Appendix A

Draft Budget 2017-18 and Medium Term Financial Plan 2017-18 to 2020-21.

1. Introduction

1.1 This appendix is the combined budget estimates and Medium Term Financial Plan (MTFP) 2017-18 for the Council's General Fund and Housing Revenue Account. The Medium Term Plan sets out the current and forecast future costs of the Council and is linked to the Corporate Plan, which sets out the aims and ambitions of the Council, agreed with our partners:

- To be a financially independent Council and free of reliance on Government Funding by 2019-20,
- To transform Council Serices through the Moving Forward Programme to:
    - generate additional revenue streams via ***commercial activities*** (Welland Homes, Garden Waste), ***investment assets*** (Investment and Growth reserve, Holbeach Food Enterprise Zone), and ***economic and housing growth*** (Investment & Growth reserve) and
    - invest in service improvements to improve value for money through ***Digitalisation*** (online payments, improvements in ICT), ***partnership and collaboration*** (Co-location, Breckland District Council, Directorate of Works and Pensions and Priory Road project) and ***organisational design*** (10% reduction in costs over 4 years)

1.2 The MTFP 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 and includes both the General Fund and the Housing Revenue Account Budget.

1.3 This Appendix sets out

- The Council's Medium Term Financial Strategy,
- The 2017-18 General Fund Revenue Budget & Financing,
- The General Fund Reserves Position,
- The General Fund Capital Programme and Financing,
- The 2017-18 Housing Revenue Account (HRA) Revenue Budget,
- The HRA Reserves Position,
- The HRA Capital Programme and Financing,
- Risks, key issues, sensitivity and monitoring,
- Consultation, timetable and links to other strategies, and
- Treasury management policy and investment strategy.

2. Medium Term Financial Strategy

2.1 Strategy, Aspirations and Forward Projections

2.1.1 The Council's Medium Term Financial Strategy is 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 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, and
- recognise our role in the community throughout and beyond the period of economic hardship by providing assistance to individuals, groups and businesses.

2.1.2 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.

2.1.3 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, and
- Governance and performance reports.

2.2 Budget principles:

2.2.1 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, and
- Ensure that estimates are prepared to reflect corporate priorities.

Key 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.
- Controllable expenditure is defined as expenditure on employees, premises (excluding business rates), transport and supplies and services - but excluding internal recharges.
- There will be no allowance for inflation, unless contractual or related to salaries.
- We 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 2017-18 budget will be formally approved, future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

2.3 Budget Requirement and Forward Estimates

2.3.1 Outline estimates through to 2020-21 are shown in **Appendix B**. In compiling these figures we have followed the assumptions included in 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.

2.3.2 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. The Council's Transformational Moving Forward Proramme, an efficiency and income generation programme, is currently in progress and estimates include benefits from this activity which will in turn underpin a sustainable financial position in the longer term.

2.3.3 As part of the Moving Forward Programme, a number of potential schemes to generate savings and increased income have been explored at officer level. Areas being considered which currently have a high level of spend or will require a greater review to reduce costs and provide services differently include:

- 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, and
- Welland Homes.

3. General Fund Budget & Financing 2017-18

3.1 External Financing – 2017-18 Provisional Settlement

3.1.1 Background

In response to the 2016-17 Local Government Finance Settlement, the Council successfully applied for the Government's four year Local Government Finance Settlement offer, using the Moving Forward programme as the basis of the efficiency plan.

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, since 1 April 2013 we have been increasingly 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.

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 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.

3.1.2 Revenue Support Grant (RSG)

The provisional Settlement consultation paper for 2017-18 was released on 15 December 2016. The value of the four year settlement has not changed so there is no impact compared to the budget set last year. The values for RSG included in the budget remain the same at:

Financial Year	RSG Receivable £000
2016-17 (for information)	(1,666)
2017-18	(1,072)
2018-19	(693)
2019-20	(271)
2020-21	Nil

3.1.3 New Homes Bonus (NHB)

The consultation includes a number of changes to New Homes Bonus:

- A reduction in the number of years payments are made from 6 years to 5 years in 2017-18 and then to 4 years from 2018-19 (for existing and future years allocations),
- No payment will be made on housing growth below 0.4% of the council tax base in each year (and the government will retain the option of making adjustments to this 0.4% baseline in future to reflect significant and unexpected housing growth),
- From 2018-19 the Government will consider withholding NHB for homes built following an appeal, and
- No proposal to withhold payments for areas without a local plan in 2017-18.

The Council currently utilise £286k of New Homes Bonus to support the General Fund Budget each year with the balance invested through the Investment and Growth Reserve. The proposed changes in the draft settlement will reduce the amount contributed to the growth fund by £511k over the medium term, compared to the 2016-17 MTFP:

	Total NHB Receivable £000	To General Fund Budget £000	To Investment & Growth Reserve £000	Contribution to I&G in 2016-17 MTFP £000	Change £000
2017-18	(1,385)	(286)	(1,099)	(1,457)	**358**
2018-19	(1,103)	(286)	(817)	(809)	**(8)**
2019-20	(1,040)	(286)	(754)	(765)	**11**
2020-21	(901)	(286)	(615)	(765)	**150**
					511

3.1.4 Rural Services Delivery Grant (RSDG)

This grant is to remain and will be paid to the upper quartile of local authorities based on the super-sparsity indicator. The values confirmed in the 2017/18 Settlement agree to the indicative values provided in 2016. The amounts included within the draft budget are:

Financial Year	RSDG Receivable £000
2016-17 (for information)	(158)
2017-18	(128)
2018-19	(98)
2019-20	(128)
2020-21	(128)

3.1.5 Business Rates (NDR)

The recent revaluation exercise for business rates takes effect from 1 April 2017. This is a revenue neutral exercise nationally, however at a local level bills and income may rise or fall, dependent on the mix of businesses in an area. The Settlement includes a formula which aims to adjust local authorities income to ensure (as far as is practicable) that the retained income is the same after revaluation as immediately before.

3.1.6 Total Financing – 2016-17 to 2020-21

The table below shows the impact of the 2017-18 settlement within the overall financing of the authority:

Area	2016-17 Budget £'000	2017-18 Budget £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Financing					
Council Tax	*(4,240)*	(4,433)	(4,613)	(4,796)	(4,983)
Non Domestic Rates	*(3,734)*	(3,974)	(4,100)	(4,247)	(4,402)
Revenue Support Grant (RSG)	*(1,666)*	(1,072)	(693)	(271)	0
Rural Service Delivery Grant	*(158)*	(128)	(98)	(128)	(128)
New Homes Bonus Grant	*(1,734)*	(1,385)	(1,103)	(1,040)	(901)
Spalding Special Expenses	*(201)*	(204)	(204)	(206)	(206)
Town & Parish Councils	*(691)*	(713)	(728)	(743)	(758)
Collection Fund Deficit/(Surplus) - Non Domestic Rates	*970*	573	0	0	0
Collection Fund Deficit/(Surplus) - Council Tax	*(140)*	(61)	0	0	0
Total Financing	***(11,594)***	**(11,397)**	**(11,540**	**(11,432)**	**(11,378)**

3.2 Collection Fund

3.2.1 Each year the Council is required to calculate the balance on its Collection Fund.

3.2.2 Current estimates indicate a £61k surplus in 2017-18 for council tax and a zero balance in future years.

3.2.3 In addition there is an estimated Business Rates deficit of £573k in the 2017-18. This is as a result of a significant increase in the provision made for the power stations appeals (£2.7m) in 2016-17, as estimated by Analyse Local, which is included in full in the Collection Fund. This is partly offset by a reduced levy payment in 2016-17 which will be carried forward through the Council Tax Reserve to mitigate the impact of the deficit in 2017-18. Should these appeals be unsuccessful in future years, the provision would be reversed and the Collection Fund would result in a surplus, of which the Council would account for a 40% share.

3.3 Council Tax Base

3.3.1 Delegated authority was given to the S151 Officer to approve the tax base, as legally this must be set in the period 1 December to 31 January each financial year. The local Tax Base has now been revised to reflect:

- Changes to the baseline number of properties during 2016,
- The impact of the amended Local Council Tax Support Scheme, and
- Assumed growth.

3.3.2 The Council Tax base for 2017-18 is 26,892 properties, an increase of 361 properties over the final 2016-17 tax base giving additional income of approximately £44k.

3.4 Budget Summary 2017-18

3.4.1 The following table shows the headline financing figures relating to the budget estimates for 2017-18 compared to the 2016-17 position:

Description	2016-17 £'000	2017-18 £'000
Council Tax	(4,240)	(4,433)
Non Domestic Rates	(3,734)	(3,974)
Revenue Support Grant (RSG)	(1,666)	(1,072)
Rural Service Delivery Grant	(158)	(128)
New Homes Bonus Grant	(1,734)	(1,385)
Spalding Special Expenses	(201)	(204)
Town & Parish Councils	(691)	(713)
Collection Fund Deficit/(Surplus) - Non Domestic Rates	970	573
Collection Fund Deficit/(Surplus) - Council Tax	(140)	(61)
	(11,594)	**(11,397)**
Band D Charge	**£159.84**	**£164.84**
Tax Base	**26,531**	**26,892**
Band D cost per week	**£3.07**	**£3.17**

3.4.2 59.55% of residences in the district are in Band A or B, and 84.05% are in Bands A to C. Therefore the majority of homes pay less than the £3.17 per week Band D equivalent towards the District services provided.

3.4.3 The increase in the Band D tax base is due to growth in the area over several years and as approved as part of the MTFP at 2016-17 budget setting.

3.4.4 Proposed changes to the Council Tax Support Scheme were put out for consultation, the closing date being 14th December 2016. The updated scheme was agreed by Council on 18th January 2017 for implementation in April 2017.

3.4.5 NNDR policies on all forms of relief are being reviewed in 2017 to inform revised policies for 2018-19. All claimants are to be informed that relief will be withdrawn at the end of 2017-18 and a new application will be necessary for relief going forward as part of the verification process before the introduction of new policies.

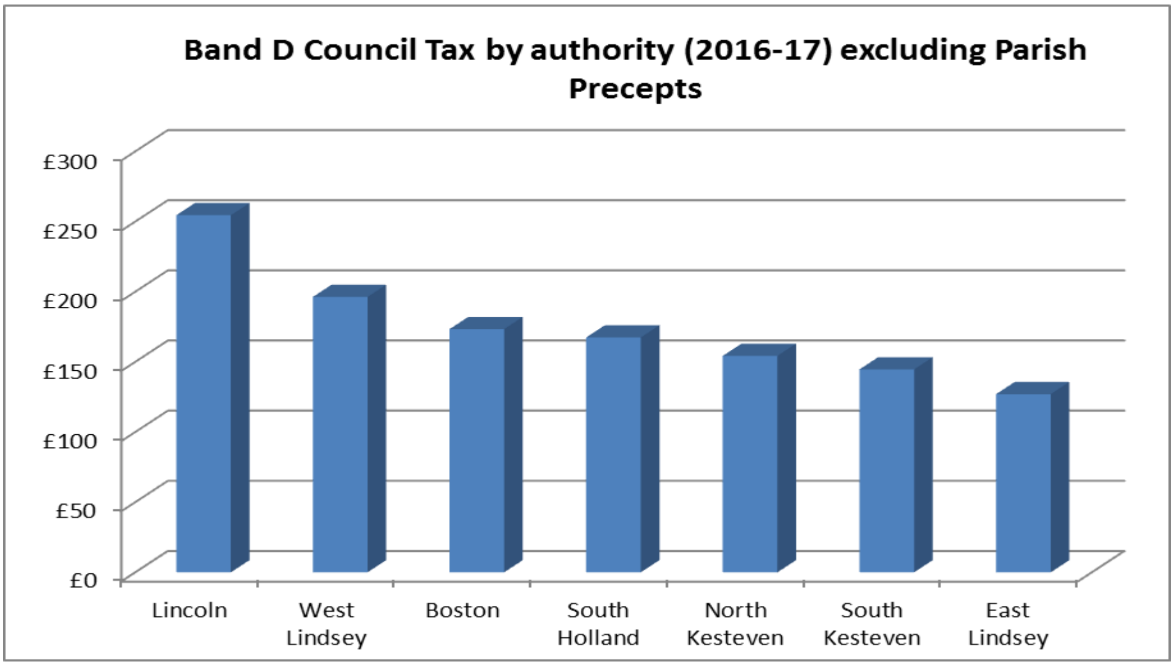
3.4.6 The following table sets out the estimated 2017-18 Council Tax for each Property Band taking account of the £5 per annum increase agreed as part of the 2016-17 MTFP:

Band	Ratio	2015-16	2016-17	2017-18	2016-17 to 2017-18 Change	
					Annual	Weekly
A	6/9	103.23	106.56	109.89	3.33	0.06
B	7/9	120.43	124.32	128.21	3.89	0.07
C	8/9	137.64	142.08	146.52	4.44	0.09
D	9/9	154.84	159.84	164.84	5.00	0.10
E	11/9	189.25	195.36	201.47	6.11	0.12
F	13/9	223.66	230.88	238.10	7.22	0.14
G	15/9	258.07	266.4	274.73	8.33	0.16
H	18/9	309.68	319.68	329.68	10.00	0.19

3.4.7 The following table details the Band D Council Tax levels for all precept authorities since 2005-06:

	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	13.91	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	(0.49)	36.93	5.70	1,475.35	1.74
2016-17	1,128.83	3.95	201.51	1.96	159.84	3.23	38.79	5.04	1,528.97	3.63

3.4.1 The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2016-17



3.5 Draft 2017-18 General Fund Estimates

3.5.1 The table below shows the draft budget estimates for 2017-18 analysed by type of expenditure/income as shown in appendix B. Notes explaining the major variances between the two years are given below the table.

Description	2016-17 Estimate	2017-18 Estimate	Variance
	£000	£000	£000
Employees	6,751	6,677	(74)
Premises	943	926	(17)
Transport	786	783	(3)
Supplies & Services	3,113	2,658	(455)
Transformation	694	273	(421)
Drainage Board Levies	2,298	2,350	52
Parish Precepts	691	713	22
Third Party Payments	2,564	2,608	44
Transfer Payments	21,325	19,341	(1,984)
Depreciation & Impairment Charges	627	986	359
Direct Revenue Financing	121	3,750	3,629
Capital – Contra Entries	(696)	(1,061)	(365)
Transfers to/from Earmarked Reserves	(615)	(3,334)	(2,719)
Transfers to/from General Reserve	-	(301)	(301)
Total Expenditure	**38,602**	**36,368**	**(2,234)**
Rents & Service Charges	(749)	(760)	(11)
Fees & Charges	(3,567)	(3,637)	(70)
Grants, Reimbursements & Contributions	(21,554)	(19,552)	2,002
Investment Income	(206)	(88)	118
Recharges	(932)	(934)	(2)
Total Income	**(27,008)**	**(24,971)**	**2,037**
	11,594	**11,397**	**(197)**

3.5.2 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 factor built into the estimates which reduces service budgets by £40k per annum. Efficiency savings of approx. £220k year on year are anticipated from the Moving Forward Programme beginning in 2017-18.

South Holland have just received their draft pension triennial Valuation Report from the Actuary. This shows the employer's contribution rate decreasing by 0.8%, from 17.5% (16/17) to 16.7% (17/18 to 19/20). This is estimated to reduce the budget by £50k. The secondary rate (deficit payment) increases by £91k, from £416k (16/17) to £507k in 17/18, increasing to £571k in 18/19 and 638k 19/20. **Overall a net increase of £40k for 17-18.**

The draft valuation shows the pension deficit has decreased by £1m, from £20m (31.3.2013) to £19m (31.3.2016).

Premises Related Expenses

The main variances are savings made in utilities, 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 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 increased in line with 2016-17 spend, with current fuel price reductions being monitored on an ongoing basis. Savings have been made where possible on leased cars, and mileage and lump sum budgets.

Supplies & Services

Supplies and services budgets have reduced due to the removal of additional expenditure all funded by income in 2016-17, such as grants for growth, second homes and local plan costs funded by reserve.

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

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 (CPBS) and Lincolnshire Legal Services.

Transfer Payments

Further work is being carried out on Rent allowances and Rent Rebates alongside a forecast position for 2016-17. Additionally it covers grants and contributions paid where the Council does not benefit from the provision of a service, Housing benefit payments are funded through Government subsidy and are included under Grants, Contributions and Reimbursements.

Depreciation and Impairment Charge

The increased depreciation and impairment charges are due to the acquisition of new refuse vehicles (previously leased) and investment in new IT system licences (income management and database storage systems).

Direct Revenue Financing

The revenue budget includes the following schemes funded from Investment and Growth Reserves in 2017-18:

	2017-18 £000
Priory Road	2,700
Grounds Maintenance Equipment	50
Growth Fund	1,000
	3,750

Transfer to and from earmarked reserves

The following table sets out the use of earmarked reserves in 2017-18 with further information on reserves and balances provided in paragraph 4:

	2017-18 £000
Contribution to Repairs & Renewals Reserve	136
Planned use of Repairs & Renewals Reserve	(166)
Transfer of New Homes Bonus to Investment & Growth Reserve	1,099
Capital Expenditure funded from Investment & Growth Reserve	(3,750)
LDF Plan Funding from Council Tax Reserve	(55)
Contribution from Council Tax Reserve towards NNDR Deficit	(325)
Moving Forward Programme Funding	(273)
	(3,334)

Fees & Charges

Fees and charges have been reviewed and increased where the market permits and in accordance with individual fees and charges policies (see Appendix H). Several service areas where fees should cover the cost of the service are being reviewed and a mid year report will be issued which may include further fee changes.

Planning application fee income have steadily increased over the last three years. For 2016-17, income was set at £600k and for 2017-18, £700k (£100k increase). At the time of writing, planning application income is set to exceed £800k (2016-17), but this is thought to be due to the Local Plan being out to consultation and expected to slow in the forthcoming year.

Court income, housing benefits overpayments and impairment allowance of bad debts shown under supplies and services have been reviewed and were subject to additional analysis during the closedown period for the annual accounts. Revised collection targets are likely to be issued when this activity is complete.

The Welland Homes Business plan has been revised due to delays in establishing viable projects. Projected income has been built into the MTFP 16-17 at £41k rising to £270k in 2019-20. At this stage, this remains unchanged. Joint working with Landlord services in respect of a HRA funded Affordable Housing programme are also being reviewed further 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 re-profiled Government grants reimbursements and contributions.

A grant application was submitted to the Department for Communities and Local Government (DCLG) for European Structural Investment Funding (ESIF). This was 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 . The operational side of this project is currently being reviewed in preparation for the start, which has been delayed compared to original estimates.

Investment Income

Forecast interest rates are lower for the longer term now, when compared to the estimates used in the current budget, leading to reduced returns and a potential impact is £118k in 17/18.

Recharges

Recharges were reviewed as part of the final 2016-17 budget setting process and at the 2015-16 year end. These include recharges to the Housing Revenue Account, to reflect its share of the Corporate and Democratic Core and its share of support services.

3.6 Other Budget Assumptions

3.6.1 The budget estimates and Medium Term Plan cover the period 2017-18 to 2020-21. 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.

3.6.2 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 (2016-17) 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.
- In 2016-17 Council tax levels were approved to increase by £5 per annum over the life of the MTFP which equates to an approximate 3% increase in each year.

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

	2016-17	2017-18	2018-19	2019-20	2020-21
RPI	2.2%	3.0%	3.2%	3.2%	3.2%
National pay increase	1.0%	1.0%	1.0%	1.0%	1.0%
Staffing Salary Level	96.5%	96.5%	96.5%	96.5%	96.5%
Pension contribution rate (excluding lump sum)	17.5%	16.7%	16.7%	16.7%	16.7%
Pension Deficit Payment	£416k	£507k	£571k	£638k	£638k

3.6.4 Future Developments

Universal Credit has been operating in South Holland since November 2015 for single unemployed claimants. The DWP's latest planning assumptions for Universal Credit are that the transition to full service will be complete by September 2018. For South Holland, transition is scheduled for April 2018. Following the transition phase, migration of existing cases is intended to be complete by 2022. Local authorities will however continue to administer Housing Benefit for pensioners beyond this date until the incorporation of Housing Benefit into Pension Credit. Whilst there is expectation that Housing Benefit Administration Subsidy will reduce with the move to full Universal Credit service, the financial consequences remain uncertain.

3.7 Spalding Special Expenses

3.7.1 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 2017-18 is estimated at £204,353 (2016-17, £200,782. Consideration of the establishment of a town council will be given in 2017-18 under the transformation programme and funding will be reviewed at that time. Detailed estimates are shown at **Appendix C** including the calculation of the Council Tax charge of £23.07 (2016-17 £22.99)

3.8 Internal Drainage Boards

3.8.1 The Council's 2017-18 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. The draft budget assumes a 2% increase in levies in 2017-18.

3.9 General Fund Fees and Charges

3.9.1 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.

3.9.2 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, and
- Seek to minimise benefit subsidy losses.

3.9.3 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.

3.9.4 In total £3.637m (2016-17 £3.567m) is due from fees and charges in the 2017-18 budget, an overall increase of £70k.

4. General Fund Reserves and Balances

4.1 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. This project is in progress and a status report has been issued to Cabinet for approval in principle for the planned actions at the financial year end. The review includes analysis of current and future risk assessments.

4.2 **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, Council reserves are currently at a reasonable level.

4.3 Moving forward the General Fund has a forecast working balance of £2.301m at 1st April 2017. This is £0.301m higher than originally estimated due to the achievement of additional savings in 2016-17 and £0.301m will be used to support the budget in 2017-18. The Council has an assessed minimum prudent working balance of £2.000m.

4.4 The table below gives a summary of General Fund Specific Reserve movements (excluding £2m General Reserve):

General Fund Specific Reserves (inc Spalding Special Estimates	2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000
Brought Forward	**7,441**	**7,060**	**3,726**	**3,483**	**2,456**
Transfer In	2,046	1,235	953	890	751
Transfers Out	(2,427)	(4,569)	(1,196)	(1,917)	(1,661)
Carried Forward	**7,060**	**3,726**	**3,483**	**2,456**	**1,546**

- In addition to specific reserves the general fund balance at 1 April 2016 was £2.064m, and this is forecast to be £2.301m at 31st March 2017, £0.301m of which will be used to support the budget in 2017-18.
- Transfers to Reserves include an annual contribution of £136k to the Replacement and Refurbishment Reserve to assist the Council in maintaining its asset base.
- All New Homes Bonus Scheme grant received, excluding £286k per annum over the period of the Medium Term Financial Plan has been taken to Investment & Growth.
- An amount of £970k (2016-17) was transferred from the council tax reserve to offset the collection fund NNDR deficit & £268k to offset anticipated NHS appeals in year. Additional provision has now been made in 2016-17 to reflect the potential impact if the power station appeals are successful. This will reduce the levy payment in 2016-17 by £325k and this will be carried forward through the Council Tax Reserve to mitigate the additional NNDR Collection Fund deficit to be funded in 2017-18.
- Transformation expenditure of approximately £1.0m will be financed from the Transformation reserve during the period 2016-17 to 2018-19.
- Capital expenditure of approx. £3.8m in 2017-18 will be financed from the Investment & Growth Reserve and council tax reserve. This is an indicative amount only with specific projects being reviewed for inclusion in the capital programme.

4.5 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.

5. General Fund Capital Strategy and General Fund Capital Estimates

5.1 The Council's Capital Strategy is shown in Appendix F and focuses on the core principles of capital investment.

5.2 The existing capital programme (Appendix E) has been amended to reflect revised profiling and scheme estimates.

5.3 In line with the Council's core Moving Forward priorities, expenditure in respect of property acquisition and investments in income generating assets (funded from Investment & Growth) has been added to the programme on an indicative basis only. This activity will be reviewed further in conjunction with the Welland Homes business plan and business cases developed for approval as appropriate.

5.4 As part of the 2017-18 budget process Service Managers were asked to submit new bids for essential schemes to be incorporated into the Capital Programme over the next four 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. This is under review with several significant schemes not yet approved.

5.5 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. It was stated in the finance report to the 2016-17 local government settlement that the Better Care Fund would continue for the duration of the Parliament and that DFG allocations were likely to rise during the course of the period between 2017 and 2020. However no guidance for 2017-18 has been received to date.

5.6 The 2016-17 forecast column on appendix E reflects the latest cash flow forecast for that year and this is used in the compilation of the prudential indicators within the treasury management report. This reflects approved expenditure in the 2016-17 programme which is likely to be delayed and subject to a carry forward request to council in June 2017.

6. Housing Revenue Account

6.1 The Budget for 2017-18 and the medium term financial plan are shown in Appendix B. This is currently subject to 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 estimate.

6.2 The following table shows the summary HRA for 2017-18 compared to the 2016-17 position:

Description	2016-17 Estimate £'000	2017-18 Estimate £'000
Income	(16,290)	(16,106)
Expenditure	9,293	9,645
Contribution from Operations	**(6,997)**	**(6,461)**
Financing	2,285	2,286
Capital Contribution	4,712	3,977
(Surplus) / Deficit	**0**	**(198)**

6.3 A comprehensive review of the Housing Revenue Account and associated landlord functions was carried out during 2015-16 and budget proposals reviewed by the Governance & Audit committee.

HRA Estimates by Income & Expenditure 2016-17 to 2017-18

Description	2016-17 Estimate	2017-18 Estimate	Variance
	£000	£000	£000
Rent Income – Dwellings	(15,233)	(15,024)	209
Charges for Services & facilities	(977)	(935)	42
Contributions to Expenditure	(67)	(134)	(67)
Other Income	(13)	(13)	0
Total Income	**(16,290)**	**(16,106)**	**184**
Repairs & Maintenance	2,727	2,839	112
Supervision & Management	3,377	2,939	(438)
Service Charge Costs	1,494	1,448	(46)
Depreciation (MRA)	1,595	2,300	705
Provision for Doubtful Debts	100	119	19
Total Expenditure	**9,293**	**9,645**	**352**
Contribution from Operations	**(6,997)**	**(6,461)**	**536**
Financing charges	2,285	2,286	1
Revenue Contributions (RCCO)	4,712	3,977	(735)
Net operating (surplus)/Deficit	**0**	**(198)**	**(198)**

6.4 Explanation of Budget Variations

6.4.1 Rent Income - Dwelling Rents

In determining future rental income the following factors have been taken into account:

- 1% rent reduction from 16-17 to 19-20 and nil inflation imposed by the Government. The Council had 3,810 HRA dwellings at 25th January 2017 with an average weekly rent of £77.03 (on a 52 week basis). The average rent in 2017-18 will be £76.26 per week.
- 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, and
- Estimated net rent arising from additional units included within the HRA capital programme.

6.4.2 Charges for Services and Facilities

Sewage Charges

Historically charges for sewage have been increased in line with the annual increase applied by Anglian Water. However, these charges have not been increased for several years and the HRA has been funding an increasing shortfall being the difference between the expenditure incurred in operating the sewage treatment service, and the income recovered through sewage charges. For 2017-18 it is therefore proposed to increase charges by 2.5% based on the increase in costs over the last 2 years. This represents an increase to tenants of between 3p and 8p per week.

Other Service Charges

Other Service Charges have not been increased over the last few years as the HRA has been able to defer any increase. However it is now considered prudent that the charges are increased on an annual basis in line with the December CPI. For 2017-18 this represents an increase of 1.6%.

Current charges affected and proposed 2017-18 charges are set out in Appendix H.

6.4.3 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.

6.4.4 Supervision & Management

A transformation fund of £750k was established in the 2016-17 budget to assist in integrating Landlord Services and General Fund service. This is being incorporated as part of the Place based service review for the authority, which will incorporate the Construction Services Unit (CSU). This provision included a one-off contingency of £375k which has been removed from the 2017-18 budget.

6.4.5 Pay Awards and Salary Vacancy Factor

- Each 1% change in SHDC gross pay = £18k increase in employee costs.
- 3.5% vacancy factor in SHDC gross pay = £42k decrease in employee costs which has not previously been applied.

6.4.6 Depreciation

The basis of HRA Property Depreciation has been updated in and is now based on the "wearing out" of individual property components (Roof, Kitchen, Bathrooms, Wiring etc.) This has increased the annual depreciation charge in 2017-18 by £705k. Depreciation is paid into the Major Repairs Account and used to fund future capital expenditure on properties. This increased contribution has been offset by a reduced revenue contribution to the capital programme.

7. HRA Reserves

7.1 The table below shows the unallocated reserve balance as at 31st March 2016. The balances within the table are funds that can be used to finance both revenue and capital expenditure, for example, one- off invest to save projects and to meet expenditure arising from unexpected events.

HRA Reserves	Balance 1/4/16 £'000	Transfers In £'000	Transfers Out £'000	Balance 31/3/17 £'000
HRA Working Balance	**8,968**	-	-	**8,968**
Insurance Reserve	**200**	0	0	**200**
Major Repairs Reserve	**2,609**	6,660	(3,915)	**5,355**
	11,777	**6,660**	**(3,915)**	**14,523**

7.2 The Major Repairs Reserve will be used to finance capital investment within the HRA. (see Appendix E).

8. HRA Capital

8.1 The HRA summary programme is shown in Appendix E.

8.2 Detailed planned maintenance programmes have been compiled from asset management data to address key decent homes criteria. The programme also includes:

- Major area works - environmental improvements on estates, and
- IT / System works - a replacement of the asset management system.

8.3 The programme also includes an Affordable Housing Programme to be delivered through new build and potential purchase in order to replace lost rent from increased right to buy sales. In total £15.6m has been allocated during the period of the MTFP from 2017-18 to 2020-21. This is an indicative programme as work is in progress on new build schemes with Welland Homes and a market survey is being carried out in respect of a potential buy back of ex-council properties in the district.

9. Risk, Key Issues, Sensitivity and Monitoring

9.1 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.

9.2 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.
Growth plans may require borrowing at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement.
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
Garden Waste	High	High	A new one year pilot has was introduced in 16-17 and has continued into 17-18.
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.

Risk	**Likelihood**	**Impact**	**Action**
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.

10. Consultation, Timetable and Links to Other Strategies

10.1 The budget has been subject to consultation on the website during January with commentary invited from council tax payers, business rate payers and key stakeholders.

10.2 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).

10.3 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.

10.4 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.

11. Treasury Management Policy and Investment Strategy

11.1 The Treasury Management Policy and Investment Strategy (Appendix G) pulls together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.

11.2 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.

11.3 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.

11.4 Investment income will continue to be generated from cash balances but also from commercial loans to Welland Homes.

11.5 Discussions are in progress with the UK Municipal Bonds Agency in respect of potential peer to peer lending with a view to increasing investment income and decreasing brokerage fees.