Cabinet
04 February 2021

Budget for 2021/22

Cabinet Member: Cllr Andrew Moore, Cabinet Member for Finance
Responsible Officer: Andrew Jarrett, Deputy Chief Executive (S151)

Reason for Report: This report provides the budget proposals for the General Fund and the Housing Revenue Account for the year 2021/22.

RECOMMENDATIONS:
That the Cabinet recommend to Full Council that:

1. **Council Tax is increased by £5 (2.39%) on a Band D property to £213.84.**
2. **General Fund budget for 2021/22 is approved.**
3. **The 2021/22 budget requires no transfer from the General Fund Balance.**
4. **The General Fund Budget requires a temporary transfer of £386k from the New Homes Bonus EMR.**
5. **HRA budget for 2021/22 be approved – Appendix 5.**
6. **HRA fees/charges are approved based on the attached Appendix 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 21/22 budget has included specific provision for a climate change coordinator; a new investment for the Council. This role will help shape and move forward a significant programme of work required in order for the Council to deliver on its carbon neutrality pledge. Some of this work can be achieved through changes to existing work streams and processes, others will require future consideration of investment options to maintain progress on the Council's carbon reduction activities.

1 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. Further, the financial impacts of Covid 19, which wreaked havoc in

2020/21, will continue to disrupt in 2021/22 whilst government support recedes (insofar as it has been announced to date).

1.2 It should be remembered that the Council has already secured and delivered significant savings during the past 10 years in order to “balance the books” and maintain service delivery. Therefore, to secure further substantial 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 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 £3,012k, based upon a number of key assumptions (e.g. Government funding, inflation rates, pay award, Council Tax level, use of balances/reserves, Covid 19 etc.), and embraced a number of savings, income swings and offsetting cost pressures and funding reductions.

2 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 £490k. This accounted for a number of additional changes to service costs/incomes.

2.2 It was also able to incorporate measures announced in the Provisional Settlement from Central Government on 17 December. This included details of Covid 19 non ring-fenced grant funding, an extension to the Income Compensation Scheme until the end of June and an enhancement to the New Homes Bonus (NHB).

3 The Corporate Plan

3.1 The new Corporate Plan was presented to Cabinet on 16 January 2020. It sets the overarching direction of travel for the Council and will guide all future decision making for the next four year cycle.

4 Key Assumptions for the 2021/22 Budget

4.1 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).

4.2 The reference to income appraisal above is especially relevant to the ongoing Covid 19 pandemic. The suspension of service delivery and the resultant income losses has had a significant impact on this Authority's finances. In such rapidly and frequently changing circumstances (not to mention unprecedented) assumptions soon become superceded by events. To arrive at a final budget we must draw a line somewhere. Given the vaccine programme rolling out across the country, it does not seem unreasonable to assume that "things" will slowly start returning to some version of normal in the latter half of 2021. This budget therefore assumes that early in the budget year we will enter a recovery phase, services will resume with activity and income growing accordingly. The rates of recovery applied reference the experiences of the past year whilst the calculation basis applied to Income Compensation Scheme receipts assumes no change.

4.3 However, given the prevalence of uncertainty, it should be noted this budget includes several numbers which may well vary to a material extent. The Deputy Chief Executive has included them on the basis of the information that is available at this time and his judgement of the most likely outcomes. Any adverse movement in these numbers will require support from general fund reserves in order to balance this budget.

4.4 In January 2019 Cabinet amended the minimum level of general reserves required to be maintained to £2m. This was felt to be prudent due to the resilience offered by the level of earmarked reserves which the council holds for specific projects. Using these reserves to fund recurrent general fund expenditure must be considered an option of last resort. It is inherently unsustainable (they can only be spent once) and with the financial challenges this Council will face in the coming years, post Covid, it is imperative that they are maintained at the highest level possible.

4.5 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 2021/22 budget. More volatile budgets are subject to sensitivity analysis and a reasonably prudent assessment is made.

4.6 We have also now completed our Business Rates NNDR1 return which will accompany this report. This has shown a reduction in our Business Rates, partly arising as the NNDR multiplier was not increased in the funding settlement. The ever-present risk of appeals, which the Valuation Office consider on a daily basis, necessitates that we prudently set aside significant funds in a provision in our Business Rates Smoothing Reserve to mitigate this risk.

5 Local Government Finance Settlement

5.1 The 2021/22 Provisional Settlement was received on the 17 December 2020.

5.2 The Settlement confirmed our previous assumptions and included further measures which were included in the second version of this draft budget which was presented to Cabinet 7 January:

- Covid 19 non ring fenced grant - £408k
- Lower Tier Services Grant - £179k

- Changes to the New Homes Bonus grant scheme - raised £182k to £959k.
- Extension of the Income Compensation Scheme relating to Covid 19 service income losses to the end of June. The value of this extension has been estimated at £220k for the purposes of setting this budget.

6 Requirements for Council Tax Setting

6.1 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 2021/22 budget year.

6.2 The 'acceptable level' is defined by the Chancellor as part of the national budget-setting process and all government calculations on 'spending power' of local authorities are on the basis that authorities increase council tax to the maximum amount permitted.

6.3 The Council Tax income included in the proposed budget includes a £5.00 (2.39%) increase. This equates to a band D charge of £213.84. (A 1% variation to our Council Tax changes the income generated by approximately £60k).

7 General Fund Budget 2021/22

7.1 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 £490k. The following table shows the amendments to the position presented to PDGs and to Cabinet.

Table 1 – Reconciliation of further movements

Movements	Amount £k
2021/22 Budget Shortfall (Cabinet Report 07/01/20)	**490**
Business Rates Retention forecast post NNDR1	-93
Community grants reductions	-16
Software savings	-9
Capital element of 3 weekly waste collection savings	14
Draft budget gap for 2021/22 (see 7.4)	**386**

7.2 Despite additional analysis work and discussions with Members and Budget Holders, it was not possible to reduce this gap further, in the very short term. Proposals requiring additional work over the coming months include a range of revenue-raising options where expansion and commercialisation of services may reduce the net revenue requirement, and these will be considered over the coming months to explore where incomes can be generated to reduce the need to cut public-facing services. Given the significant financial variances that could impact the council's budget during 21/22, there will be a need for much earlier intervention on reducing spend if financial monitoring indicates a shortfall position at the year end.

7.3 It is clear that members' preference is to explore all revenue-raising options before cutting services. However, this year's budget also includes a structural staff saving of £150k which means that there will likely be periods of staff vacancy as turnover permits, in order to achieve this target. A close eye will need to be kept on operational impacts to determine how sustainable this is, the extent to which this impacts on statutory or local performance targets and of course the potential ability to implement these savings on a permanent basis should they prove manageable.

7.4 The gap to close to ensure we set a balanced budget is such that we will have a requirement to take an additional £386k from the New Homes Bonus Earmarked Reserve.

8 Future Funding Concerns/Cost Pressures

8.1 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 funding changes: Fair Funding Review; NNDR baseline reset; changes to NHB.
- Ongoing impacts of Covid 19 especially with regard to service income losses and recovery periods which in some cases may be measured in years rather than months.
- The need to create investable propositions for our carbon reduction ambitions

8.2 The Council has stated its intent to try and achieve a net zero carbon operation by 2030. While early work has been around the formulation of a carbon action plan alongside continued investment in additional carbon reduction measures, there nevertheless remains a substantial challenge ahead if this target is to be achieved. From a carbon accounting perspective, the fact that we retain direct control (and ownership) over the majority of services means that while our influence is unfiltered by long-term commissioning or contractual arrangements, we retain ownership of the significant challenges around decarbonisation. Not least in the area of social housing provision, where we have to balance the long-term viability of our social housing stock for the needs of future generations, with the need to invest substantially to reduce emissions (housing stock makes up the bulk of MDDC emissions). Changes to vehicles, operations and processes can all deliver incremental gains, and we have an important scheme planned to deliver hydroelectric power from the river Exe, as well as various tree-planting projects to help offset emissions. However, with no long-term investment from government currently on offer, in the short term we will be trying to achieve the maximum possible locally, while taking every opportunity to bid into future funding pots as they arise. The investment in a dedicated climate officer will help us identify and maximise these opportunities.

8.3 The NHB grant monies have been considered at risk for some time. It had been expected that 2022/23 may be the final year for the scheme. However, as announced in the Funding Settlement, the MDCC allocation for 2021/22 has increased (£182k) and an intension was expressed to review the funding from this scheme in 2022/23 and 2023/24. It is unclear what will happen after this. What is clear is that local authorities are in desperate need of a multi-year funding agreement rather than the current year to year arrangements which do not allow a considered medium term view of the resources that will be available, and, how these may be managed to optimise service provision within the scope of the corporate plan.

8.4 The government has stated, again, its intention to consult on changes to the New Homes Bonus scheme to make it more effective. While we do not yet know what these changes might include, it can be assumed that meeting and exceeding our growth targets will be critical to ensuring that we access whatever revised distribution methodology the government comes up with.

8.5 It's important to highlight how much New Homes Bonus is being used to help fund our General Fund and Capital Budgets in 2021/22. Appendix 4 shows a total transfer of £850k to contribute towards various General Fund projects. This includes £190k towards the ICT equipment sinking fund and £80k towards Business Development; in addition to the £386k transfer referred to in recommendation 4 of this report to close the budget gap. The NHB used to fund the Capital Programme amounts to £1.035m, (please see individual report also on this agenda) which gives a total of £1.885k to be utilised in 2021/22. Our allocation for 2021/22 reduced to £959k. With the future of the scheme at risk within the current MTFP period, Council will need to be mindful of the future funding available and agree service level changes accordingly.

9 Overall General Fund (GF) position at 31 March 2021

9.1 The monthly monitoring report to the end of December tabled to this Cabinet meeting shows an estimated GF overspend of £89k by the end of 2020/21. This will result in the Council ending this financial year with the General Fund balance showing £2.162m. 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.

10 Transfers to and from earmarked reserves

10.1 Appendix 3 shows in detail which amounts are being contributed to various earmarked reserves in 2021/22 and Appendix 4 shows which amounts are expected to be taken from earmarked reserves in 2021/22. These include £338k to fund the Culm Garden Village Project and £524k which funds our new vehicle contract.

11 General Fund Budget Summary

11.1 The final budget summary for the 2021/22 General Fund is as follows:

- To provide a balanced budget after the temporary utilisation of a transfer from the New Homes Bonus Reserve
- To ensure that the General Fund Balance is maintained at or above the currently agreed level of £2m
- To increase Council Tax by £5 i.e. 2.39%
- To continue to provide the current level of service provision broadly.

12 Housing Revenue Account Budget 2021/22

12.1 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.

12.2 The recent budget proposals that went before the Homes PDG have resulted in a balanced draft budget for the Housing Revenue Account for 2021/22 as shown at Appendix 5.

12.3 The main proposals for the 2021/22 budget can be summarised as follows:

- Following new legislation an increase of CPI plus 1% (1.5%) is proposed to on existing rents
- Garage rents will remain unchanged at £10.71 per week
- Garage plot ground rents to remain at £275 per annum.

12.4 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 £80.70 on a 52 week basis.

12.5 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.

12.6 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.

12.7 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.

13 Key National Issues affecting the Housing Revenue Account

13.1 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
- New government legislation announced relating to stock condition and tenancy involvement.

13.2 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.

13.3 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.

13.4 Current legislation on Right to Buy means that we're likely to sell several 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.

14 Key Local Issues affecting Mid Devon's HRA

14.1 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
- Carbon reduction work programme

14.2 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.

15 HRA - Capital Works and Planned Maintenance

15.1 The major repairs allowance is determined by the level of depreciation charged on our properties. The Authority's profiled works programme identifies a need to spend on average £5.27m over the next 30 years, meaning any operating surpluses or savings generated by the Self Financing system should be directed here

16 Housing Benchmarking

16.1 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.

17 Overall Financial Position of the Housing Revenue Account

17.1 It has been deemed as prudent to maintain the HRA reserve balance at £2.0m and it is expected to remain so throughout 2020/21. At the start of 2020/21 other HRA reserves totalled £18.31m

17.2 This included £14.20m in the Housing Maintenance Fund (HMF); £0.67m in the Renewable Energy Fund (REF) and £0.55m in Major Repairs Reserve. It is intended that any expenditure funded from the REF monies be used on renewable energy schemes.

18 Housing Revenue Account Budget Summary

18.1 The final budget summary for the 2021/22 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.

19 GF and HRA - Capital Programme 2021/22

19.1 This is discussed in a separate agenda item which shows that the 2021/22 programme totals £17.705m. The most significant funding source required to support this programme is the £11.878m of borrowing from the Public Works Loan Board (PWLB). There are a number of projects proposed in the Capital Programme including the Cullompton Town Centre Relief Road (£450k) funded from HIF monies; 75 Affordable homes at Post Hill (£3.217m); £2.411m to fund other 3 Rivers Projects across the district subject to business plan approval; £2.275m to repair existing Housing Stock (HRA) and £408k to refurbish HRA garage stock.

20 Conclusion

HRA

20.1 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 recent change back to CPI + 1% for 4 years is welcomed after statutory cuts to housing rents by 1% over the previous 4 year period which had reduced the available income to fund both revenue and capital expenditure. Also the removal of the borrowing cap appears to be good news on face value, but as ever the constraint on increasing stock is still an issue of affordability, not the access to borrowing. 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, combined with the ongoing Covid implications.

General Fund

20.2 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 potential changes to both business rates and New Homes Bonus. These changes, already delayed, have been suspended further due to Covid 19. In something of a perfect storm, the pandemic adds further ambiguity as income losses grow each time the government extends its containment measures, whilst central support, as far as it has been announced to date, is reducing.

20.3 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 continue to involve all staff, Members and our local residents/businesses.

Capital Programme

20.4 With few disposable assets and a greater reliance on Government grants our future capital programmes will come under greater pressure. Using a proportion of New Homes Bonus to help balance the General Fund reduces the amount available to help fund our annual capital programmes in the district. With 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.

Contact for more information: Andrew Jarrett, Deputy Chief Executive (S151)
01884 234242 (ajarrett@middevon.gov.uk)
Ian Chilver, Group Manager for Financial Services
01884 234254 (ichilver@middevon.gov.uk)

Circulation of the Report: Leadership Team, Cabinet

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