Appendix A

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 the annual budget report to Council having previously been subject to a separate report, following scrutiny, to Governance and Audit Committee.

1. Revenue Summary

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
Contribution from Operations	**(8,699)**	**(7,922)**	**(6,997)**
Financing	2,298	2,310	2,285
Capital Contribution	4,268	5,612	4,712
(Surplus / Deficit)	**(2,133)**	**0**	**0**

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

2. 2016-17 Estimates

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
Total Income	**(16,719)**	**(16,261)**	**458**
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
Total Expenditure	**8,797**	**9,264**	**467**
Contribution from Operations	**(7,922)**	**(6,997)**	**925**
Financing charges	2,310	2,285	(25)
Revenue Contributions (RCCO)	5,612	4,712	(900)
Housing Subsidy			
Net operating (Surplus) / Deficit	**0**	**0**	**0**

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 currently 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 8th 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 8th 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. 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.

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%	**2.2%**	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%

5. 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.

6. 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 3 and 4 of this report and made specific adjustments to service budgets as and where budget holders have advised of a change over the medium term.

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.

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

- Alternative management models for key assets
- Further shared service opportunities
- Growth opportunities including generating income streams from asset ownership
- Housing Growth Company

7. 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.

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)
Forecast outturn variance	**391**
Forecast balance on the HRA at 31.3.16	**8,968**
Insurance Reserve	200
Major Repairs Reserve	2,409

Total HRA reserves at 31.3.16	11,577

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

8. 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.

Risk	Likelihood	Impact	Action
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.

9. 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.

10. Capital Strategy

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

11. 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.