

**North East Derbyshire District Council**

**Audit and Corporate Governance Scrutiny Committee**

**18 January 2023**

**Medium Term Financial Plan 2022/23 to 2026/27**

**Report of the Director of Finance and Resources (S151 Officer)**

Report By: Jayne Dethick, Director of Finance and Resources (S151 Officer)

Contact Officer: Jayne Dethick

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**PURPOSE/SUMMARY**

To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached report concerning the Medium Term Financial Plan (MTFP) 2022/23 to 2026/27 prior to the report being taken to Cabinet and Council.

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**RECOMMENDATIONS**

1. That the Audit and Corporate Governance Scrutiny Committee note the report and make any comments that they believe to be appropriate with regards to the attached report which will be taken to Cabinet on 26 January 2023.

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**IMPLICATIONS**

**Finance and Risk**

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Section 151 Officer

**Legal including Data Protection**

Yes ✓

No

These are detailed in the attached report.

On Behalf of the Solicitor to the Council

**Staffing**

Yes

No ✓

There are no staffing issues arising directly from this report.

On Behalf of the Head of Paid Service

## **DECISION INFORMATION**

<b>Decision Information</b>	
<b>Is the decision a Key Decision?</b> 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:  <b>NEDDC:</b> <b>Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/></b> <input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Significantly Affected</b>	None
<b>Consultation:</b> <b>Leader / Deputy Leader <input checked="" type="checkbox"/> Cabinet <input type="checkbox"/></b> <b>SMT <input checked="" type="checkbox"/> Relevant Service Manager <input checked="" type="checkbox"/></b> <b>Members <input checked="" type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></b>	Yes  Details:

<b>Links to Council Plan priorities, including Climate Change, Equalities, and Economics and Health implications.</b>
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All
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## **1 REPORT DETAILS**

- 1.1 To update Members of the Audit and Corporate Governance Scrutiny Committee to ensure they are kept informed of the Council's financial position as set out in the MTFP 2022/23 to 2026/27. Any comments expressed by the Audit and Corporate Governance Scrutiny Committee will be taken into account in the report, or reported verbally to Cabinet.
- 1.2 The appendices providing details of the financial plans that will be taken to Cabinet on 26 January 2023 and to Council on the 30 January 2023 are attached to this report.
- 1.3 The main variations in the MTFP are reported below.

### **General Fund Revenue Account**

- 1.4 The proposed budget for 2023/24 currently shows a shortfall of £0.977m before any council tax increases. If the recommended council tax increase is approved by Cabinet then the shortfall reduces to £0.784m. The Council continues to face financial challenges over the life of this financial plan, especially in the later years, so it remains important to ensure that ongoing savings are identified and implemented.

### 1.5 Local Government Finance Settlement

In the local government finance policy statement 2023-24 – 2024-25 published on 12 December 2022, the Government confirmed that the next two years will essentially be rollover settlements but stated that there are still several matters that remain unresolved for 2024/25. The policy statement encourages local authorities to utilise reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support financial sustainability.

1.6 Funding reforms or changes to funding distribution will not be implemented until 2025-26 at the earliest now which means a further delay to the Fair Funding Review and the review of business rates including the baseline reset. This delay relieves some pressure on the 2023/24 budget and 2024/25 forecast. However, forecasting for the remainder of the financial plan is challenging whilst little is known about the next Spending Review. There is a real lack of certainty from 2025/26 which makes financial planning with any accuracy for future years difficult, especially in light of the medium term fiscal forecasts and the need to achieve sustainable public services, as outlined in the Autumn Statement and subsequent Financial Settlement.

1.7 The main principles of the Settlement are:

#### New Homes Bonus

1.8 The settlement confirms that New Homes Bonus (NHB) will continue in 2023/24 with the possibility that there will be a further year in 2024/25. NHB will be paid on the same basis as 2022/23. The legacy payments which end in the current year are being used to fund the 3% funding guarantee. Ministers have committed to setting out the future position of NHB in the context of the wider review of lower tier funding so it is largely expected by the sector that NHB payments will continue in 2024/25 whilst this review takes place. NHB has therefore been included in the 2024/25 forecasts.

#### Increased “core” Band D Council Tax

1.9 The maximum increases in Band D have been confirmed in the Settlement. The core Band D element is at an increased level of 3% in 2023/24. The 2024/25 level is yet to be confirmed however there has been wide speculation that it will remain at 3% in 2024/25 too.

#### 3% Funding Guarantee

1.10 The 3% Funding Guarantee was an addition in the Settlement that wasn't included as part of the Autumn Statement. This guarantee will ensure that every council has an increase of at least 3% in Core Spending Power, before Council Tax increases. It replaces the Lower Tier Services Grant which ensured no local authority had a cash terms cut last year. The Council's allocated amount in 2023/24 is £0.259m. Whilst not confirmed in the Settlement it is widely expected at this time that the grant will also be awarded in 2024/25 ahead of the wider funding reforms the following year and so has been included in the estimates.

#### Services Grant

1.11 Services Grant has been awarded in 2023/24 and is again expected to continue into 2024/25. The allocation methodology is the same as in 2022/23, using the 2013/14 Settlement Funding Assessment (SFA). Funding allocated for the now reversed increase

in National Insurance contributions has been clawed back through this grant. The Council's allocation is £0.109m in 2023/24.

#### Business Rates

- 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 and all Councils have elected to remain members in 2023/24. Business rates forecasts are showing positive signs of recovery post Covid and this has been reflected in the forecasts.

#### Business Rates Reset

- 1.13 It has been confirmed in the Settlement that the business rates baseline reset will not proceed until the next spending review. The reset will mean that any growth gained since 2013/14 (the last reset) will be built into a new baseline, effectively wiping it out. The lack of clarity around the national business rates review and/or reset beyond 2024/25 makes forecasting challenging but the Government have renewed their commitment to fundamentally review local government funding including business rates in the next spending review so it is still reasonable to assume that reform will proceed at this time. Therefore, from April 2025 the impact of the reset has been factored into this plan.

#### Business Rates Revaluation

- 1.14 The 2023 revaluation has gone ahead as planned with the Valuation Office Agency (VOA) issuing draft lists in November 2023. The revaluation is intended to be fiscally neutral and the Settlement includes a technical adjustment to offset the change from the revaluation which has been included in the estimates.

#### Assumptions

- 1.15 In developing the financial projections a number of assumptions have been made:
- Budgets are cash limited except where contractual commitments to increase costs exist
  - A pay award of 4% has been included in 2023 pay budgets. This is based on the assumption that inflation will average 7% next year. 2% has been included in 2024 and 1% thereafter when public finances are expected to further tighten.
  - Energy costs and fuel have been forecast to reflect anticipated price changes.
  - Fees and charges – annual service specific increases have been applied in 2023/24.
  - Salary vacancy efficiencies of 3.5% in 2023/24 and 2% thereafter

#### **Housing Revenue Account (HRA)**

- 1.16 The proposed budget for 2023/24 currently shows a balanced position. 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 which are set out within the sections below.

#### Rents Increase 2023/24

- 1.17 In response to rising levels of inflation, which would have permitted rent increases in the region of 11%, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation in August to seek the sector's views on a new Direction in relation to social housing rent policy. The consultation focussed on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024, which would act as an upper limit on the maximum amount by which Registered Providers of social housing can increase rents in that year.

- 1.18 The consultation identified that in the face of “*these exceptional challenges*” there was a strong case for making a temporary amendment to the CPI+1% policy for 2023/24 in order to provide a backstop of protection for social housing tenants from significant rent increases.
- 1.19 The proposed Direction would require the Regulator to amend its Rent Standard so that the current CPI+1% limit on annual rent increases would be subject to a ceiling from 1 April 2023 to 31 March 2024. Through the consultation, DLUHC were seeking views on where this ceiling should be set and proposed a direction of CPI+1% policy subject to a 5% ceiling from 1 April 2023 to 31 March 2024. This would mean that, for rent periods that begin in the 12 months from 1 April 2023 to 31 March 2024, Registered Providers would be permitted to increase rents by up to CPI+1% or by 5%, whichever is lower. Views were also sought on 3%, 5% and 7% as ceiling options, as well as any other proposals put forward by consultees.
- 1.20 DLUHC recognised in the consultation that imposing a ceiling on rent increases would leave Registered Providers with less money to invest in providing new social housing, improving the quality and energy performance of their existing homes and providing services to tenants. DLUHC also recognised that any decision to restrict rent increases would inevitably involve tough choices. On balance, their view was that imposing a ceiling was the right approach to provide a backstop of protection for tenants.
- 1.21 DLUHC considered the responses from the sector and in the Autumn Statement on 17 November the Chancellor confirmed that a Direction would be issued to the Social Housing Regulator putting a ceiling of 7% on rent increases for the 2023/24 rent year. As in previous years, landlords will continue to be free to apply a lower increase if they wish to do so. Providers should consider the local market context when deciding on the level of rent increase as well as the levels of Housing Benefit or Universal Credit available to claimant households who might occupy their properties.
- 1.22 The decision to increase rents in 2023/24 clearly needs to be taken in the context of the increasing cost pressures on the HRA. There is a statutory requirement that the HRA breaks even each year and rental income is the main source of revenue to meet the costs of management and maintenance of the homes. It also has to be sufficient to cover the cost of servicing debt each year. Inflationary pressures are having a major impact on pay costs, materials, contracts and interest charges on borrowing.
- 1.23 Taking all of the above into consideration a rent increase of 5% is being recommended in the budget for 2023/24. Future year rent increases will be considered as part of the annual refresh of this plan each year

#### Fees and Charges

- 1.24 These charges are set on the principle that wherever possible charges for services should reflect the cost of providing those services.

#### Capital Programme

- 1.25 The proposed Capital Programme for the General Fund totals £18.569m for 2023/24; £19.839m for 2024/25, £5.145m for 2025/26 and £1.709m for 2026/27. The budget in 2023/24 includes the redevelopment of Sharley Park Leisure Centre and the Clay Cross Town Deal Programmes. It also includes the cyclical Vehicle Replacement Programme along with the annual Asset Management Programme.

1.26 The proposed Capital Programme for the HRA totals £29.864m for 2023/24; £28.094m for 2024/25; £12.252m for 2025/26 and £12.252m for 2026/27.

## **2 Reasons for Recommendation**

2.1 These are detailed in the attached report.

## **3 Alternative Options and Reasons for Rejection**

3.1 These are detailed in the attached report.

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### **DOCUMENT INFORMATION**

<b>Appendix No</b>	<b>Title</b>
1	Medium Term Financial Plan 2022/23 to 2026/27 and Appendices 1-4
<b>Background Papers</b>	