

North East Derbyshire District Council

Cabinet

28 January 2021

Medium Term Financial Plan 2020/21 to 2024/25

Report of Councillor P Parkin, Portfolio Holder for Finance

This report is public

Purpose of the Report

- To seek approval of the Current Budget for 2020/21 and Original Budget for 2021/22 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 2024/25.
- 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:

- 2020/21 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 2021.
- 2021/22 Original Budget – this is the proposed budget for the next financial year starting 1 April 2021. 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.
- 2022/23 to 2024/25 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 1 February 2021 for members' consideration and approval.

General Fund

2020/21 Current Budget

- 1.3 In February 2020, Members agreed a budget for 2020/21 to determine Council Tax. At this time there was a requirement to achieve efficiencies of £0.217m to balance the budget.
- 1.4 The Covid-19 pandemic has inevitably had a detrimental impact on the Council's 2020/21 budget. The main concern has been income lost from fees and charges, predominantly within Leisure Services but also within other services such as MOT testing and commercial waste collection. Growth from Business Rates is also expected to be considerably lower than in previous years. Government grant of £1.44m has been received to assist with the continued delivery of council services and in addition the Government's income compensation scheme will compensate us for a proportion of the income we expect to lose from independently generated sources such as our leisure centres.
- 1.5 The Revised Budget was considered by Cabinet at its meeting on 8 October 2020. There have been no material changes to the budget position since this time.
- 1.6 The final position will clearly be dependent on the actual financial performance out-turning in line with the revised budgets and there may be further budget changes required as the year progresses. As additional expenditure this year is largely covered by the Covid grant received from the Government and with further assistance from the income compensation scheme expected, a balanced position is anticipated in 2020/21. Should any surpluses arise, they will be transferred to the Resilience Reserve to assist with future budget pressures.

2021/22 Original Budget and 2022/23 - 2024/25 Financial Plan

- 1.7 The proposed budget for 2021/22 currently shows a shortfall of £0.133m 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. The Covid pandemic has made it hugely challenging to maintain momentum on the growth and transformation agenda this year and this will become a priority in 2021. This will put us in a better position to secure the projected financial savings needed over the medium term financial plan. Further

shortfalls forecast for future years are £1.055m in 2022/23, £1.855m in 2023/24 and £2.610m in 2024/25 (**Appendix 1**).

1.8 Table 1 below shows the current position then identifies savings that it is anticipated will be removed from the budget during the year along with aspirational savings that are not yet realisable but will be addressed through the Transformation Programme:

Table 1

	2020/21 Estimated Outturn £000	2021/22 Original Budget £000	2022/23 Forecast £000	2023/24 Forecast £000	2024/25 Forecast £000
Efficiency Target/Budget Shortfall - MFTP	217	133	1,055	1,855	2,610
Efficiencies Identified to date *	217	(200)	(200)	(200)	(200)
Current Budget Shortfall (Surplus)	0	(67)	855	1,655	2,410
Efficiencies identified <u>not yet</u> realised:					
Forecast Transformation Savings	0	0	(331)	(543)	(659)
Proposed Council tax increase 2021/22	0	(117)	(117)	(117)	(117)
Forecast Budget Shortfall (Surplus)	0	(184)	407	995	1,634

** 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.*

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

Level of Government Funding

1.10 The current financial year (2020/21) is a one year extension of the four year settlement announced in December 2015. As a result of the Covid pandemic, the spending review has been delayed until 2022/23 meaning that the 2021/22 budget is also a rollover from the previous settlement. The impact of national funding changes including the Fair Funding Review and Business Rates reset that were expected to affect the 2021/22 budget have therefore been further delayed until 2022/23.

- 1.11 This relieves some pressure on the 2021/22 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

- 1.12 The rollover of the current settlement however means that New Homes Bonus will once again be awarded in 2021/22 generating income of £0.360m. This is for one year only, no legacy payments will be made.
- 1.13 New Homes Bonus is not confirmed beyond 2021/22 and the Government has been clear that it will not continue into the next spending review period. So, estimates for 2022/23 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.

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. Financial modelling continues to show 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 the high level of uncertainty at this stage, the 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 Retention

- 1.17 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 removed from the 2020/21 budget due to uncertainties over growth during the pandemic. This creates a budget pressure in the region of £0.200m per annum. Furthermore, growth has not been included in future years due to continued uncertainty surrounding business growth and proposed changes to business rates and the reset (see 1.18 below).

Business Rates Reset

- 1.18 Debate around Business Rates Retention Reform was a topic of national discussion prior to the pandemic 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.

- 1.19 The further delay to the spending review because of the Covid pandemic means that the impact of the reset will not now affect the 2021/22 budget but has been included from 2022/23. It must be stressed these are early estimates and therefore subject to change, but the expected impact of the reset is significant for the Council (2022/23 £0.790m, 2023/24 £0.758m and 2024/25 £0.758m). To help mitigate against these losses transfers from the NNDR Growth Protection Reserve into the General Fund have been made.

Council Tax and Business Rates collection

- 1.20 A scheme to fund 75% of irrecoverable losses in council tax and business rates was also announced in the Spending Review. This scheme will run parallel to the requirement for billing authorities to spread the 2020/21 collection fund deficit for both of these over 3 years. At the time of writing this report, calculations for council tax and business rates are currently being undertaken as part of the statutory collection fund reporting requirements.
- 1.21 Early indications are that the scheme is generous and that both council tax and business rates expected budgeted income will be compensated regardless of whether the losses occurred because of lower collection rates, increased council tax support costs or lower tax base growth. As the billing authority we are still required to continue appropriate collection and enforcement action for outstanding council tax and business rates debt however.

Expenditure, income levels and efficiencies

- 1.22 In developing the financial projections covering the period 2021/22 -2024/25, a number of assumptions have been made:
- A pay award of 1% has been included in 2021 pay budgets and 2% thereafter.
 - Inflation specific budgets such as energy costs and fuel have been amended to reflect anticipated price changes.
 - Fees and charges – service specific increases as agreed by Members.
 - Leisure Income – the impact of Covid has materially affected the sector so estimates for income have been reduced by 15% in 2021/22.

Appendix 2 provides further analysis for each budget area.

- 1.23 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.

Impact of the Covid Pandemic

- 1.24 As mentioned in 1.4 above, the effect of the pandemic on the 2020/21 budget was reported to Cabinet in October. The Government's income compensation scheme is expected to continue in quarter 1 of next year which will assist with income losses and the Covid grant will continue to be utilised as required. We have also made payments totalling £0.070m to provide financial assistance to the Parish Councils in the district towards their continued Covid response work in 2021/22.
- 1.25 The Spending Review 2020, allocated a further tranche of Covid grant funding for 2021. Our provisional share is £0.491m to cover continued cost pressures. Additionally, a Lower Tier Services grant of £0.205m will also be paid in 2021/22 to provide additional financial assistance.

Reserves

- 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 £2.7m. Due to the uncertainty surrounding local authority income, particularly in relation to the pandemic and the national financial settlement from 2022, 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.
- 1.27 Contributions of £1.179m in 202/21 and £0.677m in 2021/22 have been made from the Resilience Reserve to mitigate against additional costs or income lost to the general fund as a result of the pandemic.

Council Tax Implications

Council Tax Base

- 1.28 In preparation for the budget, the Chief Finance Officer under delegated powers has determined the Tax Base at Band D for 2021/22 as 31658.37.

Council Tax Options

- 1.29 The Council's part of the Council Tax bill in 2020/21 was set at £189.65 for a Band D property. This was the same as in 2019/20 as no increase was applied.
- 1.30 The Council has a range of options when setting the Council Tax. The Government indicate what upper limit they consider acceptable. For 2021/22, 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. The Table below shows increase options and the extra revenue this would generate:

Increase	New Band D £	Annual Increase £	Weekly Increase £	Extra Revenue £
1.00%	191.55	1.90	0.04	60,040
1.95%	193.35	3.70	0.07	117,078
1.99%	193.42	3.77	0.07	119,480
2.63%	194.64	4.99	0.10	157,905

The level of increase each year affects the base for future years and the proposed increase for 2021/22 is 1.95%, generating additional revenue of £117,078.

Housing Revenue Account (HRA)

2020/21 Current Budget

- 1.31 In February 2020, Members agreed a budget for 2020/21 including setting of rent levels in line with Government regulations. HRA fees and charges were also set, effective from the same date.
- 1.32 The Revised Budget was considered by Cabinet at its meeting on the 8 October 2020. There have been no material changes to the budget position since this time.
- 1.33 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.
- 1.34 The working balance brought forward from 2019/20 was £3.0m. This will be retained at £3.0m through the plan.

2021/22 Original Budget and 2022/23 to 2024/25 Financial Plan

- 1.35 The proposed budget for 2021/22 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

- 1.36 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. 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% will be permitted, until it is reviewed in 2025. In line with the standard an increase of 1.5% is being recommended in the budget for 2021/22. Future year rent increases will be considered as part of the annual refresh of this plan each year.

Fees and Charges

- 1.37 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.
- 1.38 The schedule of proposed charges is set out below:

	Weekly Charge 2020/21 £	Proposed Weekly Charge 2021/22 £
Heating:		
Marx Court	7.81	7.95
Church Avenue	5.51	5.68
Garages:		
Private	12.00	14.00
Tenants - new	9.00	10.00
Tenants - existing	9.00	10.00
Garage Plots:		
Plots - Annual	200.00	230.00
Plots – Per Week	3.50	4.00

Rykneld Homes Ltd Management Fee

- 1.39 The majority of the funding available to Rykneld Homes is provided by way of a management fee from the Council for delivery of services in line with the Management Agreement. Whilst it is intended that this payment will form a regular source of income for Rykneld Homes against which it can effectively budget to meet its expenditure commitments it is recognised that on occasions the Council as sole shareholder may be required to contribute funds in order to help it manage any adverse cash flow issues which might arise.
- 1.40 It is recommended that the management fee for 2021/22 will be £9.692m. This is contained within two budgets on the HRA – Repairs and Maintenance (£4.978m) and Supervision and Management (£4.714m).

- 1.41 A further issue needs to be brought to the attention of Cabinet which concerns the fact that Rykneld Homes is a company wholly owned by the Council. As such the company's external auditors seek from the Council on an annual basis at the time of the audit of the Company's accounts a Letter of Comfort from the Council as the parent company. That letter of comfort fundamentally seeks reassurance regarding the fact that the Council will continue to provide financial support to the company over the coming financial year (which in the case of the 2020/21 accounts will be the 2021/22 financial year). On the basis that this report is approved then it is reasonable to provide such a letter of comfort from the Council. In addition it may be the case that specific representations are required in order to support the Auditors view that the Company remains a going concern. The reasonableness of providing such assurances will need to be considered at that point in time when the Company's auditors approach the Council, and it is therefore recommended that delegated powers be granted to the Chief Financial Officer in consultation with the Portfolio Member for Finance to provide a response on behalf of the Council.

Financial Reserves – HRA

- 1.42 The Council's main uncommitted Financial Reserve for the Housing Revenue Account is the working balance of £3.00m. In addition to the Working Balance there are further reserves for the HRA specifically used to fund the Council's HRA capital programme. These are the Major Repairs Reserve and the Development Reserve. There is also an Insurance Reserve held. The 2020/21 capital programme includes a revision which is funded from HRA reserves and as such an additional contribution of £1.9m has been made.

Capital Programme

- 1.43 There will be a separate report to Council on 1 February 2021 concerning the Council's Treasury Strategies. The report will consider capital financing such as borrowing which enables the proposed capital programme budgets to proceed.

2020/21 Current Budget

- 1.44 In February 2020, Members approved a Capital Programme in respect of 2020/21 to 2023/24. 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 2019/20 has been accounted for in the 2020/21 revised position.
- 1.45 The Revised Capital Programme was considered by Cabinet at its meeting on the 8 October 2020. There has been one addition since this time, inclusion of £2.75m for stock purchases, funded from retained capital receipts and HRA reserves.

General Fund Capital Programme 2021/22 to 2024/25

- 1.46 The proposed Capital Programme for the General Fund totals £3.95m for 2021/22; £4.4m for 2022/23, £2.26m for 2023/24 and £1.86m for 2024/25. The budget in 2021/22 includes the cost of refurbishment works at Killamarsh Leisure

Centre and the carbon efficiency works at Eckington Sports Centre. The budget in 2022/23 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

- 1.47 The proposed programme for HRA capital works totals £10.647m for 2021/22; £10.509m for 2022/23; £10.441m for 2023/24 and £10.441m for 2024/25.
- 1.48 The proposed programme for HRA capital works on the non-traditional stock reflects the latest stock condition survey and in addition in 2021/22 includes £7.152m for additional eco works which is in part grant funded. The programme totals £7.652m for 2021/22; £2.530m for 2022/23; £4.370m for 2023/24 and £4.370m for 2024/25. The capital fee paid to RHL for delivering the programmes detailed at 1.47 and 1.48 is £1.1m.
- 1.49 Programmes remain for parking solutions (£0.288m per annum) and garage demolitions (£0.023m per annum).
- 1.50 In addition, £3m per annum has been included to fund the ongoing commitment to purchasing affordable houses in the district to replace those lost through right to buy sales.
- 1.51 An analysis of all the schemes and associated funding are attached at **Appendix 4** to this report.

Robustness of the Estimates

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

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

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

2 Conclusions and Reasons for Recommendations

- 2.1 This report presents a budget for consideration by Cabinet. It seeks to secure approval to recommend budgets to Council 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, a performance management framework and scrutiny by the Audit and Corporate Governance Scrutiny Committee.
- 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, 1 April 2021. 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 1 February 2021.

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 2024/25 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 over the life of the medium term financial plan.

GENERAL FUND

- 6.4 A Council Tax increase of £3.70 will be levied in respect of a notional Band D property (1.95%).
- 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 2020/21, as the Original Budget 2021/22, and as the financial projections in respect of 2022/23 to 2024/25.
- 6.6 That any under spend in respect of 2020/21 be transferred to the Resilience Reserves to provide increased financial resilience for future years of the plan.

HOUSING REVENUE ACCOUNT

- 6.7 That Council sets its rent levels for 2021/22 in line with the Social Housing Rent Standard increasing rents by 1.5% from 1st April 2021.
- 6.8 That all other charges be implemented in line with the table shown at 1.38 above with effect from 1 April 2021.
- 6.9 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 2020/21, as the Original Budget in respect of 2021/22, and the financial projection in respect of 2022/23 to 2024/25.
- 6.10 That the Management Fee for undertaking housing services at £9.692m and the Management Fee for undertaking capital works at £1.1m to Rykneld Homes in respect of 2021/22 be approved.
- 6.11 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.

- 6.12 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 Chief Financial Officer in consultation with the Portfolio Member for Finance to agree the contents of that letter.

CAPITAL PROGRAMME

- 6.13 That the Capital Programme as set out in **Appendix 4** be approved as the Current Budget in respect of 2020/21, and as the Approved Programme for 2022/23 to 2024/25.

7 Decision Information

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

8 Document Information

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