

Cabinet

13 February 2020

Budget for 2020/21

Cabinet Member: Cllr Alex White
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 2020/21.

RECOMMENDATIONS:

That the Cabinet recommend to full Council that:

1. **Council Tax is increased by £5 (2.46%) on a Band D property to £208.84.**
2. **General Fund budget for 2020/21 is approved.**
3. **The 2020/21 budget requires no transfer from the General Fund Balance.**
4. **The General Fund Budget requires a temporary transfer of £284k from the New Homes Bonus EMR.**
5. **HRA budget for 2020/21 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.**

Relationship to Corporate Plan: To deliver our Corporate Plan's priorities within existing financial resources.

Legal Implications: None directly arising from this report, although there is a legal obligation to balance the budget. There are legal implications arising from any future consequential decisions to change service provision, but these would be assessed at the time.

Risk Assessment: In order to comply with the requirement to set a balanced budget, management must ensure that the proposed savings are robust and achievable. We must also ensure that the assumptions we have used are realistic and prudent. Failure to set a robust deliverable budget puts the Council at risk of not being able to meet its commitments and casts doubt on its "going concern" and VFM status.

Equality Impact Assessment: There are no Equalities Impact implications relating to the content of this report.

Climate Change Assessment: The allocation of resources will impact upon the Council's ability to implement/fund new activities linked to climate change, as the MTFP sets the broad budgetary framework for the Council over the coming years.

1.0 Introduction

- 1.1 The balancing of the Council's budget continues to be a challenge year on year following the Government's austerity measures and the subsequent reduction in our funding.

- 1.2 At this juncture it is worth remembering that the Council has already secured significant savings during the past 10 years in order to “balance the books” and maintain service delivery. Therefore, to secure further savings from 2021/22 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 £346k, 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 offset by cost pressures together and funding reductions.

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 £177k. 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.
- 2.2 Following representation by members of the public and local traders, Cabinet approved an amendment to a previous Car Park charge increase which meant that the budget gap was impacted on an ongoing basis by £57k. This increased the 2020/21 gap to £235k.

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 A public consultation/survey took place in Nov/Dec and the results were made available to Members. The results are now available on our website to provide readers with a summary of the comments. The consultation has been very useful in highlighting the priorities of our residents.
- 3.2 The law also requires consultation with Business Ratepayers. This meeting was held on the 21 January 2020, where the current financial issues facing the Council were outlined to a group of our commercial ratepayers. This looked at the proposed budget for 2020/21 and talked through a number of assumptions which had been made. At this stage we were not in a position to present a “balanced” budget.

4.0 The Corporate Plan

- 4.1 The new Corporate Plan was presented to Cabinet on 16 January 2020. The approved recommendation gave delegated authority to the Chief Executive to make minor changes to the layout or images of the Plan before it is finalised. The new Corporate Plan sets the overarching direction of travel for the council and will guide all future decision-making for the next four year cycle.

5.0 Key Assumptions for the 2020/21 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). At the 16 January Cabinet, Members received an analysis of the minimum level of general reserves which would be prudent to hold. This would be a reduction to £2m from the arbitrary 25% of net expenditure previously recommended. This was supported by Cabinet due to the accompanying high level of earmarked reserves which the council holds for specific projects.
- 5.2 With regard to all items of expenditure and income, Group 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 2020/21 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 2020/21 Provisional Settlement was received on the 20 December 2019.
- 6.2 The Settlement confirmed our previous assumptions and the only additional sum we receive will be £88k in Section 31 Grant for a technical adjustment of Business Rates in previous years.

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 2% or £5 for the 2020/21 budget year.

7.2 The Council Tax income included in the proposed budget includes a £5.00 (2.457%) increase. This equates to a band D charge of £208.84. (A 1% variation to our Council Tax changes the income generated by approximately £59k).

8.0 General Fund Budget 2020/21

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 £235k. The following table shows some late amendments to the position presented to PDGs and to Cabinet.

Table 1 – Reconciliation of further movements

Movements	Amount £k
20/21 Budget Shortfall (Cabinet Report 16/01/20)	177
Amendment to Car Parking increase	57
Business Rates Retention forecast post NNDR1	21
Contribution to Local Nature Partnership (LNP)	2
Essential car users – reduction in allowance	-9
New Cabinet Member allowance	7
Reduction in interest from GP Hub due to timing of drawdown	29
Draft budget gap for 2020/21	284

8.2 Despite additional analysis work and discussions with Members and Budget Holders, it was not possible to reduce this gap further. Therefore we will have a requirement to take an additional £284k 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 In the last Cabinet Report we reported the risks to New Homes Bonus allocation and the likelihood of the grant being extinguished completely in future years.

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 2020/21, Appendix 4 shows a total transfer of £961k to contribute towards various General Fund projects, this includes £190k towards the ICT equipment sinking fund and; £80k towards Business Development, in addition the £284k transfer referred to in recommendation 4 of this report to close the budget gap. The NHB used to fund the Capital Programme amounts to £1.068m, (please see individual report also on this agenda) which gives a total of £2.029m to be utilised in 2020/21. Our allocation for 2020/21 is £1.418m but as previously reported to Cabinet this is expected to reduce considerably in 21/22 and 22/23 with a possibility that we will receive no NHB in 23/24 and subsequent years. 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 2020

10.1 The monthly monitoring report to the end of December tabled to this Cabinet meeting shows an estimated GF overspend of £252k by the end of 2019/20. This will result in the Council ending this financial year with the General Fund balance showing £2.231m. This will be higher than the proposed minimum level of £2.0m. It may therefore be possible to make a transfer of the excess to an earmarked reserve.

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 2020/21 and Appendix 4 shows which amounts are expected to be taken from earmarked reserves in 2020/21. These include £347k to fund maintenance at our Leisure sites and £522k which funds our new vehicle contract.

12.0 General Fund Budget Summary

12.1 The final budget summary for the 2020/21 General Fund is as follows:

- To provide a balanced budget
- without any transfer from the General Fund Balance
- To increase Council Tax by £5 i.e. 2.457%
- 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 2020/21

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 2020/21 as shown at Appendix 5.

13.3 The main proposals for the 2020/21 budget can be summarised as follows:

- Following new legislation an increase of CPI plus 1% (2.7%) is proposed to social housing rents
- Affordable rents to increase subject to the market rent cap (to an average of £113.59 per week (over 52 weeks)
- Garage rents from £11.10 to £11.60 per week
- Increase garage plot ground rents by £25 to £275 per annum.

13.4 A more detailed analysis of the proposed rent increase can be found in Appendix 5a that shows that the average housing rent will increase to £79.44 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) increasing by 1% plus CPI
- 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 was significant and we estimate that we lost c£2m in rental income for the period.

14.3 The single biggest issue facing social housing is welfare reform. The roll-out of Universal Credit in Mid Devon continues and we continue to monitor the impact. Nationally, further delays in the programme's roll-out were announced w/c 3 February 2020.

14.4 Current legislation on Right to Buy means that we're likely to sell several 0 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 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 £14.8m by the end of 2019/20.

18.2 This is made up of £14.3m in the Housing Maintenance Fund (HMF) and £0.5m 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 2020/21 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 2020/21

- 20.1 This is discussed in a separate agenda item which shows that the 2020/21 programme totals £22.010m – the most significant funding source required to support this programme is the £19.579m of borrowing from the Public Works Loan Board. There are a number of projects proposed in the Capital Programme including the Cullompton Town Centre Relief Road (£3.705m) funded from HIF monies; 75 Affordable homes at Waddeton Park (£3.6m); £12.1m to fund the current 3 Rivers Projects across the district; £2.260m to repair existing Housing Stock (HRA) and £2m 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% over the last 4 years 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 10 consecutive years of cuts to Public Sector funding. Uncertainty is still the prevailing factor in Local Government funding as we await the Fair Funding Review and Business Rates Baseline Reset which are due to be announced in 2020/21.
- 21.3 We need to prepare for the future in a timely manner and this is why we will continue to discuss how we can 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 and the possible cessation of 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)