REDDITCH BOROUGH COUNCIL

EXECUTIVE **11th February 2020**

MEDIUM TERM FINANCIAL PLAN 2020/21 – 2023/24

Relevant Portfolio Holder	Councillor David Thain, Portfolio Holder for Corporate Management
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Corporate Resources
Non-Key Decision	

1. SUMMARY OF PROPOSALS

1.1 To enable members to consider the Medium Term Financial Plan for the period 2020/21 – 2023/24 to include General Fund Revenue and Capital together with the Housing Revenue Account budget proposals. The report includes recommendations to Council to enable a balanced budget to be set for 2020/21 and the proposed Council Tax for 2020/21. In addition members are asked to note the position for future years 2021/22-2023/24. The recommendations will then be presented to Council on 24th February together with the resolutions once we have received all of the precepting bodies Council Tax calculations.

2. RECOMMENDATIONS

2.1 Executive is asked to recommend that Full Council;

2.1.1 Approve the Unavoidable costs as attached at Appendix1:

2020/21 £221k
2021/22 £221k
2022/23 £228k
2023/24 £235k

2.1.2 Approve the Revenue Bids as attached at Appendix 2 and Appendix 4:

2020/21 £95k
2021/22 £45k
2022/23 £45k
2023/24 £45k

2.1.3 Approve the Identified Savings as attached at Appendix 3:

2020/21 £467k
2021/22 £562k
2022/23 £676k
2023/24 £729k

2.1.4 Approve the General Fund Capital Programme bids as attached at Appendix 4:

2020/21 £242k
2021/22 £51k
2022/23 £51k
2023/24 £51k

2.1.5 Approve the General Fund capital programme at Appendix 5:

2020/21 £3.775m
2021/22 £3.206m
2022/23 £5.149m
2023/24 £3.246m

2.1.6 Approve the net general fund revenue budget;

2020/21 £9.701m
2021/22 £9.903m
2022/23 £10.141m
2023/24 £10.355m

2.1.7 Approve the Housing Revenue Account Budget at Appendix 7 :

2020/21 £24.657m
2021/22 £24.987m
2022/23 £25.233m
2023/24 £25.705m

2.1.8 Approve the Housing Revenue Account Capital Programme at Appendix 8:

2020/21 £10.755m
2021/22 £12.555m
2022/23 £12.217m
2023/24 £11.931m

2.1.9 Approval the increase of the Council Tax per Band D @ £5 for 2020/21.

2.1.10 Approve the transfer to Balances of £82k for 2020/21.

3. KEY ISSUES

Financial Implications

3.1 The Council's Medium Term Financial Plan (MTFP) provides the framework within which the revenue and capital spending decisions can be made. This year a 4 year plan is proposed to 2023/24 to ensure we address the section 24 Notice. The plan addresses how the Council will provide financial funding to the Strategic Purposes and ensure residents receive quality services to meet their needs in the future. The Purposes that drive the financial considerations are:

- Run and Grow a successful business
- Finding somewhere to live
- Aspiration , Work and Financial Independence
- Living independent, active & healthy lives
- Communities which are safe, well maintained & green

3.2 As Members are aware, following the audit for 2018/19, Grant Thornton issued the Council with a Statutory recommendation made under section 24 of the Local Audit and Accountability Act 2014. Grant Thornton concluded that it was appropriate for them to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

3.3 The formal recommendation required the Council to deliver

- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.

- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

3.4 Members and officers have reviewed the services provided by the Council over the last 6 months to consider the levels of funding available to the Council and identified where potential savings can be made or additional income generated.

3.5 In addition a financial framework was approved to enable an overarching strategy to be in place to support the future financial position of the Council. In light of the financial pressures the Council faces the strategy aims to provide a framework in which the Council can become financially sustainable whilst delivering the priorities to our communities. The key objectives are:

- To ensure resources are directed to the council's strategic purposes

- To set financially sustainable budgets over the 4 year period for General Fund and HRA
- To increase balances to £1.5m in the General Revenue Fund and £1m in the HRA
- To maximise income opportunities whilst supporting the vulnerable
- Identify and disinvest in non priority areas
- To ensure all savings are achievable and developed with robust data
- To reduce overheads & direct costs over the 4 year period
- To maximise use of assets and disinvest surplus or non performing assets
- To further develop the commercial culture within the Council
- To consider and adapt to the uncertain future financial climate
- To work with the public, members and staff to engage and inform partners on the impact of the financial pressures of the Council

3.6 Significant savings are forecast for 2019/20 and these will be transferred to General Fund balances with the aim to increase these to the level proposed in the framework. As can be seen in Table at 3.10 to this report additional income and savings have been identified to reduce the costs associated with the delivery of services. Furthermore Members have already approved service changes and realignment of funding to realise additional savings of;

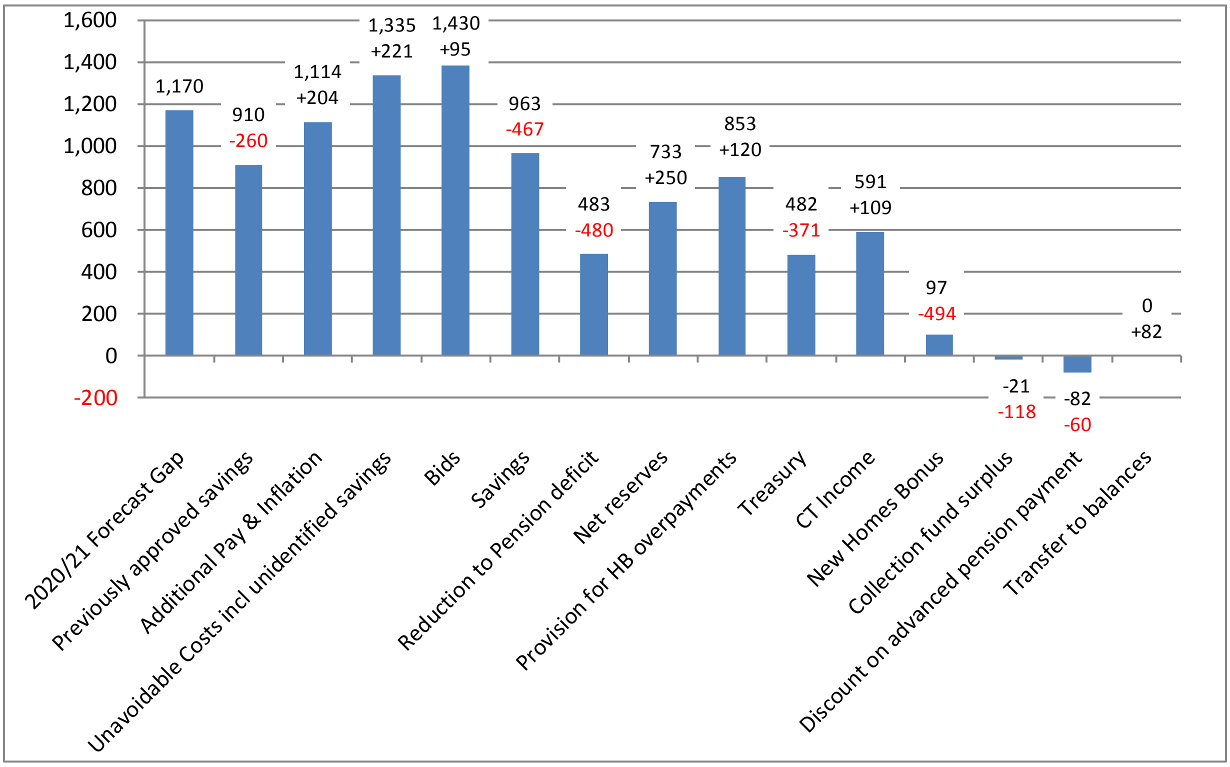
- Closure of the One Stop Shops (saving £60k)
- Withdrawal from the Rubicon Business Centre (saving £92k)
- Reallocation of Voluntary Community Service Funding (saving £108k)

3.7 The Council has made these difficult decisions in light of the financial challenges it faces and it is clear that further savings are required over the longer term to address the financial pressures of the Financial Plan as shown in Table at 3.23.1. Whilst addressing the position for 2020/21 it is clear that further savings are required to ensure the Council has a financially sustainable position in the future in light of the potential changes to Borough Council funding and service demands in the future. There is a need to consider how these savings can be made and there are potential areas for review included later in this report which will need to be explored with officers and members to ensure the Council is financially sustainable in the longer term.

3.8 Over the last 12 months the Budget Scrutiny working group as established by the Overview and Scrutiny Committee has met on a regular basis to review costs, fees and charges and the capital programme and have made a number of recommendations to Executive.

3.9 Officers have factored in a number of assumptions into the Medium Term Financial Plan to update it in line with revised calculations and information from officers and Government.

3.10 The table below demonstrates the changes in the financial projections and budget gap for 2020/21 based on the original estimation of a £1,170k gap as presented in February 2019. Following the table there are explanations of the reasons for the changes resulting in an achieved balanced budget for 2020/21.



3.11 **Previously approved savings (£260k)**

Members have already approved service changes and realignment of funding to realise additional savings of;

- Closure of the One Stop Shops (saving £60k)
- Withdrawal from the Rubicon Business Centre (saving £92k)
- Reallocation of Voluntary Community Service Funding (saving £108k)

3.12 **Additional pay and inflation (£204k)**

One of the pressures to the budget is general inflation on utility costs along with additional costs in relation to pay. The additional costs relating to pay inflation are above that initially anticipated. The original budget included

1% pay award however current negotiations are proposing a 2% which is therefore included in the estimated position above.

3.13 **Unavoidable Costs (£221k)**

When proposing the budget officers have also identified a number of budget pressures that have been deemed “unavoidable”. Unavoidable includes the ongoing effects of pressures identified during 2019/20 together with any issues that have been raised as fundamental to maintaining service provision as part of the budget process. In addition, income shortfalls that cannot be managed by improved marketing or price increases have been addressed during the budget planning. The pressures and income shortfalls of £221k are identified at Appendix 1. These include

- Removal of the previous unidentified savings £181k
- Additional WRS salary pressures £16k

3.14 **Bids (£95k)**

In addition to the unavoidable pressures revenue bids have been identified and included at Appendix 2 (and appendix 4). Bids relate to new funding requests made by officers to improve service delivery or to realise future efficiencies. The total bids for 2020/21 of £95k include a Strategy development for Parks and green spaces (£50k) and the revenue implications of capital expenditure.

3.15 **Identified Savings/additional income (£467k)**

Identified savings and additional income of £467k are detailed at Appendix 3. These are proposed to ensure that budget pressures can be met and demonstrate the additional income that the Council is generating. These include;

- Income generated from new 0 -19 Prevention & Early Intervention contract £32k
- A reduction in insurance budgets of £80k due to a new insurance contract being tendered.
- Savings from the management review (subject to consultation) £54k
- Reduction in enabling costs £45k
- Reduction in costs associated with the Dial A Ride service £90k

It is proposed that a realignment of the Dial A Ride service can deliver savings to the Council whilst maintaining the service to our community. The £90k saving identified from the service will be achieved through the introduction of a new service delivery model. This will reduce the fleet of minibuses from six to five and the buses will focus on group activities thereby utilising the available passenger capacity on each trip. Where possible bookings will be arranged to service specific locations of the Borough eg. supermarket trips to cover local communities on allocated days of the week. This will increase the number of passengers on the bus at any one time. The service will use a community volunteer car scheme for the least efficient and more costly one to one journeys such as GP or medical appointments. Overall this new service delivery model will increase the number of passengers and income generated per month. New services such as a chaperone service and one off full cost recovery trips to venues outside of the Borough will also be investigated.

3.16 **Reduction to pension deficit (£480k)**

An actuarial assessment of the council's pension liabilities has seen a sizeable reduction in the historic pension deficit payments due to significantly better performance than was expected from investments by the pension fund.

3.17 **Net Reserves (£250k)**

In relation to the revised pension liabilities it is worth advising that as Pension deficits are re calculated every 3 years and can be volatile a proposal has been made to allocate £200k of the savings to an earmarked reserve which will be available to manage any pension actuary adverse changes. In addition a reserve is proposed to support transformational change within the Borough of £100k along with a release of a reserve £50k which is no longer required.

3.18 **Provision for Housing Benefits (£120k)**

The Council spends £15m on Housing Benefit funded from the DWP. There is currently no bad debt provision for Housing Benefit overpayments and therefore an assessment has been made and the £120k is proposed to provide funding for these debts.

3.18 **Treasury (£371k)**

The decrease of £371k is driven by two factors. The first is a re-profiling of the capital programme to more accurately reflect planned spend which has moved expenditure into future years and also reduced planned spend. Secondly officers undertook a review of the length of asset lives where appropriate which in some cases resulted in an increase. This reduces the minimum revenue provision (MRP) per year for assets where the asset life increased, though not reducing the total amount of MRP required to be provided over the life of those assets.

3.19 **Council Tax (£109k)**

As part of the Financial Settlement the Council is allowed to increase Council Tax by up to 2% or £5 whichever is higher without the need for a referendum. This is less than the previous assumption of 2.99% and therefore there is a projected loss of income for 2020/21 – 2023/24. The current projections include £5 increase for 2020/21 and the demand on the collection fund to meet the Council's own needs will be £6.617m. The Council Tax relating to the Councils services will rise from £239.15 to £244.15.

In addition the Council pay a parish precept estimated at £8k which is funded from Council tax income from the specific parish area.

3.20 **New Homes Bonus (NHB) (£494k)**

The amount of NHB for 2020/21 has been confirmed as £924k, which is £494k more than anticipated in the MTFP. This is due to the Government funding an additional year of New Homes Bonus than initially proposed. However the financial settlement stated this would be for one year only and would not attract future legacy payments. A consultation on New Homes Bonus is expected in the spring to enable alternative proposals to be considered by the Council

3.21 **Council Tax Surplus (£118k)**

This is the estimated surplus based on the latest 2019/20 collection fund information

3.22 **NNDR Income – no change**

The Council is currently participating in a pan-Worcestershire Business Rates Pool (WBRP) pilot for the 75% Business Rate Retention for 2019-20 financial year. This one year arrangement is at no detriment to our financial position based on our former membership of the Greater Birmingham and Solihull Business Rates Pool. As part of the Finance Settlement approval was granted for the Council to be a member of a Worcestershire Pool for 2020-21 that also includes the Fire Authority. Again there is no detriment to the Council in joining this pool and whilst the position for the Council has been projected at a baseline from the current position for future years it is expected that additional growth may be generated which will be reported in the quarterly financial reports. In addition the position in relation to further appeals and resultant uncertainty due to the impact on performance of the Pool remain a concern; this is being managed by the S151 Officer in conjunction with the other treasurers within the Pool. It is unknown if Business Rate Pools will cease when the new funding system is introduced. The planned Business Rates baseline reset in 2021 could result in a reduction in the ability to retain business rates growth and therefore there is a risk this will impact adversely on our overall funding position.

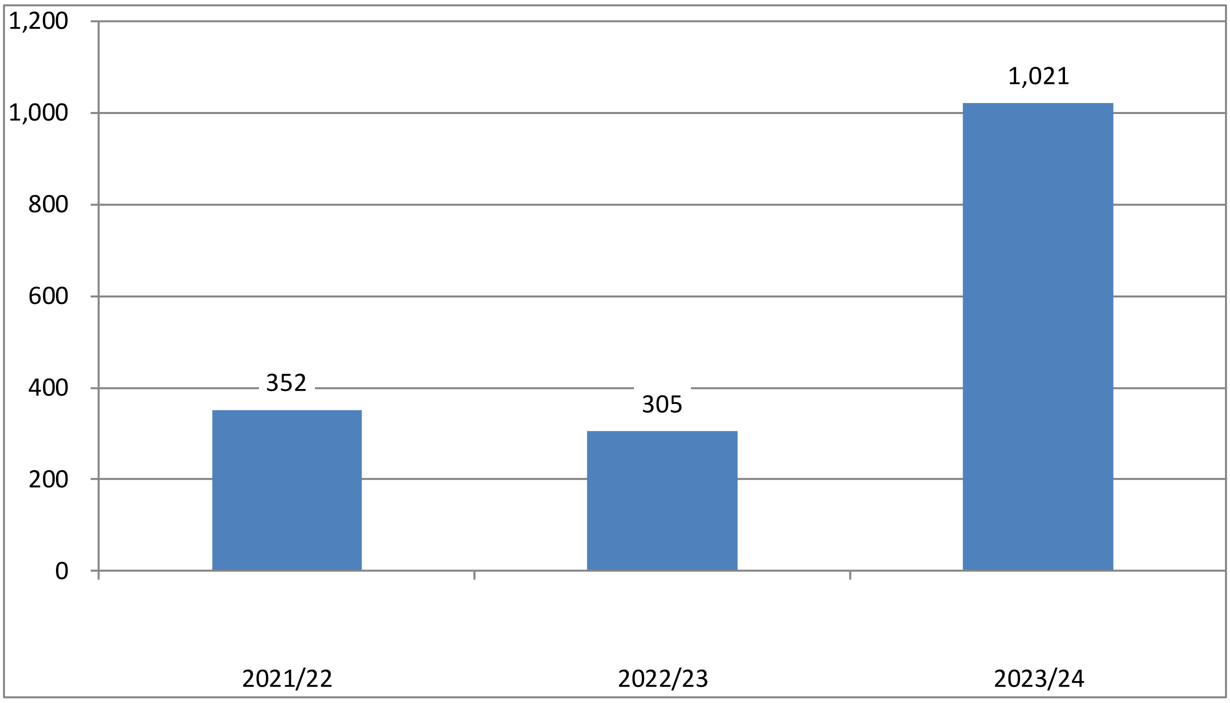
3.23 **Future Years**

Further consultation is awaited from the Government on plans for reform of local government finance that has now been delayed until 2021. The Council is currently taking part in a pan Worcestershire pilot of 75% business rates retention in 2019-20. The timetable for introducing 75% business rates retention across England and the fair funding review has been deferred until 2021-22. The Council continues to remain vulnerable to other changes in respect of local government finance, such as the rules for distributing new homes bonus. In addition the Government has yet to provide clarity on the impact of Brexit, including such issues as the replacement arrangements for EU funding streams that may benefit the Council, the procurement regime after Brexit and many other aspects of EU law that impact on local government activities;

Assumptions have been made in the financial plan for the following years including:

- The final year of the New Homes Bonus Scheme in 2020/21. There is no further funding included in the MTFP for “new” monies from 2021/22 which will result in a considerable funding gap for the Council. Therefore the New Homes Bonus for 2021/22 will reduce to £231k (from £9244k 2020/21) and 2022/23 to £209k before being withdrawn completely for 2023/24.
- Increases in Council Tax at 2%
- Baseline position for Business Rates as currently there is limited information available on any proposed changes to funding

3.23.1 This results in a medium term financial gap to 2023/24 as follows:



3.23.2 Members are advised that there is a great level of uncertainty around the funding available from Central Government from 2021/22. The budget presented above shows the position should all New Homes Bonus be removed with no reallocation of central funding to offset this shortfall. In addition there will be a change to the government methodology on the calculation of the amount individual local authorities need to spend (Fair Funding Review) and a reset of the business rates baseline figures. The total shortfall over the three years is £1.678m.

3.23.3 Whilst it is important to see the step improvement in the budget projections there remain significant savings to be made over the Financial Planning period. There is a need to consider how these savings can be made and it is proposed that officers consider the following areas to present options available to reduce costs and grow income to Members in the Autumn. The areas to consider include:

- Improving income through commercial activities and income from regeneration investments
- Increase in income and reduction in spend on Environmental Services
- Increase in income and reduction in spend on Leisure Services
- Additional income or reduction in cost of Dial a Ride
- Additional income or reduction in cost of Shopmobility

3.24 **General Fund**

The proposed budget is summarised in the table below:

REDDITCH PROPOSED REVENUE BUDGET 2020/21 - 2023/24	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000
Departmental base budget	10,269	10,496	10,757	10,757
Incremental Progression/Inflation on Utilities	204	248	246	445
Unavoidable Pressures	220	220	227	234
Revenue Bids/Revenue impact of capital bids	95	45	45	45
Savings and Additional income	-727	-823	-937	-990
Reduction to pension deficit payments	-480	-403	-317	-255
Provision for Housing Benefits overpayments	120	120	120	120
Net Revenue Budget Requirement	**9,701**	**9,903**	**10,141**	**10,355**
FINANCING				
Reserve release	-50	0	0	0
Transfer to pension reserve	200	0	0	0
Transfer to Transformational Change reserve	100	0	0	0
Business Rates Net Position	-2,899	-2,940	-2,985	-2,985
Council Tax	-6,415	-6,617	-6,821	-7,008
New Homes Bonus	-924	-231	-209	0
Collection Fund Surplus (Council Tax)	-118	0	0	0
Parish Precept	8	8	8	8
Parish Precept income	-8	-8	-8	-8
Bad Debt Provision	50	50	50	50
Investment Income	-832	-899	-967	-1,035
MRP (Principal)	910	969	1,028	1,282
Interest payable	342	375	436	448
Recharge to Capital Programme	-38	-38	-38	-38
Discount on advanced pension payment	-110	-221	-331	-50
Funding Total	**-9,784**	**-9,552**	**-9,837**	**-9,336**
General Balances	**2020-21 £000**	**2021-22 £000**	**2022-23 £000**	**2023-24 £000**
Estimated opening balances 20/21 (projected)	**957**	**1,039**	**687**	**382**
Contribution (from) / to General Balances	82	-352	-305	-1,021
Agreed in year transfer to/from balances				
Closing Balances	**1,039**	**687**	**382**	**-639**

3.25 **Collection Fund**

The anticipated collection fund surplus is £880k, which will be distributed amongst the major preceptors using the prescribed formulae. This Councils share of the surplus payable as a one off sum is £118k.

3.26 **Precepts**

The precepts from Worcestershire County Council, Hereford and Worcester Fire Authority and the West Mercia Police and Crime Commissioner are due to set their precepts in the week commencing 10th February. This will enable the Council to set the Council Tax on 24th February 2020. The precepting bodies Council Tax requirements will be included in the formal resolutions which will be presented to Executive and Council on 24th February.

3.27 **Capital Programme**

The Capital Programme has been considered to propose any new bids required to deliver services to the community. These are included at Appendix 4 with the proposed complete Capital Programme at Appendix 5. The borrowing costs have been factored into the revenue budget for the financial plan. There are detailed business cases available for all capital projects should members wish to consider them further.

4. Housing Revenue Account

4.1 The Housing Revenue Account is a ring fenced account holding transactions relating to Council dwellings. It is a separate account within the General Fund but receives income from Council rents.

4.2 For the four financial years up to and including 2019/20 there has been a national requirement to reduce rents by 1% per annum and this has put severe pressure on the housing revenue account. From 2020/21 rents will now increase by the consumer price index plus 1%. The rent increase was approved by the Executive on 19th December 2019. Over the next four years the rent increases will start putting the housing revenue account into a positive position.

4.3 Appendix 7 provides a summary of the housing revenue account including the latest forecast for 2019/20. For 2019/20 and 2020/21 the anticipated position is a deficit which would reduce the Housing Revenue Account balances to below the £600k minimum required advised by the Section 151 officer and agreed by Members. To enable the balances to remain at £600k the budget includes drawing £195k from the reserves in 2019/20 and £208k in 2020/21. However, this will be reimbursed 201/22 to 2023/24 as the HRA position improves. The reserves are currently designated for capital purposes but were created from revenue when the HRA was in surplus and the temporary use of the reserve is permitted.

4.4 Based on the medium term financial plan by 2023/24 the reserves will have been reimbursed by 2023/24 and £338k will be available to increase the HRA Balances. The continued financial management and assessment of the delivery of a balanced and sustainable budget is a key recommendation in the Section 24 and the subsequent transfer back to reserves will demonstrate the Council is managing the financial position for the HRA.

4.5 Appendix 8 provides the HRA Capital Programme and Appendix 9 the reserves and capital receipts position taking account of the capital programme and revenue use of reserves. The temporary use and reimbursement of the capital reserve does not impact on the capital plans.

5 Legal Implications

5.1 As part of the budget and the Council Tax approval process, the Council is required by the Local Government Finance Act 1992 to make specific calculations and decisions in approving a balanced budget for the following financial year and setting the Council Tax Level. These will be included in the resolutions and presented to Executive and Council on 24th February 2020.

6 Service / Operational Implications

6.1 The MTFP will enable services to be maintained and, where achievable, improvements to the community.

7 Customer / Equalities and Diversity Implications

7.1 The impact on the customer has been reduced due to the savings being realised by reduction of waste in the services and ensuring that all service that create value to the customer are resourced.

8. RISK MANAGEMENT

8.1 To mitigate the risks associated with the financial pressures facing the Authority regular monitoring reports are presented to both officers and Members to enable proactive action being undertaken to address any areas of concern. Risks include:

- Reductions in government funding leading to a reduction in the level of services delivered to the public
- Reductions in business rates income as a result of appeals or reduction in the rateable value leading to a lower level of income for the Council.
- Identification of sufficient and ongoing revenue savings to deliver a balanced budget.
- Allocation of sufficient resources to meet the needs of service delivery and the Councils priorities.
- Maintain adequate revenue and capital balances as identified in the MTFP to ensure financial stability.

The regular financial monitoring by Officers and Executive will provide a framework to mitigate the above risks.

8.2 **Risk Management - Chief Financial Officer (CFO) Opinion on the Estimate Process and Reserve Levels**.

Section 25 of the Local Government Act 2003 requires the CFO to report to the Council when it is making the statutory calculations required to determine its Council Tax or precept.

Government guidance states, '*The authority is required to take the report into account when making the calculations. The report must deal with the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides. What is required is the professional advice of the CFO on these two questions. Both are connected with matters of risk and uncertainty. They are interdependent and need to be considered together*.'

8.3 **Section 25: Report of the CFO - Robustness of the Estimates**

The Chief Financial Officer's opinion is that the estimates are robust, although there are a number of risks and uncertainties as set out below. Whilst relevant budget holders are responsible for individual budgets and their preparation, all estimates are scrutinised by Financial Services staff and Management Team prior to submission to Members. The Council has addressed as a matter of urgency the recommendations as detailed in the Section 24 Notice.

The Council's revenue and capital budgets are 'joined up', both for next year's budget and for the longer term. This means that the full cost of the proposed Capital Programme is reflected in the revenue estimates. Both revenue and capital budgets include the funding needs of the Council.

The main risks in the 2020/21 budget relate to:

- The delivery of income and managing the impact of savings proposed. Mitigating actions are in place within departmental risk registers to ensure managers are aware of any variances to budget.

- Business Rate Income – whilst this is essentially part of Central Government funding, the actual income received will vary depending on actual Business Rates income. It is difficult to predict the likely income with accuracy. It will be affected by many variables beyond the Council's control, for example, the level of appeals by ratepayers against their rating assessments. The funding mechanism gives a degree of in year protection against volatility but this only defers the impact of variances to future years.

- European Union Withdrawal (Brexit) – the overall effects of Brexit are difficult to quantify. It does remain a significant risk, which will only become clear when the final withdrawal takes place. This will require careful attention

- Central Government Funding – the MTFP shows income from NHB reducing to zero in 2023/24. This may change as a result of the Fair Funding Review. As already stated, government are consulting on a revised funding formula. There is no certainty around any of the streams of government funding. The current shortfalls in the MTFP need to be addressed over the next 12 months.

- Potential overspends within the HRA Budgets. This will be managed by monthly financial monitoring meetings with the housing and finance teams.

Adequacy of Reserves

The Financial Framework proposed a level of balances at £1.5m for General Fund activity and £1m in the Housing Revenue Account over the next 3 years. It is anticipated that the 2019/20 underspends will enable general fund transfers to increase balances with the aim to reach the level proposed by 2023/24.

The reserves position will allow the Council to be robust and make coordinated plans to address the deficit position.

Taking account of the above, and the level of risk within the budget, the S151 Officer judges that reserves are at an appropriate level throughout the period of the MTFP. This will need to be reviewed if there are any major unplanned calls on reserves, for example, to fund capital expenditure.

9. APPENDICES

Appendix 1 – Unavoidable costs
Appendix 2 – Revenue Bids
Appendix 3 – Identified savings
Appendix 4 – Capital bids
Appendix 5 – Proposed Capital programme
Appendix 6 – Budget by strategic purposes
Appendix 7 - Housing Revenue Account Budget 2020/21 and medium term financial plan to 2023/24
Appendix 8 – Housing Revenue Account Capital Programme 2020/21 to 2023/24
Appendix 9 – HRA reserves and capital receipts position

AUTHOR OF REPORT

Name: Jayne Pickering – Exec Director Finance and Resources
e-mail: j.pickering@bromsgroveandredditch.gov.uk
Tel: 01527-881400