

SOUTH HOLLAND DISTRICT COUNCIL

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

To: Cabinet – 13 February 2018

Author: Jane Crosby – Head of Finance (Compass Point Business
Services)

Subject: Draft Budget, Medium Term Plan and Capital Strategy

Purpose: To consider the Draft General Fund and Housing Revenue
Account 2018-19 revenue and capital estimates and the Draft
Financial Medium Term Plan (for Recommendation to Council)

Recommendations:

1. To recommend to Full Council:
 - a. That the revenue estimates for the General Fund, Housing Revenue Account and Spalding Special Expenses for 2018-19 (as set out in Appendices A, B and C) be approved.
 - b. That the use of reserves as set out in Appendix D be approved.
 - c. That Housing Revenue Account weekly dwelling rents reduce by 1% over the 2017-18 rent with effect from Monday 2nd April 2018. This is in line with current government guidelines and legislation.
 - d. That the fees and charges shown in Appendix H be approved for adoption from 1 April 2018.
 - e. That the Council Tax for a Band A property in 2018-19 be set at £113.22, a £3.33 per annum increase on 2017-18 levels (band D £169.83, a £4.99 per annum increase on 2017-18 levels).
 - f. That the Spalding special expense for a Band A property be set at £15.99, £15.38 in 2017-18 (Band D £23.99, £23.07 in 2017-18).
 - g. That the Medium Term Financial Plan (Appendices A and B) be approved.
 - h. That the capital strategy and capital programme (Appendices E and F) be approved.
 - i. That the Treasury Management Strategy, including the Minimum Revenue Provision policy and annual investment strategy (appendix G) be approved

2. That delegated authority be given to the Executive Director Commercialisation (s151), in consultation with the Portfolio Holder for Finance, to make any necessary amendments to the budget prior to council due to late notifications.

1.0 GENERAL FUND

Purpose of Report

- 1.1 This report and the associated Appendices set out the 2018-19 Budget and Medium Term Financial Plan (MTFP) for the South Holland District Council General Fund and Housing Revenue Account (HRA). Also included is the Capital Strategy and The Treasury Management Strategy. The Budget and MTFP are based on the latest information currently available. The budget has been through a budget consultation process with the public and members. Feedback from that Consultation is available for members to consider as part of their review of the proposed budget and their recommendations to Full Council. The Full Council meeting will also approve the associated Council Tax level and HRA Rents for 2018-19.

Summary of the 2018-19 Budget and MTFS

- 1.2 For 2018-19 the Council is able to present a balanced budget position taking into account the following main budget issues and changes from 2017-18:

- The Business Rates Pilot has provided a significant increase in the level of retained business rates for 2018-19 only. The resulting surplus on the General Fund has enabled the Council to contribute £684k to the Council Tax Reserve,
- An increase in Council Tax for a Band D property of £4.99 (3.03%),
- A forecast increase in IDB levies of 2%.
- The revenue budget has no ongoing support from New Homes Bonus, and all NHB is now being placed into Reserves and will be utilised to support investment and growth opportunities.
- An increase in Pay budgets to reflect the 2% pay award, annual increments and pension cost pressures.
- Budget reductions and growth in income across a number of budgets identified through budget challenge sessions with managers.
- Income and savings arising from a number of major projects including co-location with DWP at Priory Road, investment in market housing through Welland Homes Ltd, the review of place based services, Grants for Growth and the extended Green Waste Service,
- The full year effect of new, extended or changed services, notably to improve the infrastructure to support services more effectively and deliver future projects through the Delivery Unit, the Contracts and Procurement Unit and insourcing of legal services,
- Funding through reserves in 2018-19 for Pride in South Holland,
- Increased levels of investment income from changes in interest rates and investment balances, and
- Assumed savings in 2018-19 in line with original Moving Forward Programme Targets. The programme is forecast to deliver total savings of £1.105m by 2019-20. As part of this programme it will be necessary to identify savings in 2018-19 of £313k to address slippage in the overall programme and activity is underway on this.

- 1.3 MTFS position - 2019-20 to 2021-22 . The MTFS currently shows projected annual budget gaps as follows:

	2019-20	2020-21	2021-22
	£000	£000	£000
Budget Gap	475	624	564

- 1.4 The on-going budget position has arisen largely as a direct result of the reduction and then loss of RSG funding from the Government. Members should also note that the MTFS does not assume the continuation of the business rates pilot into 2019-20. There are also some significant uncertainties around the level of future retained business rates. The baseline reset for 2020-21 presents a significant potential risk, but it is not possible to quantify what that impact will be at this stage. It should also be noted that the Council now has no reliance on New Homes Bonus.
- 1.5 The Council has a number of future projects which are being developed which will provide opportunities to address future funding pressures. These include further reviews of the Council's services and assets including further co-location opportunities, potential joint venture opportunities, income from commercial investments, a review of fees and charges etc.

Background

- 1.6 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.
- 1.7 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 through the transformation of 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)
- 1.8 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 £1m with further proposals still to be implemented which should ensure that targets are achieved.

- 1.9** 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.
- 1.10** 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.
- 1.11** This draft budget continues the principle of providing 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, able to deliver services to residents with more certainty in the longer term.

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

- 1.12** 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);
 - A 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 (Appendix H).

2018-19 Draft Local Government Finance Settlement

- 1.13** 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 Revenue Support Grant or Rural Services Delivery Grant 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 significant 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 together with its incorporation into the new Pilot will benefit the level of business rates returned to the District in 2018-19,
- The Settlement did not make any changes to the New Homes Bonus scheme.

1.14 The draft budget set out within the attached Appendices includes the best assumptions for each of the areas based on current available information and as set out in more detail in Appendix A, paragraphs 3.1 – 3.9 (Funding and Budget Summary) and Appendix D (Reserves).

2018-19 Council Tax Base

1.15 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.

1.16 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 MTFS assumes an increase of up to £5 per annum 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

1.17 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.

1.18 In addition there is an estimated Business Rates surplus of £402k 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. £365k). 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

1.19 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 targetted action and investment through the Council's Moving Forward Programme,

1.20 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.

1.21 The 2018-19 proposed budget is a balanced position and the main assumptions and budget changes that members should note are:

- The impact of an assumed 2% pay award and incremental pay progression on employee budgets,
- An increased pension fund deficit,
- Ongoing delivery of Moving Forward Savings,
- Additional income through grants, rents, fees and charges (e.g. DWP contributions to Priory Road, garden waste income, planning and building control),
- Removal of the reliance of £286k of New Homes Bonus (NHB) to support the General Fund Budget (this increases the NHB contribution to the Investment and Growth Reserve),
- 2% increase in Drainage Board levies,
- Revised recharges from the HRA into the General Fund to more accurately reflect inflationary costs and time allocation changes.
- Increased levels of investment income,
- The surpluses on the collection fund noted at para 1.16 and 1.17; and
- £204k of additional Council Tax income due to the increase in the Band D charge and the tax base.

1.22 The Council has made no use of funding from reserves to support the base budget position. In 2018-19 the Council is able to make a one off contribution of £684k to the Council Tax Reserve. This has been possible due to the

changes in retained Business Rates that have come from the Pilot Status approved as part of the 2018-19 Settlement. Some growth in business rates would have been expected from natural growth, the move on the collection fund from a deficit in 2017-18 to a surplus in 2018-19 and from the benefit of moving into the Lincolnshire Business Rates Pool. However the Pilot status has provided a further increase in business rates. The £684k being contributed to the Council Tax Reserve will provide future support to the budget in the event of future Business Rates volatility.

1.23 Budget forecasts include provision for a number of new/extended services to be funded from a combination of savings, one-off approved reserve use and additional income including:

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

1.24 The current forecast for 2019-20 to 2021-22 shows a deficit in each year of approximately £500k to £600k. The loss of government grant funding (Revenue Support Grant) contributes significantly to this. However, future business rates income presents one of the largest areas of risk and uncertainty around to the Council’s future finances. The second phase of the Council’s Moving Forward programme is designed to help address these future budget pressures with an increased focus on the generation of additional business rates and Council Tax income, the generation of more commercial based income from council assets and changes to more efficient methods of delivering services to the public. This will aim to ensure that the Council can continue to deliver its priority services to the public without significant cuts in resourcing.

2.0 HOUSING REVENUE ACCOUNT

2.1 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.

3.0 RESERVES

- 3.1** General Fund Specific Reserves are budgeted to increase by £639k in 2018-19 after making the recommended transfer of £684k to the Council Tax Reserve. The net change between years 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.
- 3.2** HRA Reserves are due to reduce by £2m (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.
- 3.3** A detailed breakdown of Reserve movements for both the General Fund and Housing Revenue Account is included in Appendix D to this report.

4.0 CAPITAL PROGRAMME

- 4.1** The Council's Capital Strategy is shown in Appendix F and focuses on the core principles of capital investment.
- 4.2** 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.
- 4.3** 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.
- 4.4** 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.

5.0. TREASURY MANAGEMENT

- 5.1** The Treasury Management Policy Statement” and the “Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Plan 2018-19” were submitted to Governance and Audit on 16 January 2018 for pre-decision scrutiny prior to submission to Cabinet and Council. The documents are attached at **Appendix G1 and G2** of this report.
- 5.2** As part of this scrutiny members considered that a greater level of investment should be made in Welland Homes as this would provide a higher and less risky return than is currently available in the market.
- 5.3** Members of Audit Committee also requested that Full Council should be involved in decisions regarding the list of allowable Sovereign Countries whose banks could be used for investment purposes.

6.0 CONSULTATION

6.1 Public Feedback

The draft budget was released for public consultation on 11 January 2018. Submissions closed on 29 January 2018. A total of 4 submissions were received. A summary of these is as follows:

- Recognition of the savings made by sharing facilities but expressing disappointment at a possible missed opportunity to obtain extra funding, due to Lincolnshire not having become a Devolved Area.
- Identification of a possible opportunity for the Council to offer Data Protection Officer services to other Councils in the District.
- A request that the Council look closely at its monitoring of Drainage Board Levies.
- Concern at a lack of a plan to introduce charging points for electric vehicles to take advantage of available government funding.
- A request for clarity as to how the Council Tax increase has been calculated and how this relates to the statutory constraints.
- Concern at a reduction in funding for Ayscoughfee Hall in the Spalding Special expenses budget and seeking an undertaking that the buildings and grounds will continue to be maintained to the same standard.(Appendix C updated since consultation documents released)
- A note that there has been no increase in the budget for the promotion of Spalding as a town.
- Concern at the lack of provision in the budget for grass cutting of roadside verges in Spalding and a missed opportunity to propose a modest increase in the Spalding precept to meet the additional cost. The respondent also requested that the Spalding Special Expenses budget be presented in a transparent way (Appendix C updated since consultation documents released).
- Concern about the absence of financial contributions for Christmas decorations in Spalding (Appendix C updated since Consultation documents released).

- A desire for a Christmas market to be held in Spalding reflecting the cultures represented there.
- Concern at the lack of a budget for maintenance of streets and street furniture.
- Concern that the ICT budget does not appear to reflect any implications of GDPR and the training needs associated with this.
- Concern that no provision has been made for the commitment to take over the maintenance of roadside verge and roundabout maintenance from Lincolnshire County Council.
- A request for the Council to resolve issues around the Bull & Monkey and Post Office sites.
- A note that 2018-19 is the last year of funding for the “Pride in South Holland Scheme” asking whether the District Council could investigate the establishment of specific funds for both Spalding and the wider District on an ongoing basis.

6.2 Member Scrutiny Feedback.

A joint meeting of the PMP and PDP panels considered the budget on 25 January 2018. The main comments from this meeting are summarised below:

- Support for the principle that future budget development must be targeted at increased levels of income generation rather than cuts to budgets
- A request for an increased level of information to Members on the Delivery Plan for Commercialisation and more Member involvement in the development of this plan in order to understand and be able to contribute towards proposals and options for investment in assets.
- Concern that in order to deliver an effective and proactive programme of change and transformation staffing resources need to be planned and budgeted for at adequate levels
- A request for involvement in the development of options for the investment in the Leisure Centre in Spalding; and
- During 2018-19 information on the usage of various council services and a detailed review of the fees and charges that are being levied for various services be undertaken.

7.0 OPTIONS

7.1 That the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy be approved and recommended to Council.

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 set 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.

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 attached to this report:

Appendix A	Draft Budget 2018-19 and Medium Term Financial Plan 2018-19 to 2021-22.
Appendix B	Draft General Fund Summary
Appendix C	Spalding Special Expenses 2018-19
Appendix D	General Fund Reserves
Appendix E	Capital Programme 2017/18 to 2021/22
Appendix F	Capital Strategy Draft 2018/19
Appendix G	Treasury Management Policy Statement 2018/19; and Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2018/19
Appendix H	Fees and Charges 2017-18 estimates