North East Derbyshire District Council

Cabinet

23 January 2025

Medium Term Financial Plan 2024/25 to 2028/29

Report of the Deputy Leader of the Council with responsibility for Finance

Classification:	This report is public
Report By:	**Jayne Dethick, Director of Finance and Resources (S151 Officer)**
Contact Officer:	**Jayne Dethick**

PURPOSE / SUMMARY

To seek approval of the Current Budget for 2024/25 and Original Budget for 2025/26 for the General Fund, Housing Revenue Account and Capital Programme as part of the Council's Medium Term Financial Plan covering the years 2024/25 to 2028/29.

To provide Elected Members with an overview of the Council's medium term financial position.

RECOMMENDATIONS

1. That all recommendations below are referred to the Council meeting of 27 January 2025.

   The following recommendations to Council are made:

2. That the view of the Director of Finance & Resources, that the estimates included in the Medium-Term Financial Plan 2024/25 to 2028/29 are robust and that the level of financial reserves are adequate at this time, be accepted.

3. That officers report back to Cabinet and the Services Scrutiny Committee on a quarterly basis regarding the overall position in respect of the Council's budgets.

   General Fund

4. A Council Tax increase of £6.29 will be levied in respect of a notional Band D property (2.99%).

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 2024/25, as the Original Budget 2025/26, and as the financial projections in respect of 2026/27 to 2028/29.

6. That the shortfall in the General Fund budget for 2025/26 as set out in **Appendix 1** be met from reserves at this time.

7. That the General Fund Capital Programme as set out in **Appendix 4** be approved as the Current Budget in respect of 2024/25, and as the Approved Programme for 2025/26 to 2028/29.

8. That any under spend in respect of 2024/25 be transferred to the Resilience Reserve to provide increased financial resilience for future years of the plan.

Housing Revenue Account (HRA)

9. That Council sets its rent levels for 2025/26 in consideration of the Social Housing Rent Standard increasing rents by 2.7% from 1st April 2025.

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 2024/25, as the Original Budget in respect of 2025/26, and the financial projection in respect of 2026/27 to 2028/29.

11. That the HRA Capital Programme as set out in **Appendix 4** be approved as the Current Budget in respect of 2024/25, and as the Approved Programme for 2025/26 to 2028/29.

12. That the Management Fee for undertaking housing services at £12.81m and the Management Fee for undertaking capital works at £1.1m to Rykneld Homes in respect of 2025/26 be approved.

13. That Members note the requirement to provide Rykneld Homes with a ‘letter of comfort’ to the company’s auditors and grant delegated authority to the Council’s Director of Finance & Resources (S151 Officer) in consultation with the Deputy Leader of the Council to agree the contents of that letter.

Approved by Cllr P Kerry, Deputy Leader with responsibility for Finance

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IMPLICATIONS

Finance and Risk: **Yes**☒ **No** ☐

Details:

The issue of financial risk and resilience is covered throughout the report. In addition, it should be noted that not achieving a balanced budget is outlined as a key risk within the Council’s Strategic Risk Register. While officers are of the view that these risks are being appropriately managed it needs to be recognised that the continued budget pressures on the Council’s financial position need careful consideration when approving the Medium Term Financial Plan.

The capital programme identifies and recognises the need to maintain the Council's assets in a fit for purpose state and to retain and attract income streams for the Council. The financing of the capital programme is secured for 2024/25 thus minimising the risk of any additional unplanned borrowing.

Section 25 of the Local Government Act 2003 requires that the S151 Officer reports on the robustness of the estimates made and the adequacy of reserves in this financial plan. These requirements are addressed at 2.76 – 2.80 of this report.

All other financial implications are covered in the relevant sections throughout the report.

On Behalf of the Section 151 Officer

Legal (including Data Protection): **Yes**☒ **No** ☐

Details:

The Council is legally obliged to approve a budget prior to the commencement of the new financial year, 1 April 2025. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.

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.

There are no Data Protection issues arising directly from this report.

On Behalf of the Solicitor to the Council

Staffing: **Yes**☐ **No** ☒

Details:

There are no staffing issues arising directly from this report.

On behalf of the Head of Paid Service

DECISION INFORMATION

Decision Information	
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: **NEDDC:** **Revenue - £125,000 ☐ Capital - £310,000 ☐** ☒ *Please indicate which threshold applies*	No
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	No
District Wards Significantly Affected	None
Equality Impact Assessment (EIA) details:	
Stage 1 screening undertaken • Completed EIA stage 1 to be appended if not required to do a stage 2	Yes, appended.
Stage 2 full assessment undertaken • Completed EIA stage 2 needs to be appended to the report	No, not applicable
Consultation: **Leader / Deputy Leader ☒ Cabinet ☐** **SMT ☒ Relevant Service Manager ☒** **Members ☒ Public ☐ Other ☐**	Yes Details:

Links to Council Plan priorities; • **A great place that cares for the environment** • **A great place to live well** • **A great place to work** • **A great place to access good public services**
The budget underpins all Council Plan priorities.

REPORT DETAILS

1 Background *(reasons for bringing the report)*

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

1.2 In particular financial projections are provided for:

- 2024/25 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 2025.

- 2025/26 Original Budget – this is the proposed budget for the next financial year starting 1 April 2025. For the General Fund, this is the budget on which the Council Tax will be based. The HRA budget includes proposals on increases to rents and charges.

- 2026/27 to 2028/29 Financial Plan – in accordance with good practice the Council agrees its annual budget 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. Once Cabinet has considered this report and the appendices, the recommendations agreed will be referred to the Council meeting of 27 January 2025 for members' consideration and approval.

2. Details of Proposal or Information

General Fund Revenue Budget

2024/25 Current Budget

2.1 In January 2024, Members agreed a budget for 2024/25 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.303m to balance the budget, reduced to £0.101 after the approval of the Council Tax increase.

2.2 The Revised Budget was considered by Cabinet at its meeting on 21 November 2024 at which time the budget shortfall had increased to £0.664m. This is because of a higher than budgeted pay award (£0.122m) as well as the financial impact of the main contractor working on Clay Cross Active going into administration delaying the opening (£0.539m). There have been no material changes to the budget position since this time.

2.3 The final position will clearly be dependent on the actual financial performance out-turning in line with the current budgets and there may be further changes required as the year progresses.

2025/26 Original Budget and 2026/27 – 2028/29 Financial Plan

Local Government Finance Settlement

2.4 The draft Finance Settlement for 2025/26 was issued for consultation on 18 December 2024. It is the first settlement from the incoming Government who have committed to introducing funding reform for local government alongside multi year settlements. The 2025/26 settlement remains largely unchanged from the rollover settlements that have been in place since 2019 but there has been a substantial redistribution of grants to the most deprived areas. This has largely benefited metropolitan and city councils. The impact on our allocations is discussed in 2.7 to 2.16 below.

2.5 As part of the draft financial settlement the Government has launched a consultation on local authority funding reform with changes expected to be implemented in time for the 2026/27 settlement. The funding reforms will include reviews of the Settlement Funding Assessment (SFA), the Business Rates Retention System, including the baseline reset, and a potential replacement to the New Homes Bonus.

2.6 The proposals outlined in the consultation paper, like the previous 2018 consultation, indicate substantial changes in funding allocations, and significant losses for some councils. Some form of transitional protection (damping) will be essential so that funding losses are introduced over several years and there is recognition of this in the consultation. It is unclear at this stage how long transitional protection will be in place for but concerningly if the funding changes are going to be phased in as indicated by the consultation, then funding losses will be introduced rapidly.

New Homes Bonus

2.7 The Settlement confirms that New Homes Bonus (NHB) will continue in 2025/26 for a final year with no legacy payments and payments will be made on the same basis as last year. Adopting the assumption that this will be the final year, the forecasts exclude New Homes Bonus payments from 2026/27.

2.8 There will be a further consultation paper specifically on a replacement to New Homes Bonus in the first half of 2025. It will address the question of whether there should there be an incentive within the settlement to enable and encourage housebuilding.

Increased "core" Band D Council Tax

2.9 The maximum increases in Band D have been confirmed in the Settlement. The core Band D element remains at 3% for district councils in 2025/26. The 2026/27 level is yet to be confirmed.

Minimum Funding Guarantee (renamed Funding Floor)

2.10 The 3% Funding Guarantee was an addition in the Settlement in 2023/24 and was increased to 4% in 2024/25. This grant continues in 2025/26, renamed the "Funding Floor" but the qualifying threshold has been reduced from 4% to 0%. The reduction in the qualifying threshold means that we do not receive this grant in 2025/26.

Business Rates

2.11 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 2025/26. The Non-Domestic Rating Act 2023 gave ministers the opportunity to set separate multipliers for small and standard businesses, and this continues in 2025/26. This has no financial impact for billing authorities as changes are compensated through section 31 grants.

Business Rates Baseline Reset

2.12 The Government remains keen to make changes to the Business Rates Retention System (BRRS) and the funding reforms consultation is very clear that there will be a business rates baseline reset in 2026/27, with further regular resets after that. There will be proposals for consultation early next year. We have been forecasting the impact of the reset for several years now and continue to do so from April 2026 in this plan.

Recovery Grant

2.13 This is a new grant introduced in 2025/26 and is being seen as an indicator of the priorities for future funding reforms. It is a highly targeted grant focussing on Councils with high levels of deprivation, high levels of need and low tax bases; metropolitan authorities are receiving over half the entire allocation. Our allocation is £0.203m in 2025/26. Continuation of this grant and future year allocations are unclear at this stage. It is most likely this will be rolled into the future funding reforms therefore has not been included beyond 2025/26.

Employer National Insurance Contributions

2.14 A contribution towards the cost of increased employer's national insurance contributions is being made available to local authorities but final allocations will not be confirmed until the final settlement is announced in the new year. Using the Government's formula, the amount the Council can expect to receive has been estimated at £0.145m, and this has been included in the budget. The contribution is some way short of the cost of the increase built into our plan at £0.497m per annum. Whilst it would be surprising if these contributions weren't rolled into future funding assessments, there is no commitment to do so. Because of this and the uncertainty surrounding future funding reforms the contributions have not been included from 2026/27.

Extended Producer Responsibility (EPR)

2.15 EPR aims to create a more sustainable and circular economy by ensuring that producers take responsibility for the environmental impacts of their products throughout their lifecycle, effectively shifting responsibility for waste management from consumers and local governments to the producers. Regulations requiring reporting of packaging data have been in place for producers since 2023 and from January 2025 producers will be required to pay fees to the Department of Environment, Food and Rural Affairs (DEFRA) based on this data.

2.16 DEFRA are redistributing these fees to waste collection and disposal authorities to cover the costs associated with the disposal of packaging waste. It is also intended to help local authorities improve recycling services and reduce waste management costs under the Government's Simpler Recycling waste reforms. The Council's allocation in 2025/26 is £0.434m. EPR payments have only been guaranteed for the first year at this stage, therefore this has only been included in the plan for 2025/26.

English Devolution White Paper

2.17 On 16 December the Government launched its white paper on devolution in England. Devolution arrangements are to be based around *"strategic authorities"* which will cover the whole of England, and it is the Government's ambition for all local authorities to have a mayor. The strategic authorities will encompass the existing combined authorities and be known as Mayoral Strategic Authorities.

2.18 *"Established"* mayoral strategic authorities (those who have been in place for over 18 months and meet specified eligibility criteria) are expected to receive integrated settlements from 2026/27 onwards. It is the aspiration of Government that in time all Mayoral Strategic Authorities will achieve established status.

2.19 As well as the devolution plans, the white paper also discusses reorganising local government with the Government's long-term objective to have a consistent single-tier of local government across England. The White Paper says that there will be an *"ambitious first wave of reorganisation in this Parliament"*. There are still 21 two tier areas in England, and it is not clear how many will be included in this first wave with much depending on capacity to deliver within Whitehall. Priority will be given to areas *"where reorganisation can unlock devolution, where areas are keen to move quickly, or where this can help address wider failings".*

2.20 The White Paper estimates that recurring annual savings can be made through the creation of unitary councils. Savings can undoubtedly be made, however evidence from past reorganisations show that this is often harder to achieve than expected and takes much longer. Additionally, recent evidence has shown that new unitaries have been more vulnerable to financial crises. At least four of the six unitaries created since 2021 have applied for Exceptional Financial Support (EFS). Even if the unitary process did not create the financial pressures in these authorities, then becoming a new unitary did not provide the resources for those authorities to solve their financial difficulties. In fact, a lesson of recent Local Government Re-organisations (LGR) is to consider whether authorities in poor financial health should be selected.

2.21 The main concern for this plan is the impact that reorganisation will have on our funding and our financial health and viability. In the medium term, creating new unitaries will put considerable financial pressure on those affected. The process of creating a new unitary is extremely time-consuming and costly. It can distract the existing and shadow authorities from the day-to-day business of balancing budgets in what is already a very challenging financial environment.

2.22 With funding reforms planned for 2026/27, any new unitaries will almost certainly be created after this so funding changes will need to be based on existing local government structures then revised again. Funding reforms could also impact on the viability of proposed LGR structures creating considerable uncertainty for those involved.

Assumptions in the Plan

2.23 The high levels of uncertainty around the national funding reforms, devolution and LGR makes future year forecasting beyond 2025/26 incredibly challenging. Making medium term financial decisions on resource allocation is difficult when there is little clarity about national resources, and uncertainty as to whether the Council will exist in its current form over the life of the financial plan.

2.24 In order to exercise prudence and good financial governance, changes that are known but where there is considerable uncertainty in quantifying are excluded from this plan. Costed assumptions can be seen in Table 1 below which seeks to demonstrate the current volatility and as a result the decision-making challenges facing us over the life of this plan. Estimates that can reasonably be made with some level of certainty have been included in the plan.

2.25 The Government have committed to transitional protection (sometimes known as "damping") to minimise the initial impact for those councils in a worse financial position but have not provided any concrete details yet, so a best estimate has been included for two years commencing 2026/27. Whilst damping doesn't relieve the impact of the reforms entirely it does provide protection for a short period to allow us to adjust.

2.26 Table 1 also includes indicative council tax increases which are a local decision taken by Council each year. National settlements assume the maximum in their funding calculations, so this has been used as the baseline. Council tax income is a significant funding stream for us, providing 40% of the annual income needed to fund the services in the general fund. Also, it is important to note, the increase each year not only services that year's budget but also increases the base for future years.

Table 1

	Original Budget 2025/26 £000	Planning Budget 2026/27 £000	Planning Budget 2027/28 £000	Planning Budget 2028/29 £000
General Fund Shortfall (MTFP)	505	698	2,411	3,360
Application of council tax increase assuming 2.99% (max) each year	(210)	(420)	(630)	(840)
National Funding Uncertainty - costed assumptions (not in MTFP):				
NIC's contribution in Settlement		(145)	(145)	(145)
EPR payments ongoing		(435)	(435)	(435)
Business Rates surplus distribution post reset		(357)	(357)	(357)
Ongoing transitional protection				(350)
General Fund Shortfall after applying costed assumptiions	295	(659)	844	1,233

2.27 The future of local government funding reforms, devolution, and LGR will continue to be kept under close review and will be addressed through the annual plan refresh as further information becomes available.

2.28 In developing the financial projections for the detailed plan several assumptions have been made:

- Budgets are cash limited except where contractual commitments to increase costs exist.
- A pay award of 3% has been included in 2025/26 pay budgets. From 2026/27 pay inflation forecasts include a 2% uplift.
- Energy costs and fuel have been forecast to reflect anticipated price changes.
- Fees and charges – annual service specific increases have been applied in the plan.
- Inflation at 2% is included in the plan in line with Bank of England monetary policy, which forecasts inflation stabilising at 2% in the medium term.
- Interest rates for new treasury management investments will be made at an average rate of around 4.25%, and new long-term loans will be borrowed at an average interest rate of 5.69%.

Budget Detail

2.29 The proposed budget for 2025/26 currently shows a shortfall of £0.505m before any council tax increase (see 2.42 – 2.44 below). If the council tax increase recommended in the report is approved, then the shortfall reduces to £0.295m. This is a manageable position and based on past financial performance is reasonable to assume that the required savings will be identified during the year.

2.30 The Net Cost of Services detailed in **Appendix 1** is further analysed by type in Table 2 below. **Appendix 2** provides further analysis for each budget area.

Table 2

	Current Budget 2024/25 £000	**Original Budget 2025/26 £000**	**Planning Budget 2026/27 £000**	**Planning Budget 2027/28 £000**	**Planning Budget 2028/29 £000**
Employee related costs	20,922	22,106	22,568	23,000	23,482
Premises related costs	2,006	2,221	2,375	2,401	2,439
Transport related costs	654	677	688	699	711
Supplies and Services	8,646	7,474	7,561	7,800	7,659
Rent rebates/allowances	304	304	304	304	304
Capital Financing costs	939	1,198	1,335	1,417	1,418
Income	(17,284)	(17,351)	(18,174)	(18,463)	(18,774)
Net Cost of Services - NCS (App 1)	**16,187**	**16,630**	**16,658**	**17,159**	**17,239**
NCS transfers to grants/reserves	1,029	0	0	0	0
NCS transfers from grants/reserves	(1,266)	(501)	(304)	(208)	(77)
NCS after movements in grants/reserves	**15,949**	**16,129**	**16,354**	**16,951**	**17,162**

2.31 Table 2 above shows that except for pay related costs, cash limiting maintained across all expenditure budgets means there are only minor variations throughout the life of the plan. Some of the above costs are funded by grants and reserves and some of the income needs to be moved to grants and reserves to fund future expenditure commitments. Therefore, these movements are included in the table to show the “true” position.

2.32 Like many other public bodies the main ongoing budget pressure relates to pay costs; namely the annual NJC pay award, and the recent increase in Employers National Insurance contributions. An additional £1m was needed in 2023/24, a further £1.3m in 2024/25 and £0.89m in 2025/26. The delay to the opening of Clay Cross Active has resulted in further unexpected costs (£0.386m) in 2025/26 because of the main contractor working on Clay Cross Active going into administration in October 2024.

2.33 **Appendix 1** shows that from 2027/28 the budget pressures begin to increase largely because of the uncertainty surrounding national funding. Despite the higher costs experienced in recent years that continue into future years, such as pay inflation, the net cost of services only increases by 3% over the life of the plan. The main variance centres around the assumed impact of the funding reforms based on what we currently know. The combined forecast impact of changes to the funding formula and the loss of grants has the effect of an 18% drop in resources. The business rates reset results in a further 36% loss in resources, this is being covered by the Business Rates Reserve throughout the life of the plan, see 2.40 below. It therefore remains important to ensure that financial management remains prudent and ongoing savings continue to be identified and implemented, although taking medium term financial decisions in the context of the uncertainty surrounding the future of local government presents a significant challenge.

Reserves

2.34 It is widely accepted that use of reserves to meet funding shortfalls remains an acceptable short-term measure whilst long term solutions are identified, however, use of reserves to fund revenue budgets is not a sustainable or prudent solution for the medium term for any organisation. The uncertainty around the national funding reforms, devolution and LGR makes medium term decision making on resource allocation incredibly challenging and use of reserves to protect service delivery provides an acceptable short term option should it be required. Given the current level of reserves and balances held, we do have a reasonable period in which to recover budget shortfalls or meet short term uncertainty should it be necessary.

2.35 A planned response to addressing budget pressures is more conducive to sound financial management and more importantly it limits the detrimental impact upon our ability to deliver the planned and agreed level of services to residents. We have been operating in a challenging financial climate for several years and have an excellent track record of both identifying and delivering service efficiencies as required alongside a strong commitment to financial resilience and good financial governance.

2.36 The main uncommitted financial reserves are held in the General Fund Balance, the Invest to Save Reserve and the Resilience Reserve. The latter was specifically created to provide financial resilience in instances where unforeseen expenditure cannot be contained within existing approved budgets whilst longer term solutions are found.

2.37 The level of the General Fund Balance has been maintained at £2m in the plan. It represents a working balance of resources that could be used at short notice or to meet a major financial issue and is maintained at a percentage of the net budget requirement.

2.38 The Invest to Save Reserve had an opening balance of £2.55m on 1 April 2024. Commitments already made against this reserve for future years amount to £0.63m leaving £1.92m uncommitted.

2.39 The Resilience Reserve had an opening balance of £2.51m on 1 April 2024, and commitments in 2024/25 are forecast to reduce this to £1.85m by the end of the current financial year. The planned contribution to the 2025/26 budget of £0.505m will reduce this to £1.345m should the full amounts need to be utilised. This reserve was created for this very purpose and will continue to be utilised to provide financial resilience to the general fund in future years as required by Medium Term Financial Plan. The final contribution from the Resilience Reserve each year will clearly be dependent on the actual financial performance. Efforts will continue, as in previous years, to identify efficiencies to reduce the need to utilise the reserve.

2.40 The Business Rates Reserve is an earmarked reserve created from surplus growth to protect against the impact of lost growth, either through a change in the economic climate or through changes to the business rates retention system. It is the latter that is forecast to have a significant impact on business rates income from April 2026 because of the business rates reset. The reserve is being utilised from 2026/27 to provide such protection.

Council Tax Implications

Council Tax Base

2.41 In preparation for the budget, the Director of Finance & Resources under delegated powers has determined the Tax Base at Band D for 2025/26 as 33,448.51.

Council Tax Options

2.42 The Council's part of the Council Tax bill in 2024/25 was set at £210.38 for a Band D property. This was an increase of 2.99%.

2.43 The Government indicate what upper limit they consider acceptable for council tax setting each year. For 2025/26, district councils are permitted to increase their share of the Council Tax by 3% or £5 whichever is the greater, without triggering the need to hold a referendum. Table 3 below shows increase options and the extra annual revenue this would generate:

Table 3

Increase %	New Band D £	Annual Increase £	Weekly Increase £	Extra Revenue £
0%	210.38	0	0	0
1.00%	212.48	2.10	0.04	154,235
2.00%	214.59	4.21	0.08	224,603
2.99%	216.67	6.29	0.12	294,268

2.44 The proposed increase for 2025/26 is 2.99%, generating additional annual revenue of £294,268.

<u>Housing Revenue Account (HRA)</u>

2024/25 Current Budget

2.45 In January 2024, Members agreed a budget for 2024/25 including setting of rent levels in consideration of government regulations. HRA fees and charges were also set, effective from the same date.

2.46 The Revised Budget was considered by Cabinet at its meeting on the 21 November 2024. There have been no material changes to the budget position since this time.

2.47 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 tenants in future financial years so all surpluses will be transferred to reserves.

2.48 The HRA balance is being maintained at £3m in line with the level of financial risk facing the HRA. Maintenance of this balance is necessary as it will help ensure the financial and operational stability of the HRA which is essential to maintain the level of services and quality of housing provided to tenants. We continue to work closely with Rykneld Homes (RHL) to ensure the continued sustainability of the HRA over the life of the 30-year Business Plan.

2025/26 Original Budget and 2026/27 to 2028/29 Financial Plan

2.49 The proposed budget for 2025/26 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 considered in developing the financial plans for the HRA are set out within the sections below.

<u>Level of Council Dwelling Rents</u>

2.50 Government policy on social housing rents seeks to achieve the right balance between the following objectives:

- protecting tenants
- protecting taxpayers (by limiting the welfare costs associated with social housing rents)
- supporting the delivery of new social homes and the management and maintenance of existing properties

2.51 In April 2020 the Social Housing Rent Standard came into force which is externally regulated by the Housing Regulator applying to all registered providers of social housing.

2.52 The Government directed the Social Housing Regulator to apply the rent standard to all registered providers, including local authorities. The Standard confirms that rent increases of up to CPI + 1% for five years will be permitted. Consultation for the rent standard from April 2026 was recently undertaken by the Government.

<u>Rent Increase 2025/26</u>

2.53 The Social Housing Rent Standard applies in 2025/26. CPI in September was 1.7% so the maximum permitted increase from April 2025 will be 2.7%. As in previous years, landlords continue to be free to apply a lower increase if they wish to do so. The standard directs providers to 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.

2.54 The decision to increase rents in 2025/26 also 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 must be sufficient to cover the cost of servicing debt each year. Table 4 below shows increase options and the extra annual revenue this would generate:

Table 4

Increase %	New Average Weekly Rent £	Weekly Increase £	Extra Revenue £
0%	91.27	0	0
2.0%	93.10	1.83	0.724m
2.5%	93.55	2.28	0.906m
2.7%	93.73	2.46	0.978m

2.55 Taking all the above into consideration, a rent increase of 2.7% is being recommended in the budget for 2025/26.

Other Fees and Charges

2.56 Although the main source of income for the HRA is property rents, there are other charges such as heating and rents for garages and plots. Heating charges are set on the principle that wherever possible they will reflect the cost of providing those services.

Rykneld Homes Ltd Management Fee (Revenue)

2.57 The majority of the funding available to Rykneld Homes (RHL) is provided by way of a management fee from the Council for delivery of services in line with the Management Agreement. The Management Agreement sets out the financial framework for the relationship between the Council and RHL and Schedule 3 of the agreement sets out the arrangements for the calculation of the annual fee for services undertaken by RHL

2.58 The calculation of the management fee each year is informed by the annual business planning and budget setting process. External pressures driven by changes to regulation, increased demand for services and the ongoing impact of the economic climate are putting considerable pressure on the delivery of housing services.

2.59 Following the launch of four new Consumer Standards by the Regulator of Social Housing (RSH) on 1 April 2024, the inspection regime for all social housing landlords also commenced. At the end of March, the RSH contacted us to advise that we would be inspected in quarter 1 of 2024. As our housing delivery partner, RHL played a pivotal role throughout the inspection process.

2.60 We were granted a C2 grade after the RSH considered all four of the consumer standards. The judgment highlighted several areas of good practice as well as a couple of improvement areas which included completing the programme of physical stock condition surveys which was well underway and some considerations for categorising and learning from complaints. We are working in partnership with RHL and the RSH to deliver the improvements identified in the judgement. RHL had already started working on many of these prior to the inspection and our shared aim is to undertake the required changes to achieve a reassessment upgrade to C1, the highest grade awarded, in the next 18 months.

2.61 The rigorous demands of regulation and our commitment to achieve the highest grade of compliance does however create additional pressures on resources. These are mostly capital and covered in section 2.71 below. The revenue budget was increased last year to meet additional costs of compliance, including damp and mould requirements and this is now embedded in the budget. The need to have accurate timely and relevant triangulated data has become ever more apparent following introduction of the new inspection regime and this has led to a need to invest in fit for purpose systems that can collate and report on this data effectively. This has been included in the budget for the next two years.

2.62 RHL have a strong track record of absorbing budget pressures through efficiencies, cash limiting the management fee wherever possible. This continues in this plan, pay growth has been included in the management fee but all other budgets are being contained within the existing fee.

2.63 The proposed management fee for 2024/25 will be £12.806m. This is contained within two budgets – Repairs and Maintenance (£5.652m) and Supervision and Management (£7.154m).

2.64 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 2024/25 accounts will be the 2025/26 financial year). On the basis that this report is approved then it is reasonable to provide such a letter of comfort. 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 Director of Finance & Resources in consultation with the Leader of the Council to provide a response on behalf of the Council.

Financial Reserves – HRA

2.65 The HRA has a working balance of £3m, which like the general fund is a risk-based reserve and is calculated on a per property basis. In addition to the Working Balance there are further reserves for the HRA specifically used to fund the HRA capital programme. These are the Major Repairs Reserve and the Development Reserve. An Insurance Reserve is also held to cover claims excesses and self-insured claims.

Capital Investment Programme

2.66 There will be a separate report to Council on 27 January 2025 concerning the Treasury Management suite of Strategies. That report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2024/25 Current Budget

2.67 In January 2024, Members approved a Capital Programme in respect of 2024/25 to 2027/28. 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 2023/24 has been accounted for in the 2024/25 revised position.

2.68 The Revised Capital Programme was considered by Cabinet at its meeting on the 21 November 2024. There have been no material changes to the budget position since this time.

General Fund Capital Programme 2025/26 to 2028/29

2.69 The proposed Capital Programme for the General Fund totals:

- £8.08m for 2025/26,
- £2.00m for 2026/27,
- £1.96m for 2027/28,
- £2.19m for 2028/29.

The budget in 2025/26 includes the final element of the Clay Cross Town Deal Programmes as well as the cyclical Vehicle Replacement Programme along with the annual Asset Management Programme.

HRA Capital Programme 2025/26 to 2028/29

2.70 The proposed Capital Programme for the HRA totals:

- £27.3m for 2025/26;
- £24.7m for 2026/27;
- £16.5m for 2027/28;
- £15.5m for 2027/28.

2.71 The proposed programme for HRA capital works totals £84.0m over the four-year programme. The budget includes the cost of physically inspecting all properties over the next two years to attain accurate stock condition data as required by the Building and Safety Consumer Standard. It also includes the annual fee paid to RHL for delivering all HRA capital works (£1.1m).

2.72 The proposed programme for HRA capital works continues with work on the non-traditional stock to a total of £5.0m.

2.73 The regeneration project at Stonebroom continues into 2025/26 with an estimated completion during 2026/27.

2.74 In addition, £5m has been included across the four-year programme to fund the ongoing commitment to purchasing affordable houses in the district to replace those lost through right to buy sales.

2.75 An analysis of all the schemes and associated funding are attached at **Appendix 4** to this report.

<u>Robustness of the Estimates and Adequacy of Reserves</u>

2.76 This section of the report is prepared in accordance with Section 25 of the Local Government Act 2003, which requires the S151 Officer to report on the robustness of the estimates made for the purposes of budget setting and the adequacy of the financial reserves.

2.77 In forming an opinion on the robustness of the estimates, the S151 Officer has considered the following factors:

- The robustness of the budget setting process and the assumptions underpinning the budget such as inflation. This includes consultation with all budget managers and senior management.
- Employee costs are based on the approved establishment.
- Investment income is in line with the Treasury Management Strategy.
- Income budgets are achievable.
- The financial management and control frameworks in place.
- The risks associated with the budget and the measures in place to mitigate those risks.
- The alignment of the budget with the council's strategic priorities and objectives.
- The impact of external influences on the estimates such as changes in government policy or legislation.

2.78 In consideration of the above, the Section 151 Officer is satisfied that the estimates are robust and prudent. Estimates in respect of national policy change are based on best available data at the time of setting the budget and funding has not been included where there is insufficient certainty to do so.

2.79 The council's reserves are held to manage financial risks and to ensure financial stability. The key reserves are detailed at 2.36 above.

2.80 In consideration of the above, the Section 151 Officer is satisfied that the levels of reserves are adequate to fund planned expenditure and potential issues and risks that face the Council at this time. The impact of external influences such as the impending funding review and local government re-organisation make it challenging to estimate need beyond the next budget year (2025/26) but based on current assumptions there are sufficient reserves to meet the requirements in the medium term financial plan should they be required.

Financial Resilience

2.81 Financial Resilience has become a significant issue for local authorities over recent years. CIPFA issued their Financial Management Code in 2019 designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. One of the key areas of focus in the Code is financial performance monitoring and demonstrating that financial resilience is being assessed on an ongoing basis. Three key areas are analysed to aid this:

- Revenue Health
- Capital Health
- Funding Sensitivities

2.82 Performance against these metrics is monitored and benchmarked on a regular basis and reported to the Services Scrutiny Committee. The latest analysis shows healthy results for both revenue and capital health but that the real risk to our financial resilience comes from uncertainty surrounding future national funding reforms, devolution and local government organisation. Another risk to financial resilience is the low taxbase position which limits the income that can be generated through council tax. This is a growing risk as the direction of travel for district councils is towards a heavier reliance on council tax to fund services. Exposure to interest rate risk is also rising due to an increasing reliance on borrowing externally which results in increased exposure to rises in interest rates.

3 Reasons for Recommendation

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

4 Alternative Options and Reasons for Rejection

4.1 The Council is required to set a budget each year. There are no alternative options being considered at this time.

DOCUMENT INFORMATION

Appendix No	**Title**
Appendix 1	General Fund MTFP – Summary 2024/25 to 2028/29
Appendix 2	General Fund MTFP – Detail 2024/25 to 2028/29
Appendix 3	HRA MTFP 2024/25 to 2028/29
Appendix 4	Capital Programme MTFP 2024/25 to 2028/29
Appendix 5	Stage 1 Equality Impact Assessment Screening

Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet you must provide copies of the background papers)

None