

**Report to:** Cabinet

**Date of Meeting:** 8 January 2020

**Public Document:** Yes

**Exemption:** None

**Review date for release** None



**Subject:** Draft Revenue and Capital Budgets 2020/21

**Purpose of report:** This report presents the draft revenue and capital budgets for 2020/21 for adoption by the Cabinet before consideration by a joint meeting of the Overview and Scrutiny Committees and the Housing Review Board.

Recommendations from these meetings will be presented back to the Cabinet on 5<sup>th</sup> February 2020 when members will finalise budget proposals to be recommended to Council.

**Recommendation:** That the draft revenue and capital estimates are adopted before forwarding to a joint meeting of the Overview and Scrutiny Committees and Housing Review Board for consideration.

**Reason for recommendation:** There is a requirement to set balanced budgets and to levy a Council Tax for 2020/21

**Officer:** Simon Davey, Strategic Lead – Finance (CFO/S151)  
[sdavey@eastdevon.gov.uk](mailto:sdavey@eastdevon.gov.uk) 01395 517490

**Financial implications:** Financial details are contained within the report

**Legal implications:** No legal observations are required

**Equalities impact:** Low Impact

An analysis of budget changes has not highlighted areas that give rise to any equality issues that need highlighting.

**Climate change:** High Impact

The budget approval gives the Council the resources necessary to undertake its business which will significantly contribute to the carbon footprint of the Council. There is a separate report on this agenda which considers the current position of the Council.

**Risk:** Low Risk

Risks have been considered in preparing the budgets and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates; estimates on the level and timing of capital receipts; the treatment of demand led pressures; the treatment of planned efficiency savings/productivity gains; levels of income; financial risks inherent in any new arrangements; capital developments; the availability of funds to deal with major contingencies and the need for any

provisions. In each of these areas the Council's financial standing, management and track record have been considered in order to prepare robust budget proposals.

Other specific areas of risk have been highlighted where appropriate within the report and within the budget book at service level.

**Links to background information:**

- [Diagrammatic overview of General Fund draft budget and Portfolio Breakdowns.](#)
  - [2020/21 Draft Revenue and Capital Budget Book](#)
- Cranbrook Parish Council request for funding:
- [Email to Simon Davey from Cranbrook Town Council](#)
  - [Town Council Five-Year Plan](#) 2019-2024
  - [Budget pressures overview](#)
  - [Town Council Five-Year Plan](#) 2018-2023

**Link to Council Plan:** Budgets and related service plans link back to the Council Plan

## **1. Process**

- 1.1 The Constitution requires Cabinet to approve the draft revenue and capital budget prior to consideration by the Overview and Scrutiny Committees. The Housing Review Board will undertake the same function in relation to the Housing Revenue Account budgets.
- 1.2 Recommendations from these two meetings will be reported back to Cabinet at its meeting on 5<sup>th</sup> February, along with any comments from the business community. At this meeting members will be required to recommend to Council a budget and the Council Tax requirement for 2020/21.
- 1.3 At the same time as preparing the draft budget, draft service plans have been prepared for member consideration. Service plans and budgets are aligned and link back to the Council Plan.

## **2. General Fund Budget**

### **The Overall Financial Picture**

- 2.1 2019/20 saw the end of Revenue Support Grant (RSG), this previously being the main grant to fund council services. Funding is now through Business Rate income, New Homes Bonus Grant (NHB), Council Tax and the Councils' own income raising activities. It is likely that NHB will also be phased out in the coming years thereby increasing the need even further for the Council to utilise its own income activities.
- 2.2 In October 2019 the Government issued a consultation paper on the 2020/21 Local Government Finance Settlement, this being a one-year spending round only. This put on hold reforms planned for 2020/21; changes to both the local government funding formula and the business rate retention scheme. The settlement basically carried forward spending allocations from 2019/20 into 2020/21.

- 2.3 This therefore delayed the financial cliff edge outlined in the Medium Term Financial Plan (MTFP) for 2020/21, in a large part to 2021/22. The projected deficit over the two years is approximately the same; a deficit in 2020/21 of £0.7m, rising to £2.3m in 2021/22 (£0.7m in 2020/21 and further deficit in 2021/22 of £1.6m giving £2.3m). The possibility of this happening was highlighted to the Budget Working Party and then the reality when announced in October 2019.

MTFP Budget shortfall ➡ £2.1m in 2020/21 rising to £2.4m in 2021/22

After slippage of reforms ➡ £0.7m in 2020/21 rising to £2.3m in 2021/22

- 2.4 Turning to the 2020/21 projected deficit of £0.7m this arises from external factors; rising costs through the national pay award, effect of inflation and additional cost pressures through homelessness, an increase in the recycling and refuse contract through increased property numbers (tipping point reached in contract payment at 70,000 properties) and other increasing demands on our services.
- 2.5 The Council's adopted Transformation Strategy which sits alongside the Financial Plan and MTFP identified savings and areas of additional income to address this budget gap. This Strategy is now being refined into three key areas; "Fit for Purpose", "Commercialisation" and "Careful Choices" – work has taken place and continues to take place to progress these three themes.
- 2.6 The preparatory work in developing savings and additional income from these areas has been endorsed by the Budget Working Party in order prepare a balanced budget for 2020/21. Significant items of savings originally planned to meet what was the financial cliff edge have **not been delivered** through a combination of factors;
- areas on hold awaiting careful choices consultation,
  - delay in the decision on car park charges with Scrutiny consideration now taking place,
  - Initiatives not delivering at the targeted level of income and/or the timing originally envisaged.
- 2.7 An update on the implication of the revised savings/income generation for future years from 2021/22 onwards is covered in paragraph 2.21 of this report. There has however been delivery on a number the actions for 2020/21 and coupled with the delay in funding reductions has given an ability **to present to members proposals for a balanced budget in 2020/21.**
- 2.8 The processes of completing the detailed draft budget for 2020/21 working with all mangers to prepare budgets will inevitability give a different position to that calculated in the MTFP which is prepared at an earlier stage and at a much higher level. The MTFP has however proven to be a very good estimate and guide in the preparation of the Council's budgets.
- 2.9 The **draft budget proposed for members' to consider is balanced (expenditure met by available income), resources have been realigned to enable investment in desired**

**areas as outlined in the New Council Plan; specially addressing Climate Change and Poverty.**

**Draft Revenue Budget 2020/21**

- 2.10 A summary position of the General Fund draft budget is given below. Further details are contained in the Budget Book linked to the agenda showing the current budget, the draft budget proposed for 2020/21 alongside notes on variation between years and other points of detail to inform members.

The Budget Book provides a summary of the services we operate, the assets and resources involved in each area. For a better understanding of the draft budget and the resources allocated members are recommend to study these pages along with the service plan proposals. A summary position is contained in Appendix One to help members get a relatively quick overview of the draft General Fund budget.

## General Fund Revenue Budgets 2020/21

Portfolio Budget - Net Expenditure	2019/20	2020/21	Variation	%age Change	Notes
Corporate Business	142,800	136,690	-6,110	-4%	
Corporate Services	1,995,945	1,591,502	-404,443	-20%	1
Economy And Regenrtn Portfolio	383,019	314,171	-68,848	-18%	2
Environment Portfolio	1,516,220	1,526,470	10,250	1%	
Finance	1,771,980	1,614,679	-157,301	-9%	3
Strategic Development & P'Ship	2,303,430	2,099,506	-203,924	-9%	4
Street Scene Portfolio	9,137,525	10,065,334	927,809	10%	5
Sustainable Homes & Communitie	557,400	601,150	43,750	8%	
<b>Portfolio Totals</b>	<b>17,808,319</b>	<b>17,949,502</b>	<b>141,183</b>	<b>1%</b>	
Reversal of Capital Charges (Depreciation)	-2,550,620	-2,797,480	-246,860	10%	
<b>Portfolio Totals Net of Capital Charges</b>	<b>15,257,699</b>	<b>15,152,022</b>	<b>-105,677</b>	<b>-1%</b>	
Interest Receipts (Net of investment management fees)	-635,180	-856,780	-221,600		6
Interest Payable	4,470	300	-4,170		
PWLB Interest & Principal Repayments	565,980	481,870	-84,110		
<b>Net Expenditure</b>	<b>15,192,969</b>	<b>14,777,412</b>	<b>-415,557</b>	<b>-3%</b>	
<b>Government Grants</b>					
New Homes Bonus contribution	-1,500,000	-1,500,000	0		
Rural Services Delivery Grant	-225,590	-225,590	0		
Savings Target	-70,000	-70,000	0		
<b>Use of Reserves</b>					
Use of Collection fund surplus	-123,000	-122,000	1,000		
Earmarked Reserves	-683,510	-305,330	378,180		
Use of General Fund Balance for elections	-80,160	0	80,160		
Use of General Fund Balance	-181,019	0			
<b>Budget Requirement</b>	<b>12,329,690</b>	<b>12,554,492</b>	<b>43,783</b>	<b>0%</b>	
Revenue Support Grant	0	0	0		
Business Rate Baseline Funding	-2,624,550	-2,674,930	-50,380		
Business Rate Retention Inflation Uplift	-1,300,000	-1,500,000	-200,000		
Council Tax Support Grant paid to Parishes	0	0	0		
Parish Support Reserve	0	0	0		
<b>Council Tax Requirement</b>	<b>8,405,140</b>	<b>8,827,500</b>	<b>-206,597</b>	<b>-2%</b>	
Funding GAP	0	-447,938			

Appendix One in the background paper contains a diagrammatic view of this position and portfolio breakdowns to help members get a quick overview of the draft budget.

## High level notes on main variations – see budget book for detailed analysis.

1. -£36k Corporate training moved to Health & Safety budget (Environment)  
-£246k One off costs in 2019/20 for Firmstep software & project (funded from reserves)  
-£108k Additional savings from Strata
2. -£21k Transfer of Video Surveillance to Exmouth Town Council  
-£29k Additional income from Building Control
3. -£177k Reduction in staffing costs in Revenues & Benefits
4. -£256k Staff savings – Deputy Chief Executive & Planning  
£200k Reduction in planning income  
-£125k Planning Technical Support budget in 2019/20
5. £700k Recycling & Refuse comprising increased contract costs as a result of stepped increase in contract by reaching 70,000 property threshold and a reduction in recycling income from material costs.  
£400k increase in depreciation charges (Recycling & Refuse) these are reversed out of budget at a later stage).
6. -£224 Pooled Property Investment Fund net of charges and other interest forgone.

- 2.11 The budget has been prepared on the basis of continuing to provide existing services without any reductions which considering the financial pressures is a significant achievement. Service areas are under pressure to deliver existing services at reduced costs and in cases meet an increase in demand/workload, this is particularly true within the StreetScene area but they are not alone. Services need to continually work more efficiently in order to give them the capacity to meet additional demands, any risk of non-delivery or cost overspend needs to be monitored carefully through performance reports and budget monitoring.
- 2.12 The actions agreed by members to make savings/increase income in preparing the draft budget is given below. Items finally included in the draft budget are only included where there is certainty on deliverability. A number of items have now slipped to 2021/22, or are considered as not achievable as indicated below.

Savings/Increased Income – Actions endorsed by members to prepare a balanced budget.	2020/21 Draft Budget position £000
<p><b>“Fit for Purpose”</b></p> <p>Strategic Management Team – Deputy Chief Executive (redundancy) &amp; a Personal Assistant (vacant post).</p> <p>Revenues &amp; Benefits - 3 posts (vacancies).</p> <p>Strategic &amp; Development Management Planning – 3 posts (vacancies).</p> <p>Individual posts – 3 individual posts (redundancies &amp; vacancy – consultations ongoing)</p>	470

Essential Car Users Allowances – phased closure of scheme	
<b>“Commercialisation &amp; Careful Choices”</b>	
<p>Street Scene potential to increase event income for existing assets - linked to events officer post - £10k</p> <p>Position of post in draft budget – year one cost matched by income to then grow income base for future years</p>	Slipped
<p>Property Investment (£300k commercial + £150k District Benefits) - £300k</p> <p>£50k in base budget and projected to be achieved. Further investments not approved as yet so high risk of not achieving target, slipped by one year.</p>	Slipped
Continued maximisation of Income in Rev's & Ben's	100
<p>Charges to developers for waste receptacles - amount above original target - £36k</p> <p>Although additional income received it is not considered realistic to increase the base budget of £40k at this stage.</p>	-
<p>StreetScene - Right Toilets in Right Place - £200k</p> <p>Await careful choices consultation</p>	Slipped?
StreetScene - Revert maintenance on private bowling clubs - £60k	Slipped
<p>Car Park Income Initiatives - £425k</p> <p>Council agreed to take this through Scrutiny for consideration.</p>	Slipped?
<p>East Devon Business Centre Remodelling - £10k</p> <p>Cost in year one to be met from Transformation Fund (£30k), £28k annual saving thereafter – part year saving 2020/21</p>	14
Rent Reviews	15
Addition Strata saving - £50k	108
More optimistic view on business rates income - reserve held to mitigate under achievement	100
<p>New - Property Pooled Investment Fund</p> <p>To replace income from commercial investment which has slipped. This will be covered in the Investment Strategy to Council. £304k net return less interest previously from sterling liquid funds £80k</p>	224
<b>Total</b>	<b>1,031</b>

2.13 The draft budget has been worked to leave £448k available to allow members to consider key areas for inclusion in the budget and some additional requests from service areas. Members should also have a mind to the position being outlined for 2021/22. The areas for members consideration are:

**a) Poverty – A Local Picture.** Report supported by Overview Committee, the financial implications being:

- Recommend that Council protect the existing funding levels contributed for Money Advice to Homemaker South West and Citizens Advice of circa £120,000 for 2020/21 to enable a review of the funding and delivery arrangements for Money Advice to ensure that we're focussing on the key issues. **This has been included in the base budget**
- Creation of an East Devon Poverty Strategy to further develop and target the areas the Council can influence and to support a corporate approach to ensure consistency across Council Services. **Request made of £16k one off sum to be made available to support this work.**
- Proposed increase in the financial support to those claiming Council Tax Support. Report included on Cabinet agenda; the overall estimate increase in scheme costs are £290k, EDDC proportion will be £20k (based on precept amount, DCC being £212k). **This cost has been factored into the Council Tax base used to calculate council tax income.**

**b) EDDC Climate Change Action Plan 2020-2040.** A report is included on the Cabinet agenda for member consideration. A financial assessment of the costs involved to deliver the Plan are difficult to determine and a number of areas are unknown at this stage. It is clear that there are significant financial implication for the Council that in reality to deliver in full without government support may not be possible. The initial assessment which will be significantly refined over time is:

➤ **General Fund**

**Revenue £622K** (not all ongoing). In addition staff resources have been realigned to create a climate change post to assist the Strategic Lead to deliver the action plan. There will certainly be additional costs when contractors are engaged and the implications factored into new tenders and contract sums.

**Capital £2.2m.** This relates to General Fund asset base and necessary improvements, again there will also be implication in future tenders and contracts.

It is proposed a sum of £323k is set aside in the 2020/21 budget and ring fenced for climate change to be spent and approved by Cabinet. Reports in the new year will be submitted to Cabinet for approval of spend from this budget allocation. This resource can be used to support borrowing costs for capital expenditure or to meet revenue costs. Members may consider that further monies should be added to this budget head and other areas deprioritised.

- **Housing Revenue Account** details are considered in paragraph 2.8 below.



### c) Cranbrook Town Council request for temporary funding

The town Council have requested temporary funding for 3 years until their council tax base is a sustainable size to pay for local services; **2020/21 £90k, 2021/22 £60k and 2022/2023 £30k**. The request supporting this case is included in the background link.

### d) Commercialisation fixed term position for 2 years.

A request is made to support the inclusion in the budget of fixed term post for two years at **a total budget of £120k to be funded from the Transformation Fund**. This resource is to be used to progress commercialisation through the Council to work with services in producing and implementing business plans to achieve the commercialisation income targets required to help balance the Council budget going forward. Priority services/areas identified as an initial work programme include Homesafeguard, promotion of Handy Person scheme across the district and commercial waste opportunities.

### e) Additional funding for Business Support and Advice

A request is made to increase the existing budget of £21k by **£19k to fund additional use of the Business Information point**. It is felt to increase the Service Level Agreement to this sum (£40k) would mean it would be at a level to make meaningful impact on additional support the Council's offers to businesses in the District.

The headroom in the budget to consider these bids against is £448k; a suggested sum has been allocated to Climate Change, but members will need to consider their priorities. In summary the bids to be considered above are:

Area	Additional request to draft budget £000
a) Poverty – To support the creation of Strategy to ensure consistent approach across the Council	16
b) Climate change Action Plan (If other areas are consider lower priority then this budget could be increased).	323
c) Cranbrook Town Council – year one request	90
d) Commercialisation – year one costs £60k funded from Transformation Fund	-
e) Additional Business Support & Advice	19
<b>Total of all bids</b>	<b>448</b>

## 2.16 Council Tax

The draft budget, in line with the agreed MTFP, assumes the Council will increase the Council Tax for 2020/21 by £5 a year. This gives a precept for the Council of £8,827,500 raising the current annual council tax charge from £141.78 to £146.78 for a band D property a year, a 3.5% increase.

Government consultation on what level Council Tax increases would trigger a referendum for shire districts is an increase of £5 a year or 2% whichever is the greater, this is the level the Government have calculated in their assumptions as income available to these Councils. The draft budget assumes the £5 increase, should Government decide to only state 2% this is loss of Council Tax Income in the draft budget of £129,900.

## 2.17 General Fund Balance

The Council has an adopted range for the General Fund Balance of between £3m to £3.8m which is still considered appropriate; the draft budget maintains the Balance within that range.

The current prediction for the year end position for 2019/20 is that the General Fund Balance will be slightly above the range at £3.9m. This is an estimated position and factors will affect this sum before year end.

## 2.18 Business Rates

The 2020/21 budget uses the Government's funding calculation at £2.675m as the income to be derived from Business Rates; to this an additional £1.5m has been added to reflect the Council's own rate estimate which is higher. The Council does hold a Rates Volatility Fund of £0.639m accumulated from previous Business Rate surplus to mitigate the risk if Rates do not achieve this full level and it helps smooth out year on year fluctuations.

## 2.19 New Homes Bonus (NHB)

The government intention is to end the NHB scheme, in 2019/20 the Council received £3.9m through this grant. The estimate of the grant for 2020/21 is £3.5m, the draft budget uses £1.5m of this to support the General Fund and the balance being directed to part finance the Capital Programme.

It is likely the scheme will diminish year on year with a final payment in 2022/23 estimated at £0.922m. It is assumed that £1.5m will be directed to the General Fund until the final payment.

### **Budget Strategy for future years**

- 2.20 The MTFP has been refreshed to consider the delay in government reforms originally planned for 2020/21. The assumption is that the Council will set a balanced budget for 2020/21 as detailed in proposals above. The deficit in 2021/22 is now projected to be £1.575m, further years positions are given below giving the annual shortfall in each year, in isolation, and not carrying forward the previous year's deficit.

General Fund	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000	£000	£000	£000
Budget Shortfall	1,575	733	1,030	120	628	132	138	143

Significant increase in previous reported MTFP as result of delay in Government reforms

Impact of NHB ending

2.21 Below is revised look at the savings/income generation areas still being proposed to help meet this budget gap.

Savings/Income generation	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Fit for Purpose</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Sub Total - Fit for Purpose</b>	<b>447</b>	<b>27</b>	<b>-</b>	<b>56</b>				
<b>Commercialisation &amp; Careful Choices</b>								
Street Scene potential to increase event income for existing assets - linked to events officer/company	30	20	20					
Property Investment (£300k commercial + £150k District Benefits)	300	50	50					
Further commercialisation of Homesafeguard Service	50							
Extend Handyperson Service to private sector	20							
StreetScene - Right Toilets in Right Place - based on cat A & B	200							
StreetScene - £60k Revert maintenance to Sidmouth Bowling Club & Exmouth, LED initially not interested + other works £80k short on charge	60							
Car Park Income Initiatives	375							
Car Park Income Initiatives	50							
Housing Company	25	50	25					
Summertime Agency Staff - External Contribution to seasonal costs								
- Street Cleansing	65							
- Grounds Maintenance	71							
Rent Reviews - TC	10	10	10					
<b>Sub Total - Commercialisation &amp; Careful Choices</b>	<b>1,256</b>	<b>130</b>	<b>105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Savings/Income Generation (will then be ongoing)</b>	<b>1,703</b>	<b>157</b>	<b>105</b>	<b>56</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>In Year Balance to be met from "Fit for Purpose", "Commercialisation" &amp; "Careful Choices"</b>	<b>- 128</b>	<b>576</b>	<b>925</b>	<b>64</b>	<b>628</b>	<b>132</b>	<b>138</b>	<b>143</b>

2.22 The Council has a good record of tackling and managing budget deficit projections and dealing with issues at an early stage, the Council has an agreed Strategy which will continually be monitored and reviewed to ensure the Council continues to balance its budget. More initiatives need to be delivered going forward with a deficit of £576k to be found from new areas in 2022/23 and there is the risk that those identified are not achieved. The Council will also have to consider the costs of climate change as the draft budget if approved in 2020/21 will give a base inclusion of £323k which is unlikely to be enough.

## 2 Housing Revenue Account Budget

### The Overall Financial Picture

2.1 The Housing Revenue Account (HRA) is underpinned and influenced by the business plan, this plan needs a refresh to consider:

- The implication of a new maintenance contractor,
- to reflect additional work on asset management planning and to further develop management information from the Housing IT system,

- the end of rent reductions,
- implication of Universal Credit,
- a need to reconsider the debt level and use of Right to Buy Receipts linked to future development ambitions, and
- now the implications of the climate change action plan.

This work is now planned for 2020/21 to be included in 2021/22 budget, the picture for the draft 2020/21 budget is very much stand still in that; it provides an acceptable surplus which will need to be prioritised between contributing to the purchase programme to counteract the impact of continuing Right to Buy (RTB) sales and ensures capital receipts are spent and not returned to government against the ambitions in the Council Plan on climate change. The budget also continues to invest in our existing properties at a similar level.

2.2 The Governments Rent Reduction Policy came to end in 2019/20 and the draft budget assumes an increase in Council House rents of 2.7% (September CPI + 1%) with a factor included for a reduction in stock numbers giving £17.6m, an increase of £0.460m. This results in an average weekly rent for 2020/21 of £81.23. No increase is proposed on garage rents with the current average weekly rent being of £12.50.

2.3 The HRA currently has 4,190 dwellings and 738 garages.

### **Draft Revenue Budget 2020/21**

2.4 The budget book details the draft estimates for 2020/21.

2.5 The budget has been prepared to maintain council homes to a high standard with a comprehensive planned programme of expenditure, adaptations and routine repairs. The 2020/21 draft budget maintains significant sums for:

- Major repairs totalling £4.4m covering new doors, boilers, kitchens and bathrooms, including change of tenancy expenditure, replacement of wooden fascias with uPVC and roof replacements.
- Day to day repairs, programme maintenance and one off works totalling £4m.

HRA BUDGET SUMMARY 2020 BY SERVICE LINE				2019 Budget £	2020 Budget £	Variance £
Rep Cat 1	Rep Cat 2	Rep Cat 3	Values Sum of 2019 Budget	Sum of 2020 Budget	Sum of 2020 v 2019	
1 INCOME	1 Gross Property Rent inc Garages	1 Gross Property Rents	-17,107,710	-17,567,740	-460,030	
		2 Garage Rents	-425,530	-425,530	0	
	2 Other Income	1 Other Income	-542,120	-542,120	0	
1 INCOME Total			-18,075,360	-18,535,390	-460,030	
2 EXPENDITURE	1 Repairs And Maintenance - General	1 Responsive Maintenance	1,754,170	1,925,840	171,670	
		2 Annual Programmed Maintenance	947,000	1,123,300	176,300	
	2 Repairs And Maintenance - Special	1 Repairs And Maintenance - Special	1,298,350	1,396,150	97,800	
	3 Supervision And Management	1 Supervision And Mgt General	4,032,725	4,307,820	275,095	
		2 Supervision And Mgt Special	1,727,490	1,698,700	-28,790	
	4 Other Expenditure	1 Other Exp non Sewerage	226,120	227,900	1,780	
		2 Sewerage	54,120	54,230	110	
	5 Capital Charges & Bad Debt	Adjustment to Bad Debt Provision	0	0	0	
		Depreciation	3,230,540	950,420	-2,280,120	
2 EXPENDITURE Total			13,270,515	11,684,360	-1,586,155	
3 FINANCING	1 Interest on Balances	(blank)	-49,730	-39,000	10,730	
	2 Loan Principal & Interest repayments	(blank)	2,523,970	2,503,900	-20,070	
	3 Other	(blank)	-1,159,940	-1,159,940	0	
	4 MIRS	(blank)	-2,070,610	209,510	2,280,120	
3 FINANCING Total			-756,310	1,514,470	2,270,780	
4 CAPITAL	3 MIRS for MJRREP	(blank)	4,406,690	4,410,000	3,310	
4 CAPITAL Total			4,406,690	4,410,000	3,310	
Surplus/Defecit			-1,154,465	-926,560	227,905	

- 2.6 The HRA draft budget currently shows a surplus of **£0.927m**; this level of surplus in the past has been directed to replacement housing to match the Right to Buy receipts. It is proposed that this sum is held for the purpose of replacement housing and/or climate change measurers as detailed below. Reports on priority and proposed actions to be considered will be presented to the Housing Review Board with recommendations to Cabinet to approve budget spend within 2020/21.
- 2.7 The Climate Change Action Plan 2020-2020 includes a number of items relevant for the HRA. A financial assessment of the costs involved are difficult to determine and a number of areas are unknown at this stage. It is clear that there are significant financial implication for the HRA and the initial assessment will be refined over time.
- 2.8 The estimated **revenue costs are £252k** (not all ongoing) but there will be additional costs when contractors are engaged and implications are factored into future tenders and contracts. The approximate **capital cost is £42m**.
- 2.9 The HRA Balance is maintained within the adopted range of £2.1m and £3.1m, being projected to be retained £3.1m level at the end of 2020/21. There is an additional £1.6m being held in the HRA debt Volatility Fund which remains unchanged.
- 2.10 The draft HRA budget will be reviewed by the Housing Review Board (HRB) on 23rd January 2020.

### **Budget Strategy for future years**

- 2.11 The HRA Business plan needs refreshing as outlined in 2.1 above to ensure properties can be maintained at a high standard whilst investing in new properties and keeping the HRA Reserves within the adopted levels. This is currently being achieved.

### **3 Capital Programme**

#### **The Overall Financial Picture**

- 3.1 The draft Capital Programme for 2020/21 in isolation after in year available resources are used give an overall funding need of £0.4m. The funding position in the current year (2019/20) currently shows a surplus on funding of £2.9m due to the capital receipt from the sale of the Knowle. The funding position across years will be managed in the most efficient manner considering the Council's overall Treasury Management position.
- 3.2 Any underfunded capital is factored into the Council's Minimum Revenue Provision (MRP) calculation (the amount required to be charged to the revenue account for unfunded capital) in line with the Council MRP Policy. In addition there will either be interest on any external loans required to be factored in, or the loss of investment interest on any internal borrowing used. Again this has been factored into the 2020/21 draft budget. The higher the unfunded element of the capital programme the greater cost to the General Fund.
- 3.3 The preparation of the draft Capital Budget has been directed by the Capital Strategy & Allocation Group (CSAG) who met on 4<sup>th</sup> December 2019 to consider scheme proposals. The Group considered funding resources available, the capital appraisal process and then each scheme proposal in turn. Minutes of this meeting are contained on this agenda.
- 3.4 The capital appraisal process has been used to build a capital programme aimed at delivering the Council's stated priorities and ensuring schemes meet set outcomes. Each scheme is given a score against a set criteria such as how the project meets the Council Plan, the risk involved, any part funding, invest to save and service provision. This year's round of appraisals also considered a factor for carbon implications; scoring schemes higher which contributed to a reduction in carbon. This scoring is used to measure priority against the funding available.

For each scheme proposed an Initial Project Proposal Form was completed as governed in the adopted "Guide to Project Management".

#### **Draft Capital Budget 2020/21**

- 3.5 The attached booklet details the draft capital programme for 2019/20 to 2023/24; scoring information is included against the new capital bid items.

### 3.6 A summary of the capital funding position is given below:

Capital Programme Financing	2019/20	2020/21	2021/22	2022/23	2023/24
	Budget	Budget	Budget	Budget	Budget
	£	£	£	£	£
Net Expenditure to be Financed (GF & HRA)	16,016,842	7,453,193	5,520,300	4,716,550	4,716,550
Adjust for unused income from grants/contributions:					
	16,016,842	7,453,193	5,520,300	4,716,550	4,716,550
Financing:					
General Fund Capital Receipts	(9,200,000)	(100,000)	(100,000)	(100,000)	(100,000)
Section 106 Funding	0	0	0	0	0
GF Grants	0	0	0	0	0
Use of GF Capital Project reserves	0	0	0	0	0
GF Revenue Contributions to Capital Funding	0	0	0	0	0
HRA funding	(4,846,000)	(4,906,000)	(4,906,000)	(4,906,000)	(4,906,000)
New Homes Bonus Funding	(2,323,069)	(2,054,020)	(69,938)	0	0
Net (internal borrowing) / Transfer to Capital Reserves balance	2,857,227	(393,173)	(444,362)	289,450	289,450
GF Loans/Internal Borrowing	352,227	(393,173)	(444,362)	289,450	289,450
Total Funding	(16,016,842)	(7,453,193)	(5,520,300)	(4,716,550)	(4,716,550)

3.7 The draft capital budget for 2020/21 totals £7.453m (net of direct grants), schemes are detailed in the budget book. The above shows an unfunded position of £0.393m but as explained this is offset in an overall funding position from the surplus in the current year of £2.857m.

3.8 NHB monies is helping to fund the capital programme in 2020/21 by £2.054m but this reduces to only £0.070m in 2021/22 and it is assumed NHB will cease at this point. This will put significant pressure on the funding of future programmes, which if a level of investment is still to be maintained will have an effect on the revenue budget as more loan funding is likely to be required.

## 4 Other Balances & Reserves available to the Council

4.1 The Council holds a number of earmarked reserves set aside for specific purposes, the use of such reserves in the 2020/21 draft budget are detailed in the budget book for members' information.

4.2 The Council holds an uncommitted sum of £1.363m in the Transformation Fund. The fund is set aside to assist the Council's savings programme by meeting upfront costs necessarily incurred in order to produce savings/efficiencies in future years. The 2020/21 draft budget has used the Fund in the base budget by £30k to implement changes to East Devon Business Reception to generate future saving of £28k per annum in reception staffing.

There is a bid outlined in this report to use the Fund to meet the cost of a commercialisation resource (£60k per year for 2 years) and it is recommended that an allowance is made of £250k to meet possible redundancy and related costs in 2020/21

## **5. Robustness of estimates and adequacy of reserves**

- 5.1 This part of the report deals with the requirement of Section 25 (2) of the Local Government Act 2003 in that the Council's Chief Finance Officer (CFO) must report on the robustness of the estimates included in the budget and the adequacy of reserves for which the budget provides.
- 5.2 In terms of the robustness of the estimates, all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand led pressures, the treatment of planned efficiency savings/productivity gains and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record have been considered in order to prepare robust budget proposals.
- 5.3 The proposed draft budgets for 2020/21 maintain both the General Fund balance and the Housing Revenue Account balance at adopted levels provided actual net expenditure is at, or below, the level forecast. Continuous monitoring and reports to Cabinet will highlight and make recommendations on any corrective action necessary to achieve this during 2020/21.

## **6. Prudential Code**

- 6.1 The Local Government Act 2003 also requires under regulation for local authorities to have regard to the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) when setting and reviewing their affordable borrowing limit.
- 6.2 The key objective of the Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 6.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. These indicators will be presented to the next Cabinet meeting when a recommendation will be made on the budget for 2019/20, Council Tax levy and Council House Rents.
- 6.4 There is a new requirement introduced last year to produce a Capital Strategy which extends the normal Treasury Management Strategy approved by Council annually to additionally consider any investment property the Council holds or likely to hold, what this means in terms of financial exposure and risk. This will be presented along with the documents above at the next Cabinet for onward approval by Council in February 2020.