 being transferred to the Development reserve.

2018/19 Original Budget and 2019/20 to 2021/22 Financial Plan

- 1.25 The proposed budget for 2018/19 currently shows a balanced position with a surplus of £0.394 being transferred to the Development Reserve. Based on the current information held future years will also generate surpluses which, it is proposed are transferred to the Development Reserve. **(Appendix 3)**.
- 1.26 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

- 1.27 Government rent policy is currently that rent levels will reduce by 1% per annum for four years from April 2016. Therefore for 2018/19 and 2019/20 the income for dwelling rents has been included in the budget on this basis. For 2020/21 and 2021/22 a return to the previous policy of CPI +1% has been assumed.

Fees and Charges

- 1.28 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.
- 1.29 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 have recently written to Rykneld Homes Ltd, who deliver this service on the Council's behalf, advising that the current arrangements will end on 31 March 2019 and a full review of the services funded by the SPP is underway. The Council and Rykneld Homes are therefore reviewing the implications of this for our tenants and will report the outcomes to Members as they become clearer.
- 1.30 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 2017/18 £	Proposed Weekly Charge 2018/19 £	Proposed Weekly Charge 2019/20 £	Proposed Weekly Charge 2020/21 £	Proposed Weekly Charge 2021/22 £
Heating:					
Marx Court	6.88	7.22	7.51	7.81	7.95
Church Avenue	8.82	5.25	5.30	5.35	5.40
Garages:					
Private - new	8.26	9.60	9.60	9.60	10.00
Private - existing	7.00	9.60	9.60	9.60	10.00
Tenants - new	8.26	8.00	8.00	8.00	8.00
Tenants - existing	5.48	6.00	6.50	7.00	7.50
Garage Plots:					
Private - new	3.10	2.50	2.50	2.50	2.60
Private -existing	2.43	2.50	2.50	2.50	2.60
Garage Plots (annual):					
Private - new	148.64	170.00	170.00	170.00	180.00
Private - existing	116.52	160.00	170.00	170.00	180.00
Hard Standing	2.50	2.50	2.50	2.50	2.60
Garage in grounds	5.38	6.00	6.50	7.00	7.50

1.31 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.

1.32 The recommended management fee for 2018/19 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.

1.33 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 2017/18 accounts will be the 2018/19 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

1.34 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

1.35 There will be a separate report to Council on 19 February 2018 concerning the Council's Treasury Management Strategy. The report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2017/18 Estimated Outturn

1.36 In February 2017, Members approved a Capital Programme in respect of 2017/18 to 2020/21. 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 2016/17 has been accounted for in the 2017/18 estimated outturn position.

- 1.37 The Revised Capital Programme was considered by Cabinet at its meeting on the 22 November 2017. An estimated outturn of £18.650m was proposed.

General Fund Capital Programme 2018/19 to 2021/22

- 1.38 The proposed Capital Programme for the General Fund totals £1.736m for 2018/19; £1.946m for 2019/20; £2.653m for 2020/21 and £2.739m for 2021/22.

HRA Capital Programme 2018/19 to 2021/22

- 1.39 The proposed Capital Programme for the HRA totals £9.275m for 2018/19; £9.00m for 2019/20; £9.00m for 2020/21 and £9.00m for 2021/22. 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 2018/19. A review is to be undertaken during 2018/19 to assess the levels of capital spend needed within the HRA and affordability of such spend.
- 1.40 An analysis of all the schemes and associated funding are attached at **Appendix 4** to this report.

Robustness of the Estimates

- 1.41 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 Assistant Director – Finance, Revenues and Benefits) 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 2018. 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 19 February 2018.

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 2018/19 to 2021/22 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 2018/19 and future years.

GENERAL FUND

- 6.4 A Council Tax increase of £3.64 is levied in respect of a notional Band D property (1.99%).
- 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 Estimated Outturn Budget 2017/18, as the Original Budget 2018/19, and as the financial projections in respect of 2019/20 to 2021/22.
- 6.6 That any under spend in respect of 2017/18 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 2018/19, 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 2018.
- 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 2018.
- 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 Estimated Outturn Budget in respect of 2017/18, as the Original Budget in respect of 2018/19, and the financial projection in respect of 2019/20 and 2021/22.

- 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 2018/19 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 Estimated Outturn in respect of 2017/18, and as the Approved Programme for 2018/19 to 2021/22.

7 Decision Information

<p>Is the decision a Key Decision? 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: <i>BDC: Revenue - £75,000</i> <input type="checkbox"/> <i>Capital - £150,000</i> <input type="checkbox"/> <i>NEDDC: Revenue - £100,000</i> <input type="checkbox"/> <i>Capital - £250,000</i> <input type="checkbox"/> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
<p>District Wards Affected</p>	All
<p>Links to Corporate Plan priorities or Policy Framework</p>	Providing our customers with excellent service

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
Assistant Director Finance, Revenues and Benefits Chief Accountant		01246 217658 01246 217078