

## Budget 2016-17 and Medium Term Financial Plan 2016-17 to 2019-20.

This appendix is the combined budget estimates and Medium Term Financial Plan (MTFP) 2016-20. The Medium Term Plan is the link between the Corporate Plan, which sets out the aims and ambitions agreed with our partners, and the Medium Term Financial Plan which sets out the current and forecast future costs of the services the Council is currently providing. The plan also establishes a set of financial policies and principles which provide a sound basis for maintaining the financial integrity of the Council over the medium term. The Housing Revenue Account Budget and MTFP are included in this report having previously been subject to a separate report, following scrutiny, to Governance and Audit Committee.

### 1. Budget Summary

#### General Fund

The following table shows the headline figures relating to the budget estimates for 2016-17 compared to the 2015-16 position:

Description	2014-15 £'000	2015-16 £'000	2016-17 £'000
South Holland precept requirement	3,980	3,990	4,158
Local Government Settlement-RSG	3,392	2,381	1,667
Local Government NNDR baseline	2,980	3,036	3,160
Retained Business Rates (NNDR) Income and S31 Grant	764	932	984
Collection Fund (Deficit) NNDR	(95)	(272)	(960)
Community Right to Bid and Challenge	16	16	0
Council Tax Freeze Grant	39	47	0
New Homes Bonus applied	-	262	286
Special expenses account	193	195	196
Collection Fund Surplus C Tax	42	75	0
Council Tax Band D	£155.61	£154.84	£157.92
Tax Base	25,579	25,767	26,329
Band D cost per week	£2.99	£2.98	£3.04

Of all the homes in our area 59.48 % are in Band A or B, and 84.10% are in Bands A to C. Therefore the majority of homes pay less than the £3.04 per week Band D equivalent towards the District services provided.

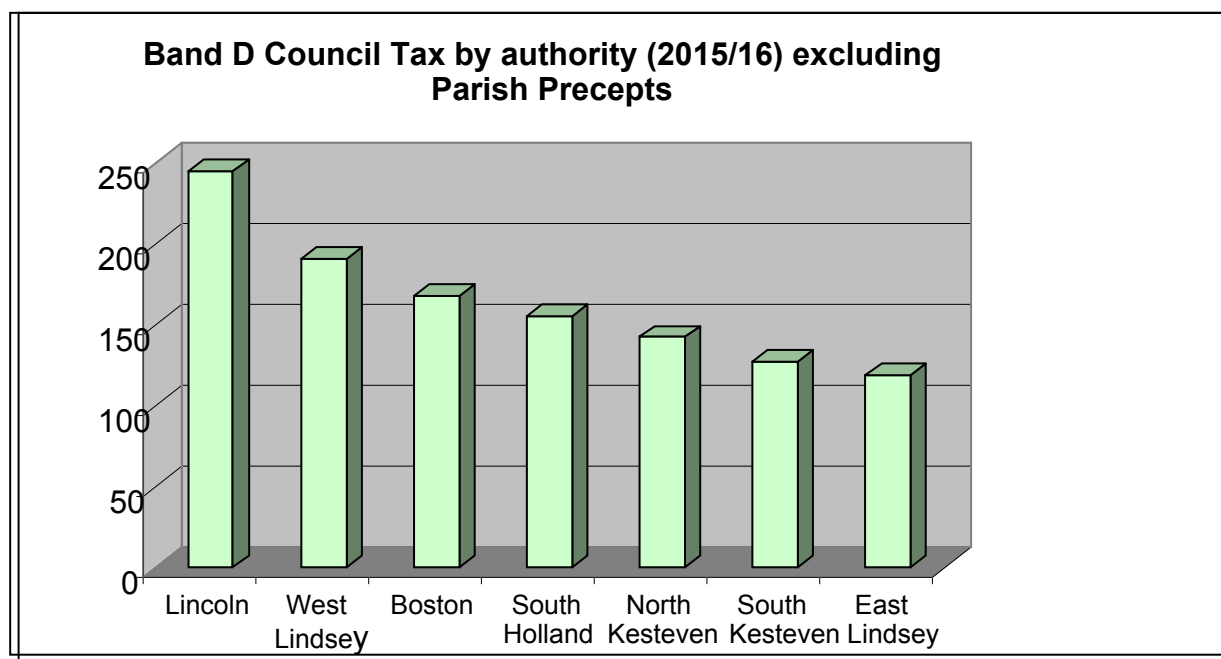
RSG-This does not include £428k of potential additional RSG receipts which will transfer to a growth reserve if paid. Due to the uncertainty of the rate of decrease of the RSG, the base budget is not dependent on the potential additional receipts. Reliance on RSG in the base budget ceases after 2018-19.

Band D tax base is currently being compiled and estimates may change when the final numbers are available from this exercise.

The following table details the Band D Council Tax levels for all precept authorities over the last nine years:

	Lincs County Council		Lincs Police Authority		South Holland (excl special expenses)		Average Parish		Total	
	£	Increase %	£	Increase %	£	Increase %	£	Increase %	£	Increase %
2005-06	899.82	4.90%	119.43	6.42%	134.56	4.75%	19.81	2.96%	1,173.62	5.02%
2006-07	944.73	4.99%	125.37	4.97%	140.28	4.25%	23.12	16.71%	1,233.50	5.10%
2007-08	987.21	4.50%	131.58	4.95%	145.19	3.50%	23.68	2.42%	1,287.66	4.39%
2008-09	1,021.77	3.50%	165.78	25.99%	149.18	2.75%	25.55	7.90%	1,362.28	5.80%
2009-10	1,039.68	1.75%	174.06	4.99%	153.13	2.65%	26.5	3.72%	1,393.37	2.28%
2010-11	1,065.69	2.50%	179.28	3.00%	157.03	2.55%	27.35	3.21%	1,429.35	2.58%
2011-2	1,065.69	0.00%	179.28	0.00%	157.03	0.00%	28.04	2.52%	1,430.04	0.05%
2012-13	1,065.69	0.00%	186.39	3.97%	156.6	-0.27%	31.94	4.10%	1,440.62	0.74%
2013-14	1,065.69	0.00%	190.08	1.98%	156.15	-0.29%	33.26	4.13%	1,445.18	0.32%
2014-15	1,065.69	0.00%	193.86	1.99%	155.61	-0.35%	34.94	5.05%	1,450.10	0.34%
2015-16	1,085.94	1.90%	197.64	1.95%	154.84	-0.05%	36.93	5.70%	1,475.35	1.74%

The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2015/16



### Housing Revenue Account

Description	2014-15 £'000	2015-16 £'000	2016-17 £'000
Income	(16,905)	(16,719)	(16,261)
Expenditure	8,206	8,797	9,265
<b>Contribution from Operations</b>	<b>(8,699)</b>	<b>(7,922)</b>	<b>(6,997)</b>
Financing	2,298	2,310	2,285
Capital Contribution	4,268	5,612	4,712
<b>(Surplus / Deficit)</b>	<b>(2,133)</b>	<b>0</b>	<b>0</b>

NB: 2014/15 included 53 weeks of Rent which occurs every 7 years

## 2. 2016-17 Estimates

### General Fund

The table below shows the budget estimates for 2016-17 by type of expenditure/income split over the standard CIPFA classifications. Notes explaining the major variances between the two years are given below the table.

<b>General Fund Estimates by Income and Expenditure 2015-16 to 2016-17</b>			
<b>Description</b>	<b>2015/16 Estimate £'000</b>	<b>2016/17 Estimate £'000</b>	<b>Variance £'000</b>
Employees	6,695	6,722	27
Premises	927	943	16
Transport	814	786	(28)
Supplies & Services	3,459	3,086	(373)
Drainage Board Levies	2,298	2,298	0
Parish Precepts	640	653	13
Third Party Payments	2,711	2,639	(72)
Transfer Payments	21,933	21,325	(608)
Capital	627	627	0
Financing	287	(702)	(989)
Transfers to/from Earmarked Reserves	(759)	641	1,400
Efficiencies required	0	0	0
<b>Total Expenditure</b>	<b>39,632</b>	<b>39,018</b>	<b>(614)</b>
Rents and Service Charges	(743)	(749)	(6)
Fees & Charges	(3,162)	(3,530)	(368)
Grants, Contributions and Reimbursements	(22,475)	(21,579)	896
Investment Income	(126)	(206)	(80)
Recharges	(723)	(1,028)	(305)
<b>Total Income</b>	<b>(27,229)</b>	<b>(27,092)</b>	<b>137</b>
	<b>12,403</b>	<b>11,926</b>	<b>(477)</b>

**Appendix B** shows the General Fund estimates over the medium term. Work is ongoing for the Collection Fund and Revenues and Benefits as details of the local government settlement are yet to be announced. Estimates may change when this information is received from DCLG

### Explanation of Variances

#### Employee Related Expenses

The increase is as a combined result of incremental pay progression, national pay award 1% and an increase in national insurance rates for those in the pension scheme. There is a 3.5% vacancy drag factor built into the estimates which reduces service budgets by £40k per annum. The 2015/16 budget included additional resources which were funded by the Waste Collection Support Grant, Grants for Growth and Planning reserve. 2016/17 budget includes 95k (2015/16 £115k) for additional planning resources, funded from the planning reserve. Efficiency savings of approx. £226k year on year are anticipated from the Moving forward programme beginning in 2017/18 with an annual target of £676k by 2019/20. Full details are currently being worked on and estimates may change as the work progresses.

#### Premises Related Expenses

The main variances are savings made in utilities (£47k), offsetting cost pressures for business rates and responsive repairs. The savings are as a result of comprehensive analyses of prior year's outturn and recurring variances.

### **Transport**

The Council has adopted a prudent policy of replacing previously leased commercial vehicles previously leased in Environmental Services with outright purchase of wholly owned new vehicles. Revenue savings arising from this were reflected within transport costs in the 2015/16 base budget. Fuel budgets have been reduced by (£29k) in line with 2014/15 outturn, with current fuel price reductions being monitored on an ongoing basis. Savings have been made where possible on leased cars, grounds maintenance equipment lease costs (£42k), and mileage and lump sum budgets. Further savings may be achieved if the Council takes on the commercial vehicle maintenance contract.

### **Supplies & Services**

Supplies and services budgets have reduced due to the removal of additional expenditure all funded by income in 2015-16, Waste Incentive grant, Health promotion grant and Grants for Growth.

Delegated members ward budgets have been maintained at £3k per member in the base budget, although arrangements have changed.

Impairment allowance for bad debts will be assessed before the final budget alongside work on Revenues and Benefits estimates.

### **Third Party Payments**

This budget includes contractual commitments to both Compass Point Business Services and Lincolnshire Legal Services. Compass Point has been budgeted to achieve 5% savings year on year, by transformation. In addition a £50k non-recurring contract cost has been agreed. Contract inflation is not applicable and it has been agreed that the 1% allowance for 2015/16 will be withdrawn.

### **Transfer Payments**

Further work is being carried out on Rent allowances and Rent Rebates alongside a forecast position for 2015-16. Additionally it covers grants and contributions paid where the Council does not benefit from the provision of a service, (£738k) which included the 'Grants for Growth' project 2015-16. Housing benefit payments are funded through Government subsidy and are included under Grants, Contributions and Reimbursements.

Other variances are Grants for Growth expenditure offset by income no longer in the base budget, rent allowances and rent rebates. Budget savings have been made in areas where possible.

### **Transfer to and from earmarked reserves**

Movements from reserves are reduced in 2016-17 due to investment in the County wide Broadband capital scheme £607k being a one off in 2015-16. £960k has been drawn down (£272k 2015-16) for smoothing the business rates collection fund deficit and a contribution of £286k (£262k 2015-16) from the new homes bonus.

**Rents** Rental income has increased by (£6k) which is due to additional income forecast.

### **Fees & Charges**

Fees and charges have been reviewed as increased where the market permits and in accordance with individual fees and charges policies (see Appendix H).

### **Recycling Credits**

Recycling credits were removed from the MTFs in 2015-16, except for a £70,500 dampening payment. This has no effect on the 2016-17 budget compared to the budget approved in 2015-16.

	2015/16	2016/17	2017/18	2018/19	2019/20
	Budget	Budget	Budget	Budget	Budget
<b>Recycling Credits</b>	324,600	324,600	324,600	324,600	324,600
<b>Dampening 3 months</b>	(70,500)	-	-	-	-
<b>Loss of Income</b>	<b>254,100</b>	<b>324,600</b>	<b>324,600</b>	<b>324,600</b>	<b>324,600</b>

It has been assumed Waste Supplementary services will not continue as part of an arrangement with LCC for providing a Saturday morning service. Income has been removed for £40k.

Planning application fees were estimated to increase from £475k in 2014-15 to £600k in 2015-16 providing additional income of £125k. The income has been budgeted for £600k for 2016-17. Fixed term additional resources (£115k) were agreed in 2015-16, to cover the extra demands of the service and also show (£95k) within 2016-17 budget.

Court income, housing benefits overpayments and impairment allowance of bad debts shown under supplies and services are currently being examined and estimates may change when this activity is complete.

The Welland Homes Business plan is currently being reworked due to delays in establishing viable projects. Projected income has been revised for 2016/17 at £41k rising to £270k in 2019/20. Joint working with Landlord services in respect of a HRA funded Affordable Housing programme are also being examined to identify possible efficiencies for both organisations.

### **Grants, Contributions & Reimbursements**

This includes additional Government subsidy for rent allowance subsidy payments, rent allowances, HRA offsetting costs included in Transfer Payments above. Additionally this includes reprofiled Government grants reimbursements and contributions and in 2015-16 included items such as the Grants for Growth project and Waste Incentive grant £712k.

A grant application was submitted to the Department for Communities and Local Government (DCLG) for European Structural Investment Funding (ESIF) in respect of a phase 2 project to support Small & Medium Sized Enterprises with Capital Grants. Administration of this project is estimated to contribute £25k towards central costs in 2016/17 and £150k over the period of the MTFP.

### **Recharges**

Recharges will be reviewed as part of the final budget setting process and include recharges to the Housing Revenue Account, to reflect its share of the Corporate and Democratic Core and its share of support services.

### **Housing Revenue Account**

The Budget for 2016/17 and the medium term financial plan is shown in Appendix B. This is currently under a major review by the Housing Growth group and savings / cost reductions have been forecast in the current year, being of benefit to both the General Fund and Housing Revenue Account. Strategic Organisational Design is being examined on a service by service basis but no potential financial impact has been included in this report.

	2015-16	2016-17	
	Forecast	Forecast	Variance
	£ 000's	£ 000's	£ 000's
Rent Income - Dwellings	(15,462)	(15,232)	230
Rent Income - Non Dwellings	(156)	0	156
Charges for Services & Facilities	(934)	(948)	(14)
Contributions to Expenditure	(89)	(68)	21
Other income	(78)	(13)	65
<b>Total Income</b>	<b>(16,719)</b>	<b>(16,261)</b>	<b>458</b>
Repairs & Maintenance	3,033	2,726	(307)
Supervision & Management	2,824	3,586	762
Service charge costs	1,225	1,237	12
Depreciation (MRA)	1,595	1,595	0
Provision for Doubtful Debts	120	120	0
<b>Total Expenditure</b>	<b>8,797</b>	<b>9,264</b>	<b>467</b>
<b>Contribution from Operations</b>	<b>(7,922)</b>	<b>(6,997)</b>	<b>925</b>
Financing charges	2,310	2,285	(25)
Revenue Contributions (RCCO)	5,612	4,712	(900)
Housing Subsidy			
<b>Net operating (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Income

### Dwelling Rents

No Details have been received in respect of the revised national rent policy from central government. Assumptions in the MTFP are based on the headlines from the summer budget statement only. It should be noted that this policy is not mandatory and rent increases can be applied at a local level. However there is a limit rent that is applied for Housing Benefit Subsidy purposes and any increase would be partly negated by this limit rent when Rent Rebate limitation (Actual average rent is compared to limit rent ) is applied by the Department for Works and pensions in the Benefits (Ben 1) Grant Claim. Rent models are being examined to determine likely impact over the period of the MTFP. This potential additional income stream would be difficult to administer and there would be risks of additional penalties being applied in subsequent years or the increase simply being ignored for universal credit purposes when it is introduced. However it would fit with the planned introduction of Pay to Stay (Near market rent based on household income) and affordable rents (80% of market rent maximum) which essentially inject a segment rent approach into the business plan going forward. Currently 70% of Rent is satisfied by housing benefit so every £1 of rent increase would yield on average 30p. A 1% increase on rents equates to £154k (also the negative impact of national rent policy) which could yield £46k in additional income on average. Subject to central government intervention this could return £29m of lost rent over the 30 year business plan (£96m \*30%).

- 1% rent reduction from 16-17 to 19-20 and nil inflation imposed by the Government, so in effect a 3% reduction compared to the Government guidelines for 16-17 at 15-16 budget setting. This equates to a 6.2% reduction over the period of the MTFP when lost rent from Right to buy sales is added.
- The impact of the imposed rent reduction and re-invigorated right to buy regulations for SHDC is a £96m loss of rent over the 30 year period of the business plan.
- No additional rent from units has been included in the MTFP as other government policies seem likely to reduce rent levels further (possible shared ownership sales / Void sales of high value properties).

Non Dwelling Rent is being examined currently and it is likely that all assets in the area will be designated community assets which will be appropriated to the general fund in 2015/16. Estimates have been prepared on this basis.

Further details in respect of the 2015/16 are available in the Financial out turn report presented to cabinet on 8<sup>th</sup> December 2015

Internal recharges were included in the business plan but they are excluded from income in the annual statement of accounts. Consistency of approach has been applied and recharges have been deleted from the Budget.

### **Repairs & Maintenance**

All work carried out in void properties is being reviewed to ensure value for money is present and turn around times are reduced.

### **Supervision & Management**

A transformation fund of £750k has been set in the 2016/17 budget to assist in integrating Landlord services and General fund services and the creation of a property services function for the authority which will incorporate the Construction Services Unit (CSU)..

### **Pay Awards**

- Each 1% change in SHDC gross pay = £18k increase in employee costs

### **Salary vacancy factor**

- 3.5% vacancy factor in SHDC gross pay = £42k decrease in employee costs which has not previously been applied

### **Revenue Contributions to the Capital Programme**

All replacement programmes are being examined and revised operating criteria has been recommended as part of the Financial out turn forecast presented to Cabinet 8<sup>th</sup> December 2015.

Contributions include £1,423k in respect of Affordable Housing for a planned programme of £2.3m in 2016/17.

### **3. Principles of Budget Preparation**

The following principles have been used in the budget preparation process in order to:

- Provide a consistent and authorised approach to the preparation of revenue and capital estimates.
- Ensure estimates are prepared in line with available resources.
- Ensure that estimates are prepared to reflect corporate priorities.

#### **Budget principles:**

- Detailed working sheets are maintained for all budget headings and these are prepared by the budget manager, with the exception of central items.
- Central items are calculated by the CPBS accountancy team. The central items include items such as: salaries, insurance, support service recharges, capital accounting entries, interest paid and received, pensions, National Insurance (NI), special expenses, mobiles phones and postage.
- The full effect of known pay awards is incorporated into the estimates and a provision made for future years, based on national guidance (taking into account any Central Government policies).
- Staffing estimates are prepared on the basis of approved staffing levels as provided by Human Resources and have been signed off by budget managers. These estimates include an allowance for employers NI, superannuation contributions and lump sum amounts.
- Budget Managers have signed off the salary allocations, so expenditure occurs where officer time is spent, within in each service area;
- Controllable expenditure is defined as expenditure on employees, premises (excluding business rates), transport, supplies and services, but excluding internal recharges.
- There will be no allowance for inflation, unless contractual or related to salaries.
- We should seek additional scrutiny and challenge for accessing capital resources and ensure that the programme only reflects schemes that are sufficiently scoped to allow delivery.
- A review of fees and charges to ensure optimisation of income where consistent with policy.
- Some service areas of high or unpredictable spend in previous years have been considered in detail others remain largely viable budgets and have not been zero based
- Working papers have been prepared by budget managers for each controllable budget. This will assist future challenge.
- To set a balanced budget with no long term dependency on General Balances.
- To work towards a zero balance on the collection fund.
- Only the 2016-17 budget will be formally approved, future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

#### **4. Grant Settlement Assumptions**

The Final Local Government Settlement for 2016-17 will hopefully be confirmed in December 2016. The initial draft includes assumptions approved as part of the MTFs in 2015-16 budget setting which have been adjusted in respect of RSG following the latest Comprehensive Spending Review.

Only a small amount of the Local Government Settlement is now received in the form of Revenue Support Grant (RSG). Instead of receiving a fixed funding amount from government, from 1 April 2013 we are now reliant on a new model which is geared towards the local raising of funds. Changes to schemes in respect of non-domestic rates (NDR) and localised council tax reduction scheme (LCTRS) have brought a greater degree of risk and variability to the Council's funding.



Under this government policy a proportion of NDR income is retained by district and county councils through a system of top-ups and tariffs. The remaining NDR income is centralised by government and distributed back to local authorities through the formula grant process, thus allowing the government to retain a proportion of business rates centrally to meet public expenditure targets. This formula grant element has previous specific grants “rolled into” it (eg. the council tax freeze grant and the homelessness prevention grant). Whilst the headline figures of this scheme quote a 40% share of NDR income retained by district councils, in reality this is not the case. The tariff system reduces the NDR income retained by South Holland to a “baseline funding” figure calculated by government which is actually around 12.5% of the overall NDR income collected by the Council.

As well as the potential for the authority to attract additional income through retained business rates there is also the risk of uncertainty through a reduction in the amount of business rates that it collects. One of the key areas of uncertainty relates to appeals against rateable values for business premises, with the potential for successful appeals being backdated for a number of years. The most significant risk to South Holland District Council relates to the two power stations, which are subject to a national valuation tribunal hearing that will affect all gas-fired power stations. The outcome of the appeal is that the Power stations do pay business rates so no refund is due. However appeals in respect of rateable values may have an ongoing detrimental impact on the business rates that the council is able to retain.

Any growth over and above the NDR income that Government has assumed for 2013-14 is shared between central and local government, with our local share equating to 20% of the total growth. Whilst in the first year we used the Government target figure for retained NDR, this year we have forecast collection amounts to set a budget for the amount the district council will retain. These forecasts are based on actual amounts collectable at October 2014 which are then adjusted for local knowledge (i.e. for appeals, charitable relief, etc) and uplifted by an inflationary increase to allow for the increase in NDR multiplier each year. The budget announcement there are plans to retain 100% of business rates locally, with the thought of RSG reducing to zero.

It is likely that Revenue Support Grant will continue to be reduced over the coming years, as greater emphasis is placed on generating business rates growth and increasing the tax base through encouraging the development of additional homes and bringing privately owned empty homes back into use.

The table below shows the estimated level of budgeted central grants excluding RSG receipts

<b>Financing</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Local Government Settlement NNDR Baseline	(3,037)	(3,160)	(3,273)	(3,391)	(3,391)
Retained NNDR income and S31 Grant	(932)	(984)	(982)	(1,004)	(1,004)
Community Right to bid and challenge	(16)	-	-	-	-
New Homes Bonus Grant	(1,362)	(1,640)	(1,573)	(1,665)	(1,791)
Town and Parish Councils	(640)	(653)	(666)	(679)	(692)
Council Tax Freeze Grant	(47)	-	-	-	-
<b>Spalding Special Expenses</b>	(195)	(196)	(197)	(198)	(198)
<b>Share of Collection Fund Deficit/(Surplus)-NNDR</b>	272	960	-	-	-
<b>Share of Collection Fund Deficit/(Surplus)-C Tax</b>	(75)	-	-	-	-
	<b>(6,032)</b>	<b>(5,673)</b>	<b>(6,691)</b>	<b>(6,937)</b>	<b>(7,076)</b>

A number of specific grants have been rolled into the Revenue Support Grant (RSG) and Business Rates Baseline Funding. The funding assumptions used in the medium term plan for future years beyond the Local Government Settlement are based on the Local Government Association’s (LGA) modelling tool.

The New Homes Bonus scheme commenced in April 2011 and for 2015-16, South Holland's allocation will be £1.362m and forecast to be £1.640m in 2016-17. This scheme is designed to provide incentives and rewards for councils and communities who build houses in their area. This is modelled to increase by net stock additions in 16-17, but details of the scheme are subject to consultation so estimates may change when full details of proposed changes are known.

Annual grant allocations will be transferred to the Council Tax Reserve for one-off schemes and projects, and will not be used to support the base budget.

## **5. Collection Fund**

Each year the Council is required to calculate the balance on its Collection Fund. In the current difficult economic climate, the Medium Term Plan target is to have a minimal balance on the Collection Fund, forecasting a zero balance in future years. Figures indicate an NNDR deficit of £960k (£272k 2015-16) and a nil (£75k 2016-17) surplus for council tax and a zero balance in future years. The Collection Fund is currently being reviewed to inform Quarter three and estimate setting for 2016-17.

## **6. Tax Base**

Delegated authority has been given to the S151 Officer to approve the tax base, as legally the tax base can only be set in the window 1 December to 31 January. This is in progress and estimates may change when the activity is complete.

2015-16 was the final year the Council paid grants to parishes as part of the transitional arrangements for implementing the local Council Tax Reduction Scheme.

The tax base for all parishes will be included in the Council Tax Setting report, to be approved at Full Council in February 2016.

## **7. Other Budget Assumptions**

The budget estimates and Medium Term Plan cover the period 2016-17 to 2019-20. Over this timescale it is important that we make realistic assumptions as to how costs rise or fall. This section details the key assumptions made.

The key assumptions used are:

- Revenue budgets will be used to deliver services during the year for which they are approved.
- There will be allowance for unavoidable growth on services (i.e. new statutory obligations and contractual inflation) but will not allow for any increase for general inflation.
- Estimates are prepared on the understanding that appropriate service budgets were produced for the previous year (2015-16) which will then be adjusted to reflect the changing financial circumstances that the public sector is required to prepare for.
- Where service delivery is dependent on a specific grant we will only assume continuation of the grant and expenditure where such notification has been received.
- Council tax levels reduced by approximately 0.5% in 2015-16 set to increase by 1.99% (2016-17) 1.98% (2017-18), 2% (2018-19) 1.98% (2019-20).
- Details on the grant settlement and assumptions made are shown in section 4.

The key assumptions made for the setting of these budget estimates, which influence the four year financial plan are as follows:

	2015-16	2016-17	2017/18	2018/19	2019/20
RPI	2.9%	<b>2.2%</b>	3%	3.2%	3.2%
National pay increase	1%	1%	1%	1%	1%
Staffing Salary Level	98%	96.5%	96.5%	96.5%	96.5%
Pension contribution rate (excluding lump sum)	17.5%	17.5%	17.5%	17.5%	17.5%
Tax base	25,767	26,329	26,633	26,932	27,238
<b>Council Tax</b>	<b>154.84</b>	<b>157.92</b>	<b>161.04</b>	<b>164.26</b>	<b>167.52</b>

## **8. Future Developments**

The Universal Credit is due to be rolled out before March 2016 as part of a package of measures under the Welfare Reform Act. It will change the way that benefits (including Housing Benefits delivered by local authorities) are administered. It is not yet clear what role local authorities will have in this administration, or what the financial consequences will be. This implementation will occur in 4 tranches. While it has been confirmed that South Holland will not be in the first tranche, it is not clear when the changes are likely to impact the district.

## **9. Strategy, Aspirations and Forward Projections**

The Council's Medium Term Financial Strategy is shown below:

- To manage a budget process that will make progress in re-directing and focusing the budget on corporate priorities and in so doing, recognise the intrinsic link between this strategy, the Capital Strategy, and the Treasury Management Strategy.
- Adopt a corporate approach to budget preparation and continue to provide strong timely budget control.
- Use sound modern financial systems procedures and principles and promote electronic record keeping and approval processes. Ensure financial performance reporting remains integrated with financial reporting and business planning.
- Ensure there is a rigorous scrutiny of the financial planning process and work towards a more effective consultation process to engage the public and stakeholders.
- Maintain balances and reserves that will provide for known risks and liabilities and provide capacity for managing peaks in expenditure.
- Operate strategies on capital and external funding that supports the Council's corporate objectives.
- Undertake a risk assessment of material items of income and expenditure and report the risks to Members as part of the budget setting process
- Manage and use our resources to deliver value for money and better sustainable outcomes and efficiencies for local people.
- Set realistic targets for trading accounts and if services fail to achieve these they will be subject to a more fundamental review.
- Aim for a minimum balance on the Collection Fund.

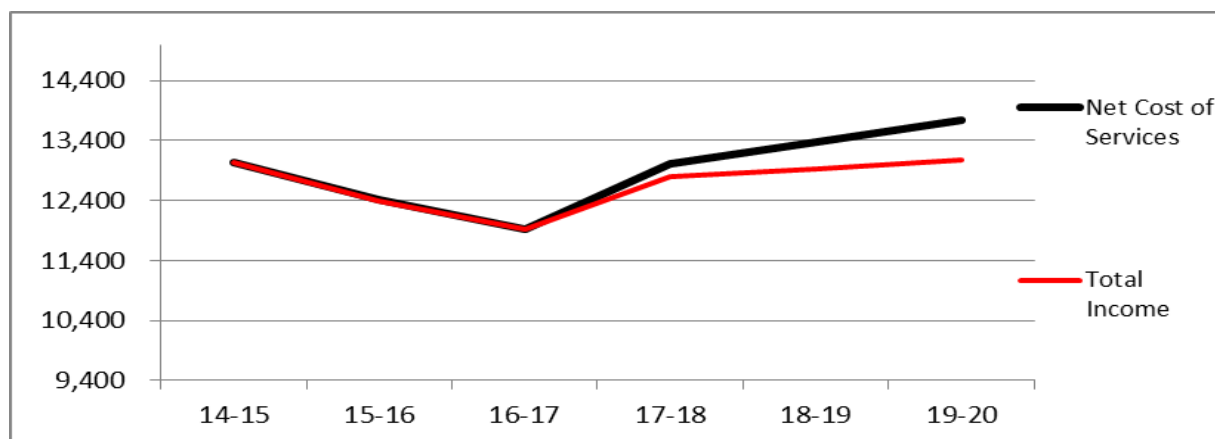
- Prepare robust and realistic income and resource requirement plans for the next five years.
- Promote take up of benefits and reliefs.
- Maximise income collection.
- Recognise our role in the community throughout and beyond the period of economic hardship by providing assistance to individuals, groups and businesses.

A key aspect of the Council's strategy to cope with the financial challenges that it faces was the creation of Compass Point Business Services (East Coast) Ltd, (CPBS), a company jointly owned with East Lindsey District Council. This innovative development is designed to deliver greater efficiency in the provision of back office services. The company is established to provide Information Technology, Human Resources, Financial Services, Customer Services and Revenues and Benefits. It is projected to make savings totalling over £30m over a 10 year period, with South Holland's share being in excess of £10m.

These strategies will be achieved through the working practices set by the relevant departments. The effectiveness of these strategies and the underlying principles can be monitored by key outputs such as:

- Annual audit letter
- Financial plan
- Governance and Audit Committee reports
- Annual Governance Statement (AGS)
- Grants returns submitted to deadlines
- Governance and performance reports

The graph below shows the cost pressures increasing and government funding reducing over the medium term and the budget gap that is being filled by transformation opportunities.



NB: Net cost of services before Return on the organisational design investment

### **2015-16 Outturn**

A proactive approach to ensure reliance can be placed on the quarter 2 forecast has been adopted. In line with good practice this early assessment of the 2015-16 out turn will inform the reliance that can be placed on the baseline used for the 2016-17 estimates.

At September 2015 (Quarter Two) an estimated underspend of £176k for the General Fund has been forecast for 2015-16. In preparing the budgets for 2016-17 services have reflected the ongoing pressures and savings in their new budget estimates.

## **11. Budget Requirement and Forward Estimates**

Outline estimates through to 2019-20 are shown in **Appendix B**. In compiling these figures we have followed the assumptions shown in sections 4 and 7 of this report and made specific adjustments to service budgets as and where budget holders have advised of a change over the medium term.

In addition significant reductions in expenditure or increases in income will be required from 2017-18 onwards, to take account of the reductions in Government funding.

Work has been carried out to challenge budget costs in order to reduce both in-year and on-going base budgets without impacting on core service levels. However the Council will experience increasing inflationary pressures on core budgets and continuing reductions in government grant funding, as well as further uncertainty on business rates retention. These factors will require the Council to consider policy changes if it is to rise to the challenge and balance its budgets in the medium term. An efficiency and income generation programme is currently being developed to reduce the funding gap which will in turn underpin a sustainable financial position.

A number of potential schemes to generate savings and increased income have been explored at officer level. However these ideas and others will be examined further during budget consultation and beyond to determine Council's appetite to introduce such changes. Areas to consider which currently have a high level of spend or will require a greater review to reduce costs and provide services differently

- Consideration of fees and income policies (including Internal review and benchmarking exercise)
- Review of public owned assets including a strategic asset plan review
- Grants Review
- Alternative management models for key assets
- Further shared service opportunities
- Growth opportunities including generating income streams from asset ownership
- Green Waste and further waste opportunities
- Housing Growth Company

Spalding Special Expenses are a separate charge to the residents of Spalding for services provided in their town and are charged as a supplement to the main council tax. The Spalding Special Expenses budget for 2016-17 is estimated at £195,430 (2015-16 £195,000). The tax base used for 2016-17 is estimated at 8,460 (2015-16 8,443). The current Band D charge has been estimated at £23.10, with a 0% increase (2015-16 £23.10). This will increase in line with the council tax increase once the final tax base is known for the final draft. The last year of the council tax support grant was in 2015-16.

Detailed estimates are shown at **Appendix C**.

The Council's 2016-17 budget and forward estimates include amounts for Internal Drainage Boards (IDB). These are levies charged to the authority over which the council has little control and form part of the revenue budget. These have been set to freeze from 15-16 over the MTFP..

## **12. Fees and Charges**

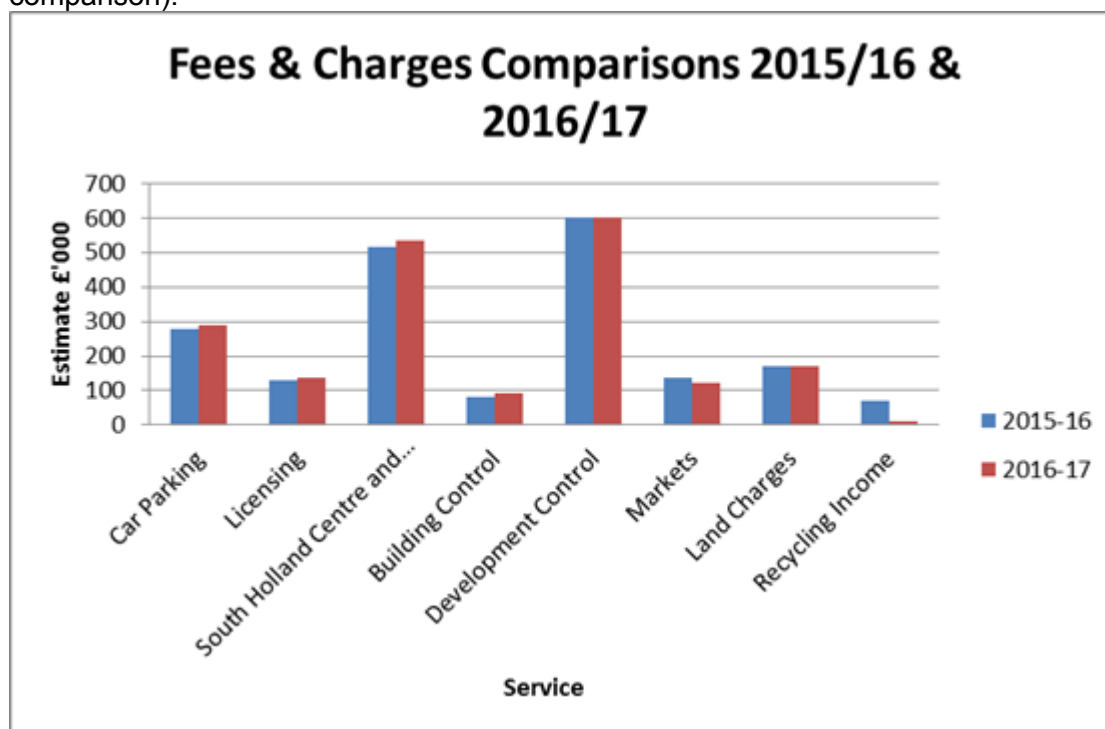
Income from fees and charges is an important source of revenue income for the Council. Charges have a central role to play in service delivery, raising income, controlling access, responding to competition, funding investment and affecting public behaviour.

As part of our overall income strategy we will seek to:

- Maximise the return from the Council’s asset holdings and continue to attract rental income by optimising the usage of office space at Priory Road.
- Ensure that the yield from fees and charges matches the increase in base budget for services that levy fees and charges, otherwise the shortfall will fall upon the Council Tax payer
- Annually review fees and charges for discretionary services
- Ensure that statutory charges are implemented
- Monitor compliance with the corporate charging policy and corporate debt policy
- Set targets for income collection and level of arrears and monitor performance against these targets.
- Treat windfall income as a corporate resource
- Use enforcement remedies effectively
- Seek to minimise benefit subsidy losses

Fees and charges have been reviewed and updated where necessary. Demand for services has also been reviewed and changes in demand have also been reflected in the budgeted level of fees and charges income. Appendix H outlines the proposals for fees and charges.

In total £3.530m (2015-16 £3.162m) is due from fees and charges in the 2016/17 budget. The chart below shows the main categories of budgeted fee income in 2016-17 (and 2015-16 for comparison).



The above table does not include trading income opportunities such as Welland Homes and Garden Waste.

### **13. Reserves and Balances**

In order to comply with the requirements of the Local Government Act 2003, the Council undertakes a review of the level of reserves as part of the annual budget preparation. It is

therefore a target of our medium term plan that a review of reserves is carried out and reported to Cabinet for consideration. The review includes analysis of current and future risk assessments, including an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements.

**Appendix D** outlines the position statement on reserve balances. The proposed budget does not require any long term support from reserve balances, however the challenging economic environment has required us to undertake a robust sensitivity analysis should these events require us to draw on balances. Whilst it is apparent these risks could be financially significant, SHDC reserves are at a reasonable level. Moving forward the General Fund balance stands at £2.023m, which is assessed to be a prudent at this time.

We also have a Council Tax reserve with a current balance of £5.298m at 31 March 2017, taking into account the New Homes Bonus for 2016-17 of £1.354m (£1.640m less a contribution of £286k to the budget). This is an important and relatively new revenue based funding source. The council has been prudent to date in seeking to strip out excessive costs in advance of applying any new funding, as a reserve it can be used to smooth out fluctuations and pressures on the General Fund. Continuation of this important source of funding policy is uncertain in the face of the forthcoming national election.

This table shows a summary of the estimated New Homes Bonus payments held within the Council Tax Reserve over the term of MTFS.

Entitlement	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Year 1	355	354	355	355	355	355			
Year 2		220	220	220	220	220	220		
Year 3			211	211	211	211	211	211	
Year 4				298	298	298	298	298	298
Year 5					278	278	278	278	278
Year 6						278	278	278	278
Year 7							288	288	288
year 8								312	312
year 9									337
<b>Total</b>	<b>355</b>	<b>574</b>	<b>786</b>	<b>1,084</b>	<b>1,362</b>	<b>1,640</b>	<b>1,573</b>	<b>1,665</b>	<b>1,791</b>
In year adjustments					(280)	(262)	(262)	(262)	(262)
Empty Homes Officer MRP adjustment Q2					(46)	(24)	(24)	(24)	(24)
Estimated total adjusted 16-17	355	574	786	1,084	694	1,354	1,287	1,379	1,505
Property acquisition Reserve				(1,000)					
<b>Reserve Balance</b>	<b>355</b>	<b>929</b>	<b>1,715</b>	<b>1,799</b>	<b>2,493</b>	<b>3,847</b>	<b>5,134</b>	<b>6,513</b>	<b>8,018</b>

The tables below give a summary of General Fund reserve movements:

General Fund Working Balance	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000	19-20 £'000
<b>Brought forward</b>	<b>2,023</b>	<b>2,023</b>	<b>2,023</b>	<b>2,023</b>	<b>2,023</b>
<b>In</b>	-	-	-	-	-
<b>Out</b>	-	-	-	-	-
<b>Carried forward</b>	<b>2,023</b>	<b>2,023</b>	<b>2,023</b>	<b>2,023</b>	<b>2,023</b>

General Fund Specific Reserves (including Spalding Special Expenses)	15-16	16-17	17-18	18-19	19-20
	£'000	£'000	£'000	£'000	£'000
<b>Brought forward</b>	9,274	7,717	8,357	10,313	12,695
<b>In</b>	1,236	1,950	2,145	2,553	3,094
<b>Out</b>	(2,793)	(1,310)	(189)	(171)	(111)
<b>Carried forward</b>	7,717	8,357	10,313	12,695	15,678

These are the observations from the review of reserves for the 2016/17 budget:

- The general fund balance at 1 April 2015 is £2.023m. This represents approximately 16.96% of the Council's net budget requirement and is adequate for the Council's purposes.
- Transfers to Reserves include an annual contribution of £136k to the Replacement and Refurbishment Reserve to assist the Council in maintaining its asset base. For 2016-17 contributions from the repairs and renewals reserve stand at £254k and accelerated RSG receipts £428k.
- The Planning Reserve is to be used to deliver the Local Development Framework and fund additional temporary posts £95K.
- All New Homes Bonus Scheme grant received, excluding £286k per annum over the period of the Medium Term Financial Plan has been taken into the Council Tax Reserve, other than amounts approved as one off in year.
- An amount of £960k (2016-17) has been transferred from the council tax reserve to smooth the South Holland share of the collection fund nndr deficit.

In setting the level of General Balances, consideration has been given to the adequacy of financial control, the overall financial position, medium-term financial plans and the strategic, operational and financial risks facing the Council. Following this review, it is proposed that the General Fund remains set at a minimum level of £2 m.

## HRA

Summary of Reserves is shown below

Housing Revenue Account Reserves	Total £000's
Cumulative Working Balance	8,968
Budget 2015-16	(147)
Rollover of capital programme from 2014-15 approved	(244)
<b>Forecast outturn variance</b>	<b>391</b>
<b>Forecast balance on the HRA at 31.3.16</b>	<b>8,968</b>
Insurance Reserve	200
Major Repairs Reserve	2,409
<b>Total HRA reserves at 31.3.16</b>	<b>11,577</b>



The £2,409k balance shown in the Major Repairs Reserve is in respect of the Affordable Housing Programme.

#### **14. Risk, Key Issues, Sensitivity and Monitoring**

The Council must set a budget which is a realistic statement of its estimated income and expenditure for the coming year, based upon information currently available. The Council has a duty to take into account the demand for its services and the effect on council tax payers of meeting those demands at varying levels of services. Given the good management practices and sound financial and performance monitoring delivered in the past, the Council has the platform and expertise to deliver a balanced budget.

The following table details the key risks and issues identified and how we intend to treat them.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Action</b>
Reduced public sector funding from Central Government	High	High	Keep up to date with developments and make prudent budget assumptions.
Low income levels from fees and charges	Medium	Medium	Revise spending plans
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification
Business rates retention proposals leave Council exposed to economic fluctuations and rating appeals	Medium	High	Monitor developments & set aside appropriate reserves and provisions to help with potential initial pressures and fluctuations
Pension fund deficit	Medium	Medium	Close links with LCC pension fund Increased contributions following triennial review
Additional bad debts as a result of economic circumstances	Medium	Medium	Pro-active debt management and pre-pay fee policies
Increased maintenance costs of ageing physical assets	Medium	Medium	Asset management plan. Pro-active rather than reactive maintenance programme
Inflation rises by more than budgeted projections	Medium	Medium	Budget assumptions kept up to date with most recent projections
Diminishing capital resources will mean that borrowing will be required at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement. A radical review of the capital programme and wish list will be undertaken to inform the final budget. Utilise S106 funding and revenue reserves where appropriate
Compass Point Business Services may be unable to deliver an effective service within the agreed reduced contract price.	Low	Medium	Reviewing Service Level Agreements, activity levels and service priorities
Recycling credit income	High	High	Recycling credit income has ceased. This has not been estimated in the base budget for

			2016-17
Garden Waste	High	High	A new one year pilot has been introduced in 16-17. A report will go to Cabinet in Oct 2016 to determine if the scheme will continue
Waste Supplementary Services			Lincolnshire County Council may not provide the service and therefore it has not been included in the 2016-17 base budget
Court Income	High	Low	Court income projections are considerably increased following welfare reforms. However the budget has not been increased due to concerns over collectability of this income. A year-end review will be undertaken to inform future year's budgets.
Housing Benefit Overpayments	High	High	The level of Housing Benefit Overpayments and their recoverability needs to be monitored closely through the year in order to ensure budget levels are appropriate.
Universal Credit	High	Medium	The implementation of the Universal credit may impact on the General Fund both in terms of running costs for the Benefits service and additional demand on other council services. This will be closely monitored.
Increased risk that liability insurance premiums will increase	Medium	Low	Prepare to go to the market again if premiums exceed market trends.

### **15. Consultation, Timetable and Links to Other Strategies**

The budget will be put out to consultation on the website and commentary invited from council tax payers, business rate payers and key stakeholders

It is important to have clear and agreed timetables for the budget process so that statutory requirements are met. Each year a timetable will be agreed with Corporate Management Team prior to the start of the process (i.e. around July each year).

The Council has adopted a corporate risk management strategy and financial risk management is integrated into the Council's overall management and decision making processes. This ensures a robust and well integrated risk management programme, which will help the Council to identify and manage key strategic risks facing it, in pursuit of its corporate objectives.

A Performance Framework has been developed to manage delivery of the new priorities described in the Council's Corporate Plan. The annual business planning process will run

alongside the budget setting process to ensure an integrated approach of performance and finance.

## **16. Capital Strategy and General Fund Capital Estimates**

### **General Fund**

The Council's Capital Strategy is shown in Appendix F and this is currently being examined and will change for the final budget report . This focuses on the core principles that underpin capital investment.

The development of a robust five year capital programme is constrained by the level of available resources that the Council has at its disposal.

The existing capital programme (Appendix E) has been amended to reflect revised profiling and scheme estimates. A high level summary and associated financing is shown below.

Expenditure in respect of Property acquisition (Funded from New Homes Bonus) and investments in income generating assets (funded from the Growth Fund) have been added to the programme. This activity will be examined further in conjunction with the Welland Homes business plan and estimates may change when this work is complete.

<b>Capital Programme by Department</b>	<b>15-16 Original Budget £'000</b>	<b>16-17 £'000</b>	<b>17-18 £'000</b>	<b>18-19 £'000</b>	<b>19-20 £'000</b>
Assets and Property	60		167		
Community Development	60				
Environmental Services	132				
Environmental Health	-				
Economic Development	667	1,428	698	1,014	1,429
Housing	1,001	400	400	400	400
ICT	359				
<b>Total</b>	<b>2,279</b>	<b>828</b>	<b>1,265</b>	<b>1,414</b>	<b>1,829</b>

<b>Financing</b>	<b>15-16 Original Budget £'000</b>	<b>16-17 £'000</b>	<b>17-18 £'000</b>	<b>18-19 £'000</b>	<b>19-20 £'000</b>
Borrowing					
Capital Receipts	489		167		
Capital Grants and Contributions	1,041	400	400	400	400
Replacement and Refurbishment Reserve					
Direct Revenue Financing	749	1,428	698	1,014	1,429
<b>Total</b>	<b>2,279</b>	<b>828</b>	<b>1,265</b>	<b>1,414</b>	<b>1,829</b>

As part of the 2016-17 budget process Service Managers were asked to submit new bids for essential schemes to be incorporated into the Capital Programme over the next five years. Each scheme is supported by a capital bid form, formulated where appropriate after the consideration of options. The cash flow implications of all schemes and the impact on revenue

need careful consideration before new schemes are incorporated within the capital programme. The joint preparation of both a capital and revenue budget should ensure a sustainable position for the Council. 4 bids were received in year and these were not carried forward as they related to building maintenance and will be subject to review when all buildings are reviewed as part of the moving forward transformation programme

The current programme includes budget and funding for providing grants for carrying out disabled adaptations to properties. With the introduction of the Better Care Fund to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people involving the NHS and local authorities it is likely that the current system of disabled facilities grants will fundamentally change from 2015-16 with pooled budgets being introduced. The capital programme continues to recognise these schemes based on the current arrangement; however this will need to change once local plans affecting South Holland's residents are drawn up and adopted.

The HRA summary programme is shown in Appendix F and detailed programmes are in progress. Estimates may change when this work is complete.

The programme includes Affordable Housing new Build and Purchase in order to replace lost rent from increase right to buy sales. £2.3m in 2016/17 and £11.8m during the period of the MTFP

## **17. Treasury Management Policy and Investment Strategy**

The Treasury Management Policy and Investment Strategy (Appendix G-to follow further in the process) pulls together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.

The Treasury Management Strategy covers two main areas:

- Capital plans and associated Capital Prudential Indicators
- Treasury management issues including borrowing and investment strategies and associated Treasury Prudential Indicators.

No major changes are proposed to the Treasury Management Policy. The investment strategy may be updated in the light of the low returns on investments and the opportunities that may arise as a result of the proposed new housing development company. It is proposed that the temporary delegation for the property investment fund is absorbed as an integral element of the budget framework.

Investment income will continue to be generated from cash balances but also from commercial loans to Welland Homes and any potential receipts of RSG not included in the base budget and assigned to a growth fund.