

BROMSGROVE DISTRICT COUNCIL

CABINET

12th February 2020

MEDIUM TERM FINANCIAL PLAN 2020/21 – 2023/24

| | |
|----------------------------------|---|
| Relevant Portfolio Holder | Councillor Geoff Denaro, Portfolio Holder for Finance and Enabling Services |
| 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 and approve the Medium Term Financial Plan for the period 2020/21 – 2023/24 to include General Fund Revenue and Capital together with 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. The recommendations will then be presented to Council on 26th February together with the resolutions once we have received all of the precepting bodies Council Tax calculations.

2. RECOMMENDATIONS

2.1 Cabinet is asked to recommend to Full Council;

2.1.1 Approve the Unavoidable costs as attached at Appendix1:

**2020/21 £420k
2021/22 £333k
2022/23 £289k
2023/24 £45k**

2.1.2 Approve the Revenue Bids as attached at Appendix 2 and Appendix 4 (revenue implications of capital spend):

**2020/21 £317k
2021/22 £226k
2022/23 £173k
2023/24 £144k**

2.1.3 Approve the Identified savings as attached at Appendix 3:

**2020/21 £510k
2021/22 £677k
2022/23 £746k**

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2023/24 £817k

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

2020/21 £166k

2021/22 £87k

2022/23 £52k

2023/24 £34k

2.1.5 Approve the capital programme as attached at Appendix 5:

2020/21 £4.371m

2021/22 £12.744m

2022/23 £3.743m

2023/24 £1.888m

2.1.6 Approve the net general fund revenue budget .:

2020/21 £11.812m

2021/22 £11.572m

2022/23 £11.511m

2023/24 £11.324m

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

2.1.8 Approve the transfer to Balances of £170k for 2020/21.

2.1.9 Approve release of up to £72.5k from balances in 2019/20 to provide funding towards the District Heating Feasibility Study forward to Detailed Project Development (DPD) Phase. The briefing note is attached at Appendix 1.

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. 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:

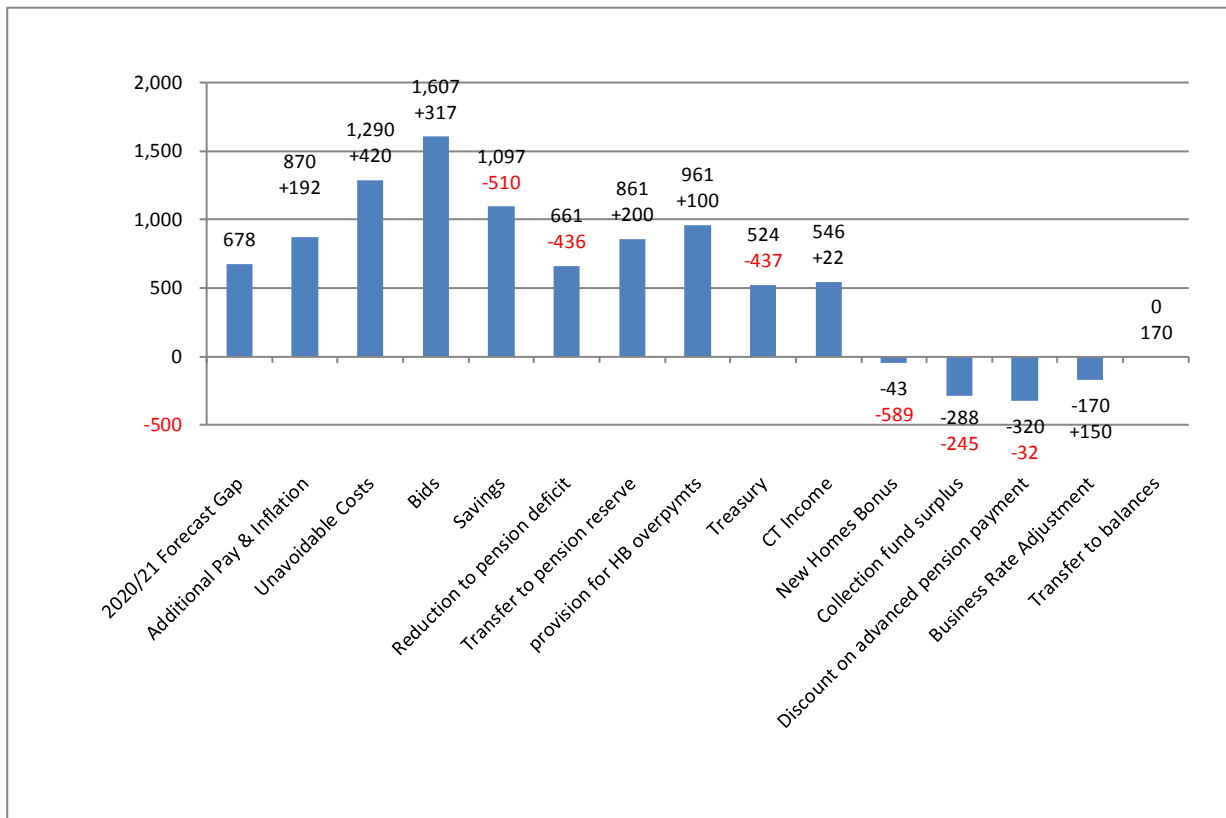
- Run and grow a successful business
- Work and financial independence
- Living independent, active & healthy lives
- Affordable and sustainable homes
- Communities which are safe, well maintained and green

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- 3.2 When reviewing the budget projections officers consider the impact of demand on service and the costs associated with this demand. This may result in additional costs (associated with maintaining current service delivery) or reductions in anticipated income revenue over the next 4 years.
- 3.3 Over the last 12 months the Finance and Budget working group, as established by the Overview and Scrutiny Board has met on a regular basis to review costs, fees and charges and the capital programme and have made a number of recommendations to Cabinet.
- 3.4 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.
- 3.5 The table below demonstrates the changes in the financial projections and budget gap for 2020/21 based on the original estimation of a £678k 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.



3.6 Additional pay and inflation (£192k)

A pressure 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.

3.7 Unavoidable Costs (£420k)

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 £420k are identified at Appendix 1. These include;

- Community funding increase due to additional New Homes Bonus being received 20/21 £70k
- Bromsgrove District Plan Local Plan review. To provide funding for the evidence base for Local Plan review (assumed to be £200k-£220k p.a.), plus money for Independent Highways advice, assumed to diminish year on year from approx £100k p.a. to £50k p.a., to zero. – total 2020/21 - £320k.

3.8 Bids including Revenue impact of Capital Bids (£317k)

In addition to the unavoidable pressures revenue bids have been identified and included at Appendix 2 and Appendix 4 (revenue implications of capital spend). 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 £317k include;

- The development of a Strategy development for Parks and green spaces (£50k)
- Financial Support to Bromsgrove Partnerships Sunrise Project (£28k)
- Funding to increase capacity of the civil enforcement officers (£15k)
- Funding to support the development of community hubs in the libraries in the District (£50k)
- The costs associated with the revenue implications of capital expenditure. Appendix 4 (£41k)

3.9 Identified Savings/ additional income (£510k)

Identified savings and additional income of £510k 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. This includes;

- The removal of the estimated payment to the Birmingham LEP. This was a projection of an amount that may have been payable following the Council's decision to move to the Worcestershire Pool. The budget is proposed to be removed as there is no call on this funding.
- A reduction in insurance budgets of £130k due to a new insurance contract being tendered.
- Savings from the management review (subject to consultation) £54k
- Reduction in enabling costs £45k

3.10 Reduction to pension deficit (£436k)/Transfer to pension reserve (£200k)

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. Pension deficits are re-calculated every 3 years and can be volatile therefore a decision has been made to allocate £200k of the savings to an earmarked reserve which will be available to manage any pension actuary adverse changes.

3.11 Provision for HB overpayments (£100k)

The Council provides £15m of Housing Benefit payments from the DWP. There is currently no bad debt provision for Housing Benefit overpayments has been made and therefore an assessment has been made and the additional £100k is proposed to provide funding for these debts.

3.12 Treasury (£437k)

The decrease of £437k is driven by two factors. The first is a reprofiling 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 in asset life. 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.

3.13 Council Tax (£22k)

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 and therefore the demand on the collection fund to meet the Council's own needs will be £8.484m. The Council Tax relating to the Council's services will rise from £223.00 to £228.00.

In addition the Council pay parish precepts estimated at £923k which are funded from Council tax income from the specific parish area. These will form part of the resolutions to Council on 26th February 2020.

3.14 New Homes Bonus (NHB) (£589k)

3.14.1 The amount of NHB for 2020/21 has been confirmed as £1.774m which is £589k more than anticipated in the MTFP. This is due to the Band D equivalent properties being more than anticipated due to redevelopments being delivered in the District. The 2020/21 income would be generated from 579 band D equivalent properties. However the 0.4% levy on growth equates to 173 properties which results in an annual reduction of £303k in New Homes Bonus received.

3.14.2 An assumption has been made that the Community Bid scheme will continue at a level of 25% per annum based on the additional New Homes Bonus payable for the year. For 2020/21 this equates to £144k.

3.15 Council Tax Surplus (£245k)

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

3.15 NNDR Income

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.

3.16 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

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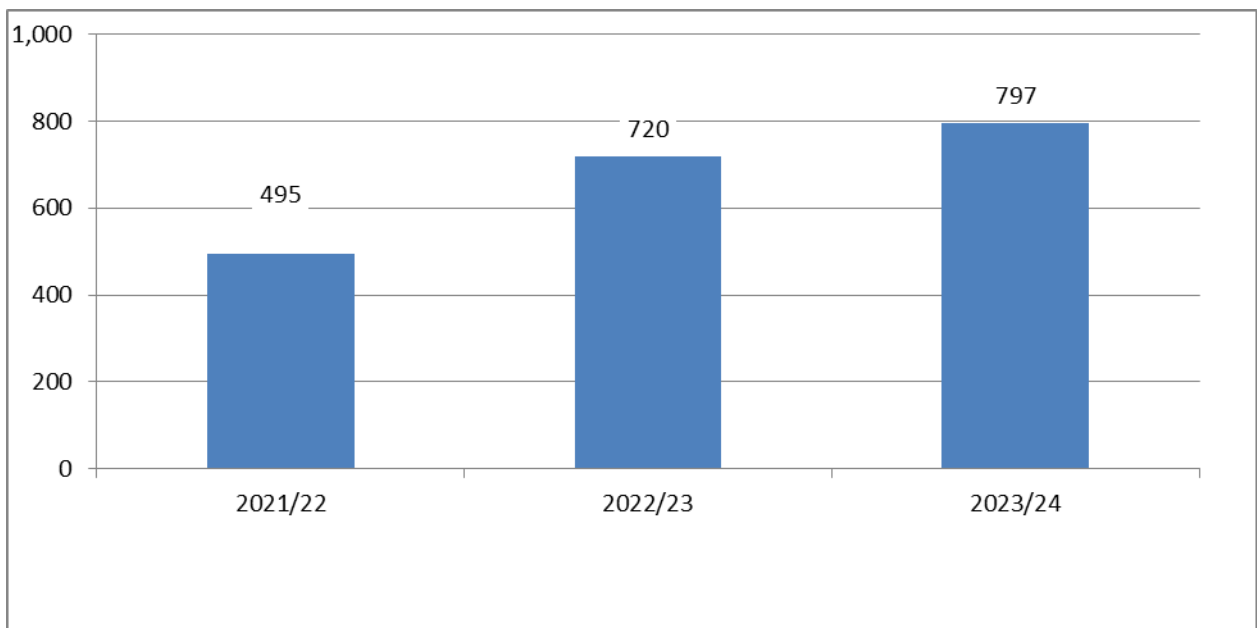
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retention in 2019-20. The timetable for introducing 75% business rates retention across England and the fair funding review has been deferred until 2021-22. The Council continues to remain vulnerable to other changes in respect of local government 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. In addition members will need to consider the impact on the community group funding being withdrawn from 2021/22. The New Homes Bonus for 2021/22 will reduce to £610k (from £1,774k 2020/21) and 2022/23 to £295k before being withdrawn for 2023/24.
- Currently the Council allocate 25% of the current year New Home Bonus for Community group funding this amounted to £144k for 2020/21 but will not be available for future years.
- Increases in Council Tax at 2%
- Baseline position for Business Rates as currently there is limited information available on any proposed changes to funding

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



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3.16.2 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 (fairer funding review) and a reset of the business rates baseline figures. The total shortfall over the three years is £2.010m.

3.16.2 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

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A more detailed table is below:

| BROMSGROVE PROPOSED REVENUE BUDGET 2020/21 - 2023/24 | | | | |
|---|----------------|----------------|----------------|----------------|
| | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
| | £000 | £000 | £000 | £000 |
| Departmental base budget | 11,730 | 11,749 | 11,806 | 11,806 |
| Incremental Progression/Inflation on Utilities | 192 | 249 | 269 | 456 |
| Unavoidables Pressures | 420 | 333 | 289 | 45 |
| Revenue Bids & Revenue impact of capital bids | 317 | 226 | 173 | 144 |
| Savings and Additional income | -360 | -527 | -596 | -667 |
| Reduction to pension deficit payments | -436 | -409 | -380 | -409 |
| Provision for Housing Benefits overpayments | 100 | 100 | 100 | 100 |
| Saving on Birmingham LEP contribution | -150 | -150 | -150 | -150 |
| Net Revenue Budget Requirement | 11,812 | 11,572 | 11,511 | 11,324 |
| FINANCING | | | | |
| Funding from reserves | -200 | -338 | 0 | 0 |
| Transfer to pension reserve | 200 | 0 | 0 | 0 |
| Business Rates Net Position | -2,444 | -2,474 | -2,510 | -2,510 |
| New Homes Bonus | -1,774 | -610 | -295 | 0 |
| Collection Fund Surplus (Council Tax) | -245 | 0 | 0 | 0 |
| Council Tax | -8,484 | -8,739 | -9,064 | -9,376 |
| Investment Income | -161 | -309 | -450 | -536 |
| Interest Payable | 386 | 500 | 538 | 542 |
| MRP (Principal) | 811 | 1,036 | 1,205 | 1,393 |
| Discount on advanced pension payment | -71 | -143 | -214 | -40 |
| Funding Total | -11,982 | -11,077 | -10,790 | -10,528 |
| | | | | |
| General Balances | 2020-21 | 2021-22 | 2022-23 | 2023-24 |
| | £000 | £000 | £000 | £000 |
| Opening Balances 20/21 (projected) | 4,301 | 4,471 | 3,976 | 3,256 |
| Contribution (from) / to General Balances | 170 | -495 | -720 | -797 |
| Agreed in year release of balances | | | | |
| Closing Balances | 4,471 | 3,976 | 3,256 | 2,459 |

3.17 General Fund

3.19.1 The level of the general fund balance is currently projected at £4.301m. The minimum level of balances recommended is £750k however Members have agreed that a more reasonable level is £2m. It is clear that further savings are required over the period to maintain balances at the recommended level.

3.18 Collection Fund

3.18.1 The anticipated collection fund surplus is £1,790k, which will be distributed amongst the major preceptors using the prescribed formulae. This Council's share of the surplus payable as a one off sum is £245k.

3.19 Precepts

3.19.1 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 26th February 2020, which is in advance of the 29th February deadline on precepts being received. These are included in the resolutions.

3.20 Capital Programme

3.20.1 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.

3.21 District Heating Network

3.21.1 At the Cabinet meeting on 15th January Members received a presentation in relation to the potential District Heating Network. A detailed discussion was held following the presentation and members requested that a number of questions be addressed and the item be deferred until the next meeting. The project summary and responses to questions are attached at Appendix 7. There is grant funding that is available for the scheme from the Government via the Heat Network Development Unit (HNDU) which would fund 67% of the associated costs.

3.21.2 The funding requested from the Council is to meet the costs associated with Stages 1& 2 however, there is a break after Stage 1 to enable a review and therefore the maximum funding of £74.2k may not be required.

3.21.3 Stage 1 of the project is to drill the boreholes to test for a ground source heat-pump, to provide technical advice in relation to the bore hole and, should the borehole be successful, to update and confirm the technical analysis of the proposed heat networks as a whole, including integration of the borehole results. The outcome of this stage will be a strong indication whether the project is likely to be viable and partners will be able to decide at this point whether they want to proceed to Stage 2.

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Stage 1

| Work element | Cost | Funding split 67% v 33% | |
|-------------------------------|--------------|--------------------------------|---------------|
| | | HNDU bid | Match |
| Borehole Drilling | £70k | £47.5k | £22.5k |
| Technical Advice and Analysis | £60 | £40k | £20k |
| TOTAL | £130k | £87.5k | £42.5k |

3.21.4 The indicative costs for this stage are £130k for the borehole and the related technical advice. This will be funded by the grant of £87.5k and partner contributions of £42.5k. Funding has been secured from Bromsgrove School of £10k therefore a cost to the Council of £32.5k for the first stage if no further contributions are offered by stakeholders.

3.21.5 Stage 2 of the project will be a detailed Outline Business Case and project plan, that will enable progression to commercialisation of the project (attracting investment, grants, legal agreements and procurement in order to commence build and operation). During this stage, the legal, financial and commercial aspects of the project will be explored, which will give the opportunity for future investment, risks and benefits for each partner to be apportioned.

Stage 2

| Work element | | Cost | Funding split 67% v 33% | |
|---|-----------------------|--------------|--------------------------------|--------------|
| | | | HNDU bid | Match |
| Outline Business Case and detailed plan | Technical /Commercial | £30 | £20k | £10k |
| | Financial | £60k | £40k | £20k |
| | Legal | £30 | £20k | £10k |
| TOTAL | | £120k | £80k | £40k |

3.21.6 The indicative costs for this stage are £120k. This will be funded by the grant of £80k and partner contributions of £40k. At this point officers are in discussion with Bromsgrove School, Worcestershire County Council and other potential stakeholders. The maximum cost to this Council would be £40k should no other contributions be forthcoming.

3.21.7 The maximum cost to the Council to fund both stages of the initial work is £72.5k. The request is to release this from balances dependant on the success of each stage.

- 3.21.8 Approval of grant funding will be in April if successful, with an indicative result given before then. No work will be undertaken prior to the agreement of grant funding being received.

Legal Implications

- 4.1 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 report to Cabinet and Council on 26th February 2020.

5 Service / Operational Implications

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

6 Customer / Equalities and Diversity Implications

- 6.1 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.

7 Risk Management

- 7.1 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 Cabinet will provide a framework to mitigate the above risks.

- 7.2 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.*'

7.3 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.

8. Appendices

Appendix 1 - Unavoidable Pressures

Appendix 2 - Revenue Bids

Appendix 3 - Identified savings

Appendix 4 - Capital bids

Appendix 5 - Capital Programme

Appendix 6 - Budget by Strategic Purposes.

Appendix 7(i) – Bromsgrove Heat Network Project Summary

Appendix 7 (ii) – Bromsgrove Heat Network FAQs

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