

North East Derbyshire District Council

Cabinet

13 February 2020

Medium Term Financial Plan 2020/21 to 2023/24

Report of Councillor P Parkin, Portfolio Holder for Finance

This report is public

Purpose of the Report

- To seek approval of the proposed budget for 2020/21 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2020/21 to 2023/24.
- 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:

- 2019/20 Current Budget – this is the current year budget, revised to take account of any changes during the financial year that will end on 31 March 2020.
- 2020/21 Original Budget – this is the proposed budget for the next financial year starting 1 April 2020. 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.
- 2021/22 to 2023/24 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 17 February 2020 for members' consideration and approval.

General Fund

2019/20 Current Budget

- 1.3 In February 2019, Members agreed a budget for 2019/20 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.770m to balance the budget. Throughout the year the budgets have been actively managed with savings removed from the budget once they have been agreed.
- 1.4 The Revised Budget was considered by Cabinet at its meeting on 5 December 2019. It was reported at this time that all efficiencies have been made and a surplus of £0.186m is forecast. 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. Any surpluses generated in the financial year will be transferred to reserves to be utilised for transformation and increasing financial resilience as required.

2020/21 Original Budget and 2021/22 - 2023/24 Financial Plan

- 1.6 The proposed budget for 2020/21 currently shows a shortfall of £0.217m 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 £1.064m in 2021/22, £1.346m in 2022/23 and £1.904m in 2023/24 (**Appendix 1**).
- 1.7 Table 1 below shows the current position then identifies savings that are anticipated will be removed from the budget during the year along with aspirational savings that are not yet realisable but are being worked on through the Transformation Programme:

Table 1

	2019/20 Estimated Outturn £000	2020/21 Original Budget £000	2021/22 Forecast £000	2022/23 Forecast £000	2023/24 Forecast £000
Efficiency Target/Budget Shortfall - MFTP February	770	217	1,064	1,346	1,904
Efficiencies Identified to date *	(956)	(200)	(200)	(200)	(200)
Current Budget Shortfall (Surplus)	(186)	17	864	1,146	1,704
Efficiencies identified <u>not yet</u> realised	(213)	(99)	(331)	(543)	(659)
Forecast Budget Shortfall (Surplus)	(399)	(82)	533	603	1,045

* Each year the budget is based on a full establishment so a vacancy savings target of £0.200m has been included as an efficiency. This will be monitored and savings removed from the budget throughout the year.

- 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 (2019/20) is the final year of the four year settlement announced in December 2015. The Spending Review for 2019 was originally planned to cover the next three years but as has been widely publicised is going to be a one year rollover of the current four year settlement with a new medium term settlement now due for 2021 onwards. This means that the impact of national funding changes including the Fair Funding Review and Business Rates reset that were expected to affect the 2020/21 budget have been delayed until 2021/22.

- 1.10 This relieves some pressure on the 2020/21 budget but assumptions have continued to be made, where sufficient information is available to do so for future years in the medium term financial plan as follows:

New Homes Bonus

- 1.11 It was widely expected that New Homes Bonus would cease as part of the future settlement so originally no award was included in the 2020/21 estimates. The rollover of the current settlement however means that New Homes Bonus will be

awarded in 2020/21 generating additional income of £0.422m. This is however for one year only, no legacy payments will be made.

- 1.12 New Homes Bonus is not confirmed beyond 2020/21 and it is highly likely that the scheme will end in the 2021 spending review period. So, estimates for 2021/22 onwards exclude any new allocations for new homes bonus. This loss of funding creates a significant budget pressure in the future years of the medium term financial plan.

Business Rates Retention

- 1.13 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. Income from the Pool has been included in the 2020/21 budget but not in future years due to uncertainty surrounding the proposed changes to business rates and the reset (1.18 below). Again this creates a budget pressure in the region of £0.200m per annum.

Fair Funding Review

- 1.14 Although a delay to implementation has been confirmed it is too early to say with any clarity what the impact of the Fair Funding Review will be. Initial modelling is showing that resources will be directed to councils based on "highest need" which will impact negatively on most shire districts.
- 1.15 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.
- 1.16 Due to this uncertainty 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

- 1.17 Debate around Business Rates Retention Reform has been the topic of national discussion over the last 12 months with the review focusing on resetting the business rates baseline. This means any growth gained since 2013/14 will be built into a new baseline, effectively wiping it out. Consideration is also being given to increasing the local share for business rates retention from 50% to 75%, however it is widely expected that the Upper Tier councils will be the ones to benefit from this.
- 1.18 The delay to the spending review means that the impact of the reset will not now affect the 2020/21 budget but has been included from 2021/22. It must be stressed these are just initial estimates and therefore subject to change.

- 1.19 The financial impact of the reset is significant for the Council (2021/22 £0.824m, 2022/23 £0.791m and 2023/24 £0.758m) so to help mitigate against these losses transfers from the NNDR Growth Protection Reserve into the General Fund have been made.

Expenditure, income levels and efficiencies

- 1.20 In developing the financial projections covering the period 2020/21 -2023/24, a number of assumptions have been made:
- A pay award of 2% has been included in pay budgets.
 - Employer superannuation contributions increase by 1% (£0.100m) in 2020/21 then remain fixed throughout the rest of 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 £0.480m. 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.
- 1.21 The Council has performed a line by line budget review during the year which has identified savings that are now reflected in the medium term financial plan. This exercise has helped reduce the shortfall identified in Table 1 considerably when compared to the previous plan. Additionally, the Council's transformation programme seeks to continue contribute to the financial challenges faced through the progression of innovative and forward thinking ideas.

Appendix 2 provides a subjective breakdown detail for each budget area. Budget Books containing full line by line detail of the budget can also be made available to Members on request.

- 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. A small grant received from the Government of £0.034m has been earmarked in reserves to cover any incidental expenses that may arise.

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 2020/21 as 31263.33

Council Tax Options

- 1.24 The Council's part of the Council Tax bill in 2019/20 was set at £189.65 for a Band D property. This was an increase of 1.75%.

- 1.25 The Council has a range of options when setting the Council Tax. The Government indicate what upper limit they consider acceptable. For 2020/21, District Councils are permitted to increase their share of the Council Tax by 1.99% or £5, whichever is the greater, without triggering the need to hold a referendum. No council tax increase is proposed in 2020/21.

Financial Reserves – General Fund

- 1.26 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 £2.9m. Due to the uncertainty surrounding local authority income, particularly in relation to the national financial settlement from 2021/22, and the Council continuing to review and reduce budgets to meet ongoing savings targets, it is important that the Council continues to review its position regards financial resilience and ensures that reserves are sufficient to meet these challenges wherever possible.

Housing Revenue Account (HRA)

2019/20 Current Budget

- 1.27 In February 2020, Members agreed a budget for 2019/20 including setting of rent levels in line with Government regulations with a reduction of 1% for the final year, effective from 1 April 2019. HRA fees and charges were also set, effective from the same date.
- 1.28 The Revised Budget was considered by Cabinet at its meeting on the 5 December 2019. There have been no changes to the budget position since this time.
- 1.29 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 so all surpluses be transferred to reserves.
- 1.30 The working balance brought forward from 2018/19 was £3.0m. This will be retained at £3.0m.

2020/21 Original Budget and 2021/22 to 2023/24 Financial Plan

- 1.31 The proposed budget for 2020/21 currently shows a balanced position. (**Appendix 3**). 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

- 1.32 In April 2020 the new Social Housing Rent Standard comes into force which will be externally regulated by the Housing Regulator and apply to all registered providers of social housing. For the first time, the Government has directed the Regulator to apply the rent standard to all registered providers and this includes local authorities. The Standard confirms that rent increases of up to CPI + 1% for the next five years will be permitted, commencing April 2020. Therefore for 2020/21 the income for dwelling rents has been included in the budget at 2.7%. The policy has also been applied over the remaining life of the medium term financial plan.

Fees and Charges

- 1.33 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. Heating charges are set on the principle that wherever possible they will reflect the cost of providing those services.
- 1.34 As part of the budget setting, a review of garage and plot rents has been undertaken to reflect demand. The schedule of proposed charges is set out below:

	Weekly Charge 2019/20 £	Proposed Weekly Charge 2020/21 £	Proposed Weekly Charge 2021/22 £	Proposed Weekly Charge 2022/23 £	Proposed Weekly Charge 2023/24 £
Heating:					
Marx Court	7.51	7.81	7.95	8.11	8.27
Church Avenue	5.30	5.51	5.68	5.79	5.91
Garages:					
Private	9.60	12.00	14.00	16.00	18.00
Tenants - new	8.00	9.00	10.00	11.00	12.00
Tenants - existing	6.50	9.00	10.00	11.00	12.00
Garage Plots:					
Plots - Annual	170.00	200.00	230.00	260.00	290.00
Plots – Per Week	2.50	3.50	4.00	4.50	5.00

Rykneld Homes Ltd Management Fee

- 1.35 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.

- 1.36 During the year an independent review of housing services has been conducted and the findings were presented to Cabinet on 14 November 2019. Following this, Cabinet resolved “*that the Chief Executive, in consultation with the Leader of the Council and relevant Cabinet Portfolio Holders, agree a plan and timetable, in consultation with Rykneld Homes Ltd, for taking forward the priority actions as specified at the meeting.*” One of the priority actions is for the Section 151 Officer to undertake full review of financial arrangements including surpluses and management fee. This review will be performed throughout 2020 to inform the future basis for the management fee and any associated charges between both the Council and Rykneld Homes Ltd.
- 1.37 In respect of the recommended management fee for 2020/21 it will remain at £9.852m. This is contained within two budgets on the HRA – Repairs and Maintenance (£5.028m) and Supervision and Management (£4.824m).
- 1.38 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 2019/20 accounts will be the 2020/21 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

- 1.39 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. There is also an Insurance Reserve held.

Capital Programme

- 1.40 There will be a separate report to Council on 17 February 2020 concerning the Council’s Treasury Strategies. The report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2019/20 Current Budget

- 1.41 In February 2019, Members approved a Capital Programme in respect of 2019/20 to 2022/23. 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 2018/19 has been accounted for in the 2019/20 revised position.

- 1.42 The Revised Capital Programme was considered by Cabinet at its meeting on the 5 December 2019. There have been no changes to the budget position since this time.

General Fund Capital Programme 2020/21 to 2023/24

- 1.43 The proposed Capital Programme for the General Fund totals £3.668m for 2020/21; £3.188m for 2021/22, £1.228m for 2022/23 and £1.119m for 2023/24. The increase in the first two years reflects the profile of the vehicle replacement programme, the remainder of the programme is relatively static including the asset management programme of £0.500m per annum.

HRA Capital Programme 2020/21 to 2023/24

- 1.44 As part of the housing review mentioned in 1.35 above, Rykneld Homes Ltd have commissioned a stock condition survey of the Council's housing stock during the year. This has assessed the condition of both the traditional and non-traditional housing. The results have been included within the Capital Programme from 2020 onwards. The capital fee is £1.1m for 2020/21.
- 1.45 The proposed programme for HRA capital works on the traditional stock totals £10.164m for 2020/21; £10.567m for 2021/22; £10.509m for 2022/23 and £10.441m for 2023/24.
- 1.46 The proposed programme for HRA capital works on the non-traditional stock totals £1.725m for 2020/21; £2.530m for 2021/22; £2.530m for 2022/23 and £4.370m for 2023/24. The capital fee for delivering the programmes detailed at 1.44 and 1.45 is £1.1m.
- 1.47 Following a review of the Pine View scheme, which increases the number of units to be built, the Capital Programme has been increased by £0.500m in 2020/21 to reflect this.
- 1.48 New programmes have been established for parking solutions (£0.288m per annum) and garage demolitions (£0.023m per annum). A budget of £0.115m has also been included in 2020/21 to perform structural works needed to concrete balconies.
- 1.49 In addition, £2.015 has been included in the Capital Programme for 2020/21 to fund the affordable housing element of the North Wingfield scheme. This comprises 13 houses and 9 bungalows which are additions to the current housing stock.
- 1.50 An analysis of all the schemes and associated funding are attached at **Appendix 4** to this report.

Robustness of the Estimates

- 1.51 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 2020. 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 17 February 2020.

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 2020/21 to 2023/24 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 budgets over the life of the medium term financial plan.

GENERAL FUND

- 6.4 No Council Tax increase will be levied in respect of a notional Band D property.
- 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 2019/20, as the Original Budget 2020/21, and as the financial projections in respect of 2021/22 to 2023/24.
- 6.6 That any under spend in respect of 2019/20 be transferred to reserves to be available for reinvestment in transformation and increased financial resilience as required.

- 6.7 On the basis that income from planning fees is anticipated to exceed £0.480m in 2020/21, 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 the Social Housing Rent Standard increasing rents by 2.7% from 1st April 2019 and by CPI + 1% for years 2021/22 to 2023/24.
- 6.9 That the increases in respect of all other charges be implemented in line with the table shown at 1.33 above with effect from 1 April 2020.
- 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 2019/20, as the Original Budget in respect of 2020/21, and the financial projection in respect of 2021/22 to 2023/24.
- 6.11 That the Management Fee for undertaking housing services at £9.852m and the Management Fee for undertaking capital works at £1.1m to Rykneld Homes in respect of 2020/21 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 2019/20, and as the Approved Programme for 2020/21 to 2023/24.

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>	Yes
<p>Is the decision subject to Call-In?(Only Key Decisions are subject to Call-In)</p>	Yes
<p>Has the relevant Portfolio Holder been informed</p>	Yes
<p>District Wards Affected</p>	All
<p>Links to Corporate Plan priorities or Policy Framework</p>	All

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
Jayne Dethick - Head of Finance and Resources		01246 217078