

Cabinet

7 February 2019

Budget for 2019/20

Cabinet Member: Cllr Peter Hare-Scott
Responsible Officer: Andrew Jarrett, Deputy Chief Executive (S151)

Reason for Report: This report provides the proposals for the General Fund and the Housing Revenue Account for the year 2019/20.

RECOMMENDATIONS:

That the Cabinet recommend to full Council that:

1. **Council Tax is increased by 2.996% (£5.93) to £203.84.**
2. **General Fund budget for 2019/20 is approved.**
3. **The 2019/20 budget requires no transfer from the General Fund Balance.**
4. **The General Fund Budget requires a temporary transfer of £253k from the New Homes Bonus EMR.**
5. **HRA budget for 2019/20 be approved – Appendix 5.**
6. **HRA fees/charges are approved based on the attached schedule shown as Appendix 5a and 5b.**
7. **Work on strategic planning for delivering balanced budgets in the future is commenced in the spring.**
8. **Continue to maintain a 25% General Fund Balance of our net operational expenditure as referred to in para 5.1**

Relationship to Corporate Plan: This report is driven by the key priorities contained within the current Corporate Plan, which seeks to deliver a wide range of cost effective services. All budget decisions have taken account of these priorities and pledges.

Financial Implications: Sound financial management underpins the entire report.

Legal Implications: It is a legal requirement to set a balanced budget under the Local Government Act 2003.

Risk Assessment: The production of the budget has taken full account of the following:

1. The outturn for 2017/18.
2. The 2018/19 monitoring and forecasted outturns.
3. Inflation levels.
4. Changes in legislation.
5. Major income flows have been prudently estimated.
6. Risk assessments of all significant budgets have been incorporated into the budget setting process.
7. Reserves will be maintained above minimum recommended levels.
8. The Medium Term Financial Plan.

Equality Impact Assessment: The impact of this report on equality related issues has been considered in section 3.0 Budget Consultation.

1.0 Introduction

- 1.1 Preparing the 2019/20 budget after 9 years of austerity measures was always going to be a difficult challenge. The Council's overall Formula Grant (which includes a Business Rate retention amount) has now been reduced from £6.2m in 2010/11 down to circa £3.7m for 2019/20 an overall reduction of **£2.5m or 40.3%**. See Section 6 for details of the Provisional Settlement.
- 1.2 At this juncture it is worth remembering that the Council has already secured significant savings during the past 9 years in order to "balance the books" and maintain service delivery. Therefore, to secure further savings from 2020/21 onwards will not be possible without making some difficult decisions that will alter the shape/quality/quantity/frequency of services in the future.
- 1.3 Leadership Team, Group Managers and the Finance Team have been involved in discussions to secure significant savings, without reducing service delivery. However it is now becoming a more difficult challenge year on year and therefore looking to the future a new more strategic process will be required to match service provision to available funding.
- 1.4 The draft budget considered at PDG and Cabinet meetings in October and November showed a budget deficit of £662k, based upon a number of key assumptions (e.g. Government funding, inflation rates, pay award, Council Tax level, use of balances/reserves, etc.), and embraced a number of savings/income increases totalling circa £1.7m offset by cost pressures together with funding reductions in excess of £2.2m.

2.0 January PDGs and Cabinet – Budget Update

- 2.1 The subsequent PDG and Cabinet meetings in January received an update report on the draft budget position which highlighted a reduced budget gap of £253k. This accounted for a number of additional changes to service costs/incomes and provided an update on the Provisional Settlement from Central Government, the increased referendum limit and confirmed the levy to NHB.

3.0 Budget Consultation

- 3.1 All budget decisions are clearly linked to our Corporate Plan priorities and are set against the context of annual budget consultation exercises.
- 3.2 The law also requires consultation with Business Ratepayers. This meeting was held on the 15 January 2019, where the current financial issues facing the Council were outlined to a group of our commercial ratepayers. This looked at the proposed budget for 2019/20 and talked through a number of assumptions which had been made in order to deliver a "balanced" budget.

4.0 The Corporate Plan

- 4.1 The most recent update of the Corporate Plan still maintains the Council's commitment to four key aims: economy, homes, community and the environment. All decisions made whilst compiling the draft 2019/20 budget had regard to the main aims and priorities of the Corporate Plan.

5.0 Key Assumptions for the 2019/20 Budget

- 5.1 The Council has carefully scrutinised all existing budgets and the service risks associated with delivering them. It has also examined all material income sources, especially the ones which are most at risk, due to the continuing fluctuations in demand and price movements e.g. recycling products; planning and; leisure services income. In addition to the above, regard has been made to our existing and future levels of balances which are required. We have a number of ongoing commitments already made against this balance (e.g. future capital contributions, economic development and building projects, "spend to save" projects, business transformation, town centre regeneration, future grant settlements). On this basis and looking forward it is strongly recommended that our General Fund Balance should be maintained at 25% of operational expenditure (circa £2.234m (£8,935,228 *25%)) which was last agreed by Full Council on the 21 February 2018.
- 5.2 With regard to all items of expenditure and income, Service Managers in conjunction with the Finance Team, review all areas for known increases/decreases based on both prevailing and predicted changes in demand, price inflation, contractual obligations, etc., when proposing the 2019/20 budget. More volatile budgets are subject to sensitivity analysis and a reasonably prudent assessment is made.
- 5.3 We have also now completed our Business Rates NNDR1 return which will accompany this report. This has shown further growth in our Business Rates but with the ever-present risk of appeals which the Valuation Office consider on a daily basis we have prudently set aside significant funds in a provision and our Business Rates Smoothing Reserve to mitigate this risk.

6.0 Local Government Finance Settlement

- 6.1 The 2019/20 Provisional Settlement was received on the 13 December 2018.
- 6.2 We were aware that RSG would be reduced to zero for 2019/20, but the Settlement did bring RSDG of £467k; a new Business Rates Levy Surplus Grant of £33k (likely to be one-off); New Homes Bonus of £1.243m and Retained Business Rates forecast to be £3.214m.

7.0 Requirements for Council Tax Setting

- 7.1 In recent years the Government (via the MHCLG) has become far more prescriptive with regard to acceptable levels of Council Tax increase. The

implementation of the Localism Act has effectively replaced Government set “capping limits” and replaced them with principles that allow the local electorate to call for a referendum if the Council is planning to increase its Council Tax above an acceptable level. The level for District Councils announced as part of the Settlement was set at a maximum of the greater of 3% or £5 for the 2019/20 budget year.

- 7.2 The Council Tax income included in the proposed budget includes a £5.93 (2.996%) increase. This equates to a band D charge of £203.84. (A 1% variation to our Council Tax changes the income generated by approximately £56k).

8.0 General Fund Budget 2019/20

- 8.1 The proposals contained in this report result in a balanced budget for the General Fund (see Appendix 1). After the updated budget report was considered by the PDGs and Cabinet in January there was still an outstanding budget gap of £253k. Despite additional analysis work and discussions with Members and Budget Holders, it was not possible to reduce this gap further. Therefore we will therefore have a requirement to take an additional £253k from the New Homes Bonus Earmarked Reserve.

9.0 Future Funding Concerns/Cost Pressures

- 9.1 Due to the increasing pressures on our budgets and the continuing reduction in our Central Government funding the Council will need to reassess its overall corporate priorities and therefore where it allocates future budgets, it will also need to consider:

- Statutory vs Discretionary service provision
- Reaffirm resident priorities
- How it can work more closely with Towns/Parishes
- Take on more commercial opportunities (but be aware of risks)
- Continue to consider any partnership possibilities
- Review Treasury options
- Maximise all income possibilities
- Impact of changes to New Homes Bonus

- 9.2 We are aware that Central Government intends to amend the mechanism behind the allocation of New Homes Bonus. We had expected the change to take effect from 2019/20 but this has been deferred due to other political priorities. We are yet to be advised of what form this change will take and how that is likely to impact on our funding. We are however prudently anticipating a reduction due to our rurality and the constraints we have (compared to other urban authorities) on pushing through developments and increasing our housing stock.

- 9.3 It's important to highlight how much New Homes Bonus is being used to help fund our General Fund and Capital Budgets in 2019/20, appendix 4 shows a total transfer of £334k to contribute towards various General Fund projects, this includes £189k towards the ICT equipment sinking fund; £145k towards

Business Development, in addition the £253k transfer referred to in recommendation 4 of this report to close the budget gap. The NHB used to fund the Capital Programme amounts to £613k, (please see individual report also on this agenda) which gives a total of £1.2m (£334k + £253 + £613k) to be utilised in 2019/20. As referred to in 9.2 above our allocation for 2019/20 is £1.243m and with this likely to reduce from 2020/21 onwards the Council will need to be mindful of the future funding available and agree service level changes accordingly.

10.0 Overall General Fund (GF) position at 31 March 2019

10.1 The monthly monitoring report to the end of December tabled to this Cabinet meeting shows an estimated GF overspend of £65k by the end of 2018/19. This will result in the Council ending this financial year with the General Fund balance showing £2.176m, which is slightly below its recommended minimum level of circa £2.231m (25% of 2018/19 operational expenditure) agreed by Full Council in February 2018. This is not deemed to be material but will be considered in year.

11.0 Transfers to and from earmarked reserves

11.1 Appendix 3 shows in detail which amounts are being contributed to various earmarked reserves in 2019/20, including significant amounts to fund the Tiverton EUE Masterplan and to fund urgent repairs and maintenance items. Appendix 4 shows which amounts are expected to be taken from earmarked reserves in 2019/20, the largest of which is £204k to be used to fund the Tiverton EUE (Masterplan Area B) and finalise the Local Plan process and £898k from the Business Rates Smoothing Reserve.

12.0 General Fund Budget Summary

12.1 The final budget summary for the 2019/20 General Fund is as follows:

- To provide a balanced budget
- without any transfer from the General Fund Balance
- To increase Council Tax by £5.93 or 2.996%
- To utilise New Homes Bonus receipts to balance the budget
- To continue to provide the current level of service provision

13.0 Housing Revenue Account Budget 2019/20

13.1 The Housing Revenue Account (HRA) is ring fenced and accounts for the income and expenditure associated with the Council's statutory housing obligations to its tenants.

13.2 The recent budget proposals that went before the Homes PDG have resulted in a balanced draft budget for the Housing Revenue Account for 2019/20 as shown at Appendix 5.

- 13.3 The main proposals for the 2019/20 budget can be summarised as follows:
- Legislation requires a 1% decrease in social housing rents for four years (2019/20 will be the fourth and final year)
 - Freeze garage rents
 - Increase garage plot ground rents by £25 to £250 per annum.
- 13.4 A more detailed analysis of the proposed rent **decrease** can be found in Appendix 5a & 5b that shows that the average housing rent will decrease to £77.46 on a 52 week basis.
- 13.5 The overall HRA budget has been constructed on a detailed line by line examination of expenditure and income, having regard to last year's outturn, this year's forecast position and the on-going improvement of the housing service.
- 13.6 Some items of expenditure can be defined quite accurately whilst others require managers to exercise business judgement based upon their experience, particularly in the case of new commitments. Where such judgement has been applied the proposals before Members are based upon realistic assumptions.
- 13.7 The main factors influencing this year's budget are broken down between the key national and local issues that are pertinent to next year's housing business plan as detailed below.

14.0 Key National Issues affecting the Housing Revenue Account

- 14.1 The key issues affecting the budget for the HRA are detailed below:
- Formula Rent (FR) reducing by 1% each year for four years
 - Right to buy (RTB) discounts, resulting in higher sales volumes
 - Universal Credit
- 14.2 In the Government budget announcement made in July 2015, we learnt that FR would reduce by 1% each year for the subsequent four years. Until that point, we had expected it to increase by CPI + 1% each year for the next nine years. Since dwelling rent is the largest number in the HRA, the impact this has is obviously significant.
- 14.3 The single biggest issue facing social housing is welfare reform. There was a recent announcement concerning the roll-out of Universal Credit in Mid Devon. Some tenants in the District are already receiving Universal Credit but as the roll out gathers pace we can anticipate that it will have significant implications for the income stream into the HRA.
- 14.4 Current legislation on Right to Buy means that we're likely to sell many properties in future years. This will have an impact on our rent income, which in turn affects our ability to fund property maintenance and development as well as servicing any existing or new debt.

15.0 Key Local Issues affecting Mid Devon's HRA

15.1 The key local issues facing the HRA are as follows:

- Building more stock
- Review our investment levels based on our 30 year Business Plan – in line with projected future demand
- Demand for increased housing stock and funding to deliver it

15.2 The prospect of building new social housing raises the issue of significant financing requirements. It means that reserves may need to be built up or additional debt taken on in the near future, increasing the need to manage the impact on the revenue budget each year.

16.0 HRA - Capital Works and Planned Maintenance

16.1 The major repairs allowance is determined by the level of depreciation charged on our properties. The latest stock condition survey (2010) identified a need to spend £3.5m per annum over the next 30 years, meaning any operating surpluses or savings generated by the new Self Financing system should be directed here.

17.0 Housing Benchmarking

17.1 The Council continues to undertake valuable benchmarking work in conjunction with Housemark. These findings are then used to inform the budget setting process. In doing so, MDDC are able to better identify their position in relation to other authorities in the sector and identify areas for improved efficiency.

18.0 Overall Financial Position of the Housing Revenue Account

18.1 It has been deemed as prudent to maintain the HRA reserve balance at £2.0m and it is expected to remain so throughout 2019/20. Other HRA reserves are expected to total £15.3m by the end of 2018/19.

18.2 This is made up of £14.7m in the Housing Maintenance Fund (HMF) and £0.6m in the Renewable Energy Fund (REF). It is intended that any expenditure funded from this money be used on renewable energy schemes.

19.0 Housing Revenue Account Budget Summary

19.1 The final budget summary for the 2018/19 HRA is shown in Appendix 5. It will continue to provide for an enhanced housing service which will allow for more capital investment and additions to our existing stock.

20.0 GF and HRA - Capital Programme 2019/20

20.1 This is discussed in a separate agenda item which shows that the 2019/20 programme totals £14.597m – the most significant funding source required to support this programme is the £6.442m (£3.8m GF and £2.642m HRA) of borrowing from the Public Works Loan Board. There are a number of projects proposed in the Capital Programme including 75 Affordable homes at

Waddeton Park (£2m); Redevelopment on Tiverton town centre (£1.2m); £1.5m to develop the Round Hill, Tiverton site (HRA); £2.285m to repair existing Housing Stock (HRA) and £4m to replace end of life HRA assets and create building schemes for new HRA developments.

21.0 Conclusion

HRA

- 21.1 The HRA has an obligation to provide a high quality, value for money service for its tenants coupled with affordable rent levels. The Government's legal requirement to cut housing rents by 1% has reduced the available income to fund both revenue and capital expenditure. In addition, the impact of the full roll-out of Universal Credit is a watching brief. We do however anticipate that this may have a significant impact upon revenue into the HRA due to the expected rise in the level of rent arrears.

General Fund

- 21.2 The General Fund budget has been set against a back drop of 9 consecutive years of cuts to Public Sector funding. Uncertainty is still the prevailing factor in Local Government funding. We have the abolition of RSG this year (with possible negative RSG in future years); the proposed change in "mechanics" of the New Homes Bonus scheme which has not yet been finalised but which may have a detrimental impact on our grant and the schemes which rely on this funding source and; the result of the Fair Funding Review and the impact on our grants and Business Rates baseline for 2020/21 onwards.
- 21.3 Nevertheless we need to prepare for the future in a timely manner and this is why we will continue to discuss how we can continue to provide a wide range of services in a much reduced funding envelope. The process will need to involve all staff, Members and our local residents/businesses.

Capital Programme

- 21.4 With few disposable assets and a greater reliance on Government grants our future capital programmes will come under greater pressure. If we continue to use a proportion of New Homes Bonus to help balance the General Fund there will be less available to help fund our annual capital programmes in the district. With anticipated reductions in New Homes Bonus in future years we will need to start planning the affordability of revenue contributions for capital, to maintain the level of our capital programme.

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Background Papers: Oct, Nov & January Cabinet & PDG's (Budget Draft, MTFP and Budget Update reports)