

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Portfolio Holder for Finance and the Executive Director
Commercialisation (S.151)

To: Joint Performance Monitoring Panel and Policy Development
Panel – 25 January 2018

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Services)

Subject: Draft Budget, Medium Term Plan and Capital Strategy (Scrutiny)

Purpose: To consider the Draft General Fund, Housing Revenue Account
and Capital Programme Budgets and the Draft Financial Medium
Term Plan (for Scrutiny) .

Recommendations:

That the Joint Panel reviews the draft General Fund, Housing Revenue Account and Capital Budgets and makes comments/recommendations for consideration by Cabinet at its meeting on 13th February 2018.

1.0 Introduction

- 1.1 The draft budget is currently in a consultation period with responses invited from residents and businesses through the Council's website, and also through this budget scrutiny meeting.
- 1.2 This joint PMP and PDP panel are asked to examine the draft estimates and provide comments for Cabinet to consider at their meeting on 13th February 2018 . Cabinet will then make their recommendation to full Council on 28th February 2018.
- 1.3 The Appendices to this report set out the 2018-19 Draft Budget and associated Medium Term Financial Plan (MTFP) for the South Holland District Council General Fund and Housing Revenue Account (HRA). The Draft Budget and MTFP are based on the latest information currently available, as a starting point for the budget consultation process leading to approval by Full Council on 28th February 2018. The Full Council meeting will also approve the associated Council Tax level and HRA Rents for 2018-19.
- 1.4 The draft budgets will be subject to some further change during the consultation period. In particular the projections for business rates will need to be adjusted to reflect those returned to the government in the NNDR1 return (due to be completed in January). Other areas of adjustment include confirmation of the Internal Drainage Board Levies.

- 1.5 The updated Treasury Management Strategy (Appendix G to the budget report) is not included at this point. A new set of Strategy documents is due to be presented to Governance Audit Committee on 16 January and will be included in the Budget Report to Cabinet once approved.
- 1.6 The schedule of 2018-19 Fees & Charges (Appendix H to the budget report) is not included at this point. This schedule requires further work and will be included in the Budget Report to Cabinet once complete.

2.0 Background

- 2.1 2018/19 is the third year of Government's four year Local Government Finance Settlement, for which the Council successfully applied in 2016-17, using the Moving Forward programme as the basis of the required efficiency plan.
- 2.2 The Moving Forward Programme builds on prudent financial management of the council and innovative income generation with savings targets in phase 1 of the programme totalling £1.105m by 2020-21 by transforming Council Services 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)
- 2.3 A number of major Phase 1 Projects are now substantially complete including the Priory Road Review, the Place Review and the initial investment in Welland Homes. Of the £1.1m target it is now forecast that action taken to date will deliver in excess of £0.9m with further proposals still to be implemented which should ensure that targets are achieved.
- 2.4 In addition the next phase of the programme will extend the savings agenda to address a number of additional significant projects to deliver further ongoing savings within the MTFP. These savings are not built into current forecasts at this stage.
- 2.5 In 2015/16 £1.1m of funding was agreed and set aside to provide up-front investment for the Moving Forward programme, which is now in progress. No further funding requirements have been identified at this stage. The current forecast assumes all the available funding held in reserves will be used by the end of 2019/20.

- 2.6 This draft budget continues the principle of providing funding for an “Investment and 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, able to deliver services to residents with more certainty in the longer term.

3.0 General Fund

2018-19 Draft Budget & Medium Term Financial Plan (MTFP)

- 3.1 The key elements of the draft 2018-19 Budget and MTFP are summarised in the following paragraphs and set out in detail in the attached appendices which show:

- the 2018-19 revenue and capital estimates for the General Fund and Housing Revenue Account (Appendices A & B),
- draft budgets in relation to Spalding Special Expenses (Appendix C),,
- schedule of movements in Council Reserves (Appendix D),
- General Fund Capital Programme (Appendix E),
- The Council’s Capital Strategy (Appendix F) and Treasury Management Strategy (Appendix G), and
- the proposals for the setting of discretionary fees and charges for 2018/19.

2018-19 Draft Local Government Finance Settlement

- 3.2 The provisional Settlement consultation paper for 2018-19 was released on 19 December 2017. There were a number of areas of change affecting 2018/19 and more particularly future years including:

- It was announced that the Business Rates Pilot bid for the Greater Lincolnshire Area, of which the District is part, has been successful. The bid will trial 100% business rates retention for one year only with any additional rates generated being used across Lincolnshire for projects aimed at economic and housing growth. No RSG will be received in 2018/19 but will become part of the retained business rates assumed in the estimates. The potential growth arising from the Pilot status has yet to be confirmed or decisions made about its allocation across Lincolnshire,
- Business Rates Retention (BRR) will be set at 75% from 2020/21 onwards and Revenue Support Grant incorporated into the baseline. The impact of this is not yet known, The introduction of BRR will sit alongside a new needs funding formula. Again the impact of this is not known,
- The Business rates baseline will be re-set in 2020/21. This presents a potential risk to future levels of funding. For 2018-19 the Council has been re-admitted to the Lincolnshire Business Rates Pooling arrangement. This has been possible following the reduction in risk attached to major appeals on the level of business rates from Power

Stations in the district. This arrangement will benefit the level of business rates returned to the District in 2018/19,

- Rural Service Delivery Grant has been increased by £30k in to remove the anomaly of a one year drop in funding which had been previously announced,
- The Settlement did not make any changes to the New Homes Bonus scheme.

3.3 The draft budget set out within the attached Appendices includes assumptions for each of the areas set out above. These will be updated if required when the Settlement is confirmed and more information becomes available.

2018/19 Council Tax Base

3.4 The Council Tax base for 2018-19 is 27,302 properties, an increase of 410 properties over the 2017-18 tax base giving additional income of approximately £204k. An ongoing increase at 1.5% per annum is assumed over the MTFP period.

3.5 For District Councils the 2018-19 Settlement lifted the referendum limit on Council Tax increases from 2% to 3%, or up to £5 on a Band D Bill if this is higher (this value is unchanged). The MTFP assumes a £5 per annum increase which represents a 3.03% uplift in 2018/19. In future years the Council does have the option of applying a 3.0% increase where this is higher than £5

2018/19 Collection Fund Surplus

3.6 Each year the Council is required to calculate the balance on its Collection Fund. Current estimates indicate a £79k surplus in 2018-19 for council tax with a zero balance assumed in future years.

3.7 In addition there is an estimated Business Rates surplus of £351k in the 2018-19 budget with a zero balance assumed in future years. The surplus on the Collection Fund in 2018-19 arises largely as a result of the withdrawal of appeals on power stations in 2017-18. This change has provided a benefit in 2018-19 from the Collection Fund surplus but will result in an increased Levy payment to the government in 2017-18 (approx. £334k). Depending upon the ultimate 2017-18 Outturn position this increased Levy payment may need to be funded from reserves. Despite the challenges of reduced funding and economic uncertainty, the Council remains in a relatively secure financial position across the medium term with no dependency on reserves.

SHDC Detailed Budget Changes

3.8 Key assumptions made within the current 4 year MTFP include:

- An annual increase in Council Tax of up to £5,
- Maximising income generation through Investment & Growth, funded through New Homes Bonus,

- allowance for unavoidable growth on services (i.e. new statutory obligations and pay & contractual inflation) but no allowance for any increase for general inflation,
- Ongoing Budget challenge to ensure that budgets are aligned with corporate priorities, and
- annual savings of over £1.1m by 2020/21 as a result of targeted action and investment through the Council's Moving Forward Programme,

3.9 The 2018-19 draft estimates currently show a net surplus of £227k, although this is subject to any final budget adjustments and may change once the final business rates position for 2018-19 is known (from the NNDR1 return figures produced in mid January). This surplus has arisen due to a number of key variations, in particular:

- A surplus on the NDR Collection Fund of £351k as a result of the withdrawal of the power station appeals,
- The impact of an assumed 2% pay award and incremental pay progression on employee budgets,
- An increasing pension fund deficit,
- Ongoing delivery of Moving Forward Savings, and
- Additional income through grants, rents, fees and charges.

3.10 All budgets have been subject to "budget challenge" by the Section 151 officer which has allowed significant operational budget reductions to be made in order to deliver a balanced budget in 2018-19.

3.11 Budget forecasts include provision for a number of new/extended services to be funded from a combination of reserves and additional income including:

- the Delivery Unit,
- the Procurement and Contracts Unit, and
- provision in 2018-19 for "Pride in South Holland".

3.12 The current forecast for 2019-20 to 2021-22 shows a deficit in each year, It is therefore recommended that the 2018-19 surplus be transferred to the Council Tax Reserve to help mitigate future budget changes, particularly in relation to Business Rates income over the course of the MTFS.

4.0 Housing Revenue Account

4.1 The draft Housing Revenue Account (HRA) budget shows a forecast surplus of £3.2m. This reflects:

- A rent reduction of 1% from 17-18 to 19-20 and nil inflation imposed by the Government,
- An assumed rent loss of 1% for void properties and 1.5% for bad debts,
- Estimated net rent arising from additional units included within the HRA capital programme from 2019/10 onwards,
- A review of charges where appropriate, and

- Savings in operating costs to be delivered from the Place Review

5.0 Reserves

- 5.1 General Fund Specific Reserves are budgeted to reduce by £70k (net) in 2018-19. This figure may change depending on the forecast out-turn for 2017-18. If a deficit is likely to occur in 2017-18, this will need to be covered from Reserves.
- 5.2 HRA Reserves are due to reduce by £1.9m (net) during 2018-19, principally due to previous years slippage in the delivery of new affordable housing and the use of balances accrued in the Major Repairs Reserve to finance capital investment within the HRA.
- 5.3 A detailed breakdown of Reserve movements for both the General Fund and Housing Revenue Account are included in Appendix D to this report.
- 5.4 As noted at para 3.9 the General Fund estimates currently forecast a £227k surplus. This value may change when the estimates are finalised but it is recommended that any such surplus is moved to the Council Tax Reserve in order to provide resilience against future volatility in council tax and business rates income.

6.0 Capital Programme

- 6.1 The Council's Capital Strategy is shown in Appendix F and focuses on the core principles of capital investment.
- 6.2 The draft four year capital programme (Appendix E) has been amended to reflect a revised 2017-18 forecast outturn, known slippage requests, Capital Working Group input and scheme estimates.
- 6.3 The programme includes provision for Investment and Growth linked to the Council's Strategic objectives. Final decisions on individual projects will be subject to Council approval and detailed business cases.
- 6.4 The HRA summary programme is included in Appendix E. A re-phased Affordable Housing Programme has been established to replace units sold through increased right to buy (RTB) sales and to maximise the use of resources available through retained RTB receipts and opportunities to access additional grant funding through the Homes and Communities Agency (HCA). The programme will be delivered through new build and the purchase of affordable housing units. The programme also includes specific provision for:
- Major area works - environmental improvements on estates,
 - Essential improvements to Sewage Plant works, and
 - The replacement of key housing IT Systems.

7.0 OPTIONS

- 7.1** That the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy be reviewed.
- 7.2** There are no alternative options presented, however amendments may be made by Cabinet before release to Council.

8.0 REASONS FOR RECOMMENDATION

- 8.1** To comply with the budgetary and policy framework.

9.0 EXPECTED BENEFITS

- 9.1** To provide an early view of the Council's financial position and seek stakeholder feedback prior to setting an affordable and balanced budget for 2018-19 that ensures delivery of the priorities of the Council

10.0 IMPLICATIONS

10.1 Carbon Footprint & Environmental Issues

- 10.1.1** None

10.2 Constitution & Legal

- 10.2.1** None

10.3 Contracts

- 10.3.1** None

10.4 Crime and Disorder

- 10.4.1** None

10.5 Equality and Diversity & Human Rights

- 10.5.1** None

10.6 Financial

- 10.6.1** The report is of a financial nature and further financial details are included within the appendices.
- 10.6.2** The Section 151 officer has held Budget Challenge sessions with each budget manager to identify budget pressures, savings and further sources of income, which are reflected in the 2018-19 budget.

10.6.3 The HRA general balance is projected at £15.6m at 31st March 2019 (Appendix D of the report) with £2.0m considered to be a reasonable level consistent with the risks on the service. The MTFP therefore includes a balanced budget for the period.

10.6.4 The HRA Capital Programme includes an Affordable Housing Programme totalling £14m over the next 4 years to replace lost rent from Right to buy sales and changes planned in the National Rent policy.

10.6.5 The use of reserves in the HRA is to be considered in 2018-19 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 £74.701m which was introduced as part of the self-financing regime set up in March 2012.

11.0 Risk Management

11.1 Risks are highlighted within the Appendix A.

12.0 WARDS/COMMUNITIES AFFECTED

12.1 Budget implications affect all wards.

13 ACRONYMS

13.1	AGS	Annual Governance Statement
	CPBS	Compass Point Business Services
	CSU	Construction Services Unit
	DCLG	Department for Communities & Local Government
	DFG	Disabled Facilities Grant
	ESIF	European Structural Investment Funding
	HRA	Housing Revenue Account
	ICT	Information & Communications Technology
	IDB	Internal Drainage Boards
	LCC	Lincolnshire County Council
	LCTRS	Local Council Tax Reduction Scheme
	MTFP	Medium Term Financial Plan
	NHB	New Homes Bonus
	NHS	National Health Service
	NI	National Insurance
	NNDR	National Non Domestic Rates (Business Rates)
	RSDG	Rural Services Delivery Grant
	RSG	Revenue Support Grant
	RTB	Right to Buy

Background papers:- None

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Key Decision:

No

Exempt Decision:

No

Appendices:

Appendix A	Council 2018-19 Estimates
Appendix B	General Fund Summary
Appendix C	Spalding Special Expenses
Appendix D	Reserves 2018-19 to 2021-22
Appendix E	Capital Programme 2018-19 to 2021-22
Appendix F	Capital Strategy 18-19

Draft for Consultation