

## SOUTH HOLLAND DISTRICT COUNCIL

**Report of:** Portfolio Holder for Finance and the Executive Director – Commercialisation (S151 officer)

**To:** Cabinet – 16 February 2016

**Author:** Ken Trotter – (Interim Chief Accountant)

**Subject:** Draft Budget, Medium Term Plan and Capital Strategy

**Purpose:** To consider the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy and release for consultation.

### **Recommendations to Full Council:**

- 1) That the revenue estimates for the General Fund, Housing Revenue Account and Spalding special expenses for 2016-17 and outline position through to 2019-20 (as set out in appendices A, B and C) are approved.
- 2) That the rent setting for social housing be delayed until receipt of a national rent policy, as defined in the Welfare reform & Work Act 2016, is received from government.
- 3) The fees and charges shown in appendix H for adoption 1 April 2016 are approved
- 4) The Council Tax for a Band A property in 2016-17 be set at £106.56, a £3.33 per annum increase on 2015-16 levels (Band D £159.84, a £5 per annum increase on 2015-16 levels)
- 5) The Spalding special expense for a Band A property be set at £15.40, no change on 2015/16 levels (Band D £23.10, no change on 2015/16 levels)
- 6) The medium term financial plan (Appendices A and B) is approved
- 7) The Council delegates to the s151 officer the authority to apply for the four year settlement from central Government when all relevant information is available.
- 8) The capital strategy and capital programme (Appendices E and F) is approved
- 9) The Treasury Management strategy, including the Minimum Revenue Provision policy and annual investment strategy in appendix G is approved
- 10) The release of budget as shown in the capital programme for Economic Development from investment and growth funds is delegated to the S151 Officer in consultation with the Portfolio Holder for Finance to jointly approve projects on receipt of detailed and appropriate business cases which generate an agreed ongoing return and contribute to council objectives.

### **1.0 BACKGROUND**

- 1.1 The appendices to this report outline the 2016-17 revenue and capital estimates for the General Fund, the proposals for the setting of discretionary fees and charges, the outline position to 2019-20, the medium term financial plan and the capital strategy. The medium term financial plan sets out the framework within which the budget is to be set to ensure that it enables the Council to achieve its corporate objectives. The capital strategy sets out the framework for the capital budget setting.

- 1.2 During 2015/16 the Council has continued to suffer financial pressures in various services due to public sector funding reductions and continuing low returns on cash deposits.
- 1.3 The challenges have been met as a result of the prudent financial management of the council and innovative income generation. Following on from this the MTFP has been positioned to secure a sustainable financial future across the medium term with no dependency on reserves. This position will give the Council time to develop a clear financial strategy in the longer term after delivery of the more complex transformational changes included in the Moving Forward Programme.
- 1.4 This complex change has already started with the recent approval of the transformation programme, identification of projects and the engagement of various committees. Some changes have been delivered early, with accelerated savings, in respect of the integration of Housing services and financial re-engineering of the Minimum Revenue Provision in 2015/16. Introduction of a Garden waste collection scheme has also been agreed for 2016/17.
- 1.5 This draft budget includes the principal of reducing reliance on RSG and provides funding for an investment & Growth fund to deliver on-going revenue income streams over the medium term. Reducing the reliance on uncertain sources of funding will make the council a more stable organisation, better able to deliver services to residents with more certainty in the longer term supporting the move towards 100% local taxation during the life of this Parliament.
- 1.6 In 2015/16 £1.1m of funding was agreed and set aside to provide up-front investment for the transformation programme, which is in progress and no further funding requirements have been identified at this stage.

## 2.0 **OPTIONS**

- 2.1 That the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy are recommended to Council for approval.
- 2.2 There are no alternative options presented, however amendments may be made by Cabinet before release to Council.

## 3.0 **REASONS FOR RECOMMENDATION**

- 3.1 To comply with the budgetary and policy framework.

## 4.0 **EXPECTED BENEFITS**

- 4.1 To set an affordable and balanced budget for 2016-17 that ensures delivery of the priorities of the Council

## 5.0 **Financial**

- 5.1.1 The report is of a financial nature and further financial details are included within the appendices.
- 5.1.2 The 2015/16 Medium Term Financial Plan identified a budget gap of £1,712,000 by 2018/19 for the General Fund

- 5.1.3 This budget gap was examined in the current budget setting cycle and the revised position after 2015/16 initiatives & service adjustments shows the gap reducing to £357,000 in 2019/20 before the impact of the prudent approach to reducing reliance on the Revenue Support Grant (RSG) from central government.
- 5.1.4 An assessment of the 2015-16 out turn has been revised and presented as part of the Quarter 3 monitoring report. This will inform the reliance placed on the baseline used for setting the 2016-17 estimates. Based on the position at the 31 December 2015, various pressures, transformation items and efficiencies have been identified, forecasting a small below budget out-turn as an overall result. Recurring savings and one-off efficiencies are proposed to be used to offset Medium term budget pressures in respect of the impact of the Minimum Revenue Provision (MRP) policy which in turn will, allow time for the Moving Forward transformation programme to grow. Ongoing efficiencies and recurring savings have been reflected in the medium term plan. The Council will continue to review the financial performance of its services throughout the year and identify accelerated savings wherever possible.
- 5.1.5 Budget options allowing a balanced position to be forecast in the medium term are identified and examined in appendix A.

All options were examined at a Joint Performance Monitoring Panel and Policy Development Panel meeting on the 14<sup>th</sup> December 2015 and it was agreed “*The following proposals for closing the £320,000 Medium Term Financial Plan General Fund budget gap were supported: Council tax Increase £81,000; Council tax Base £90,000 (measured Dec 2015); Welland Homes £50,000 (Interest payments); Salaries drag factor £40,000; European Grant administration fee £25,000; and Drainage Board levy freeze £34,000*”

	2016-17	2017-18	2018-19	2019-20
	£'000	£'000	£'000	£'000
<b>2015/16 MTFP</b>	<b>645</b>	<b>876</b>	<b>1712</b>	<b>1712</b>
RSG Model adjustment	(282)	(424)	(592)	(450)
Unavoidable growth	184	122	122	122
Investment income	122	153	112	112
Welland Homes	417	512	138	138
Zero Based Review	(376)	(414)	(589)	(602)
Accelerated Savings	(384)	(384)	(384)	(384)
New Service – Garden Waste	(49)	(43)	(5)	(5)
MRP adjustment	(250)	(259)	(286)	(286)
<b>Where We Are</b>	<b>27</b>	<b>139</b>	<b>228</b>	<b>357</b>
RSG Reliance Reduction	428	698	1,014	1,429
Assets Benefitting the Community	(135)	(155)	(175)	(195)
<b>Where we are Heading</b>	<b>320</b>	<b>682</b>	<b>1067</b>	<b>1591</b>
<b>Budget Options</b>	<b>(320)</b>	<b>(682)</b>	<b>(1,067)</b>	<b>(1,591)</b>
<b>Where we need to be</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**NB:** 2019/20 has an assumed starting position as it was not in the 2015/16 MTFP

- 5.1.6 Only a small amount of the Local Government Settlement is now received in the form of Revenue Support Grant (RSG). From 1 April 2013 a new model is in use which is geared towards the local raising of funds and for 2016/17 looks at the core spending power of the Council. Changes to schemes in respect of non-domestic rates and localised council tax reduction have brought a greater degree of risk and variability to the Council’s funding. The budget presented for approval is in line with the Local Government Settlement issued in February 2016. Reliance on RSG in the medium term is reduced to Nil by 2019/20.

- 5.1.7 Unavoidable growth is in respect of a 1% salary increase, staff increments and an increase in National Health Insurance contributions due to changes in legislation in respect of Pension contributions
- 5.1.8 Investment income was based on increases in investment returns which have not been available during 2015/16 and this causes a reduction in the overall budget. Projected balances and revised investment returns are examined further in appendix A.
- 5.1.9 The establishment of Welland Homes is essentially complete and a board of directors appointed. However assumptions in the original business plan have been examined and a revised plan is presented in appendix A. A detailed revision of the business plan is in progress and this will also examine a development management role for Welland Homes in respect of the planned HRA affordable housing programme
- 5.1.10 A zero based review has been carried out on all major budgets and cost reductions / increased income projections agreed with Budget holders. These were reflected in 2014/15 & 2015/16 monitoring reports.
- 5.1.11 Accelerated savings are shown in detail in the 2015/16 Quarter 3 financial forecast out turn report. These reflect a revised approach to the operation of the Housing Revenue Account which has also been examined and a revised strengthened position shown below.
- 5.1.12 A pilot scheme in respect of kerbside garden waste collection was approved by cabinet on 10<sup>th</sup> November 2015 and financial implications included in the report on the scheme have been incorporated into the base budget as appropriate.
- 5.1.13 Changes to the MRP position are also included, in detail, in the 2015/16 Quarter 3 financial forecast out turn report.
- 5.1.14 A separate report to Council in respect of a change of use of Garages and car parking spaces for rent which are currently managed within the HRA has been included on the agenda for the February 2016 cabinet. Recommendations in respect of re-designating these as assets which benefit the wider community and the financial implications of appropriating them to the general fund are included in the report.
- 5.1.15 The 2015/16 report on the budget for the HRA did not specifically show the MTFP and highlighted a deficit of £147k for the current year. This deficit was increased to £391k following approval for carry forward of £244k of capital expenditure in June 2015. Details of the revised strengthened position are included in the 2015/16 Quarter 3 financial forecast out turn report.
- 5.1.16 HRA general balance is projected at £8,968,000 with £2,000,000 considered to be a reasonable level consistent with the risks on the service. The MTFP therefore includes a balanced budget for the period which includes approx. £11,783,000 for a proposed Affordable Housing programme to replace lost rent from Right to buy sales and changes planned in the National Rent policy. In addition £2,409,000 has been proposed to be transferred to the major repairs reserve in 2015/16 to support this programme in respect of timing differences on funding and potential acceleration of the programme by purchasing rather than building dwellings.
- 5.1.17 Use of reserves in the HRA is to be considered in 2017/18 as details of the potential for dwelling purchase and New Build properties emerge. The HRA also has the capacity to borrow up to a limit of £74,701,000 which was introduced as part of the self financing regime set up in March 2012 (Current Borrowing £67,456,000).

- 5.1.18 Additional options were also examined at the Joint Performance Monitoring Panel and Policy Development Panel meeting on the 14<sup>th</sup> December 2015 with a view to identify further potential savings and it was agreed *“In principle, the following opportunities should be explored to identify potential savings in future years: Earmarked reserves; Organisation design (develop and deliver Transformation); General Fund Services and HRA Services amalgamation; Council Tax Relief Scheme; Compass Point Business Services; Financial Settlement (potential threat also); HRA Rent Policy; HRA Affordable Housing Programme and Welland Homes”*
- 5.1.19 The local government settlement was received on the 9<sup>th</sup> February 2016 and all financial implications have been examined and included in this report. Two main changes occurred between the draft and final versions of the settlement.
- 5.1.20 A rural service delivery grant was announced in the draft settlement with a national budget of £20m. This was increased to £80.5 million in the final settlement and the council share is £158,000 for 2016/17.
- 5.1.21 Council tax increases are subject to local referendum regulations and the draft settlement included a provision for district councils in the lower quartile for the Band D charge to charge £5 or 2% whichever was greater without triggering a referendum. The council did not qualify for this facility at the time but the final settlement extended this facility to all district councils and the £5 per annum increase is included in the 2016/17 budget.
- 5.1.22 Government have also made an offer of a 4 year to all councils based on a core spending revenue carried out as part of the settlement. This offer has conditions but full details have not yet been released. It has been stated however that spending plans and associated savings targets will be examined as part of the application process for any council taking this option. The offer will provide certainty for the period in respect of RSG, Baseline income for NNDR & the Rural Grant but not the current allocations of New Homes Bonus until a separate consultation running until the 10<sup>th</sup> March 2016 is concluded. Access to the enhanced local referendum regulations for the full 4 years will also be available and the medium term financial forecast is based on a £5 per annum increase for this period. For these reasons it is recommended that the council apply to accept the 4 year settlement before the submission deadline of Friday 14<sup>th</sup> October 2016.

## 6.0 Risk Management

6.1 Risks are highlighted within the appendix.

## 7.0 WARDS/COMMUNITIES AFFECTED

7.1 Budget implications affect all wards.

## 8.0 ACRONYMS

<b>GF</b>	General Fund
<b>CSR</b>	Comprehensive Spending Review
<b>DCLG</b>	Department for Communities & Local Government
<b>CTRS</b>	Council Tax Reduction Scheme
<b>NHB</b>	New Homes Bonus
<b>NNDR</b>	National Non Domestic Rates (Business Rates)
<b>RSG</b>	Revenue Support Grant
<b>S31</b>	Section 31
<b>VFM</b>	Value for Money
<b>HRA</b>	Housing Revenue account

<b>CFR</b>	Capital financing Requirement
<b>MRP</b>	Minimum Revenue Provision
<b>CPBS</b>	Compass Point Business Services
<b>RTB</b>	Right to Buy
<b>ICT</b>	Information and communications technology
<b>MTFP</b>	Medium Term Financial Plan

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Background papers:- None

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**Key Decision:** No

**Exempt Decision:** No

**This report refers both Mandatory Service and Discretionary Services**

**Appendices attached to this report:**

Appendix A	Budget estimates and medium term financial plan
Appendix B	Budget Summary 2016/17
Appendix C	Spalding Special Expenses
Appendix D	Reserves
Appendix E	Capital estimates
Appendix F	Capital strategy
Appendix G	Treasury Strategy
Appendix H	Fees & Charges