**Appendix A**

# Draft Budget 2018-19 and Medium Term Financial Plan 2018-19 to 2021-22.

## 1. Introduction

**1.1** This appendix sets out the combined 2018-19 budget estimates and Medium Term Financial Plan (MTFP) for the period 2018-19 to 2021-22 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 Services 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 for the period 2018-19 to 2021-22,
- The 2018-19 General Fund Revenue Budget & Financing,
- The General Fund Reserves Position,
- The General Fund Capital Programme and Financing,
- The 2018-19 Housing Revenue Account (HRA) Revenue Budget,
- The HRA Reserves Position,
- The HRA Capital Programme and Financing,
- Risks, key issues, sensitivity and monitoring,
- Consultation proposals, 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 objectives of the Council's Medium Term Financial Strategy are to:

- manage a budget process that will make progress in re-directing and focusing resources in line with 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 the Council's role in the community throughout and beyond the period of economic hardship by providing assistance to individuals, groups and businesses.

**2.1.2** In 2010 the Council created Compass Point Business Services (East Coast) Ltd, (CPBS) in partnership with East Lindsey District Council in order to deliver greater efficiency in the provision of back office services. The company is projected to make savings totalling over £30m over a 10 year period, with South Holland's share being in excess of £10m. The two partner councils have now agreed to extend this contractual arrangement beyond March 2020 and the Council will be considering a report in the near future to look at options to deliver further financial savings for the benefit of both Councils for which business cases will be forthcoming.

**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 to 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; other less volatile 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 2018-19 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 2021-22 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 2019-20 onwards, to take account of the ongoing 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 Programme, an efficiency and income generation programme, is currently in progress. The Estimates comprising the 2018-19 revenue budget include benefits from these activities, 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 have been explored at officer level to generate savings and increase income. Areas being considered which currently have a high level of spend or which 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 publicly owned assets including a strategic asset plan review and consideration of alternative management models,
- Grants Review,
- 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 2018-19

### 3.1 External Financing – 2018-19 Provisional Settlement

#### 3.1.1 Background

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 and these are covered below and as part of the relevant sections of the budget report.

The Council has been re-admitted to the Lincolnshire Business Rates Pooling arrangement for 2018-19. This has been made 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 (estimated at approximately £350k).

As part of the Settlement, 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. Business rates retention will be set at 75% from 2020-21 onwards and Revenue Support Grant will be incorporated into the baseline.

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 Settlement also confirmed that there would be a re-set of the Business Rates Baseline in 2020-21. This presents a potentially significant risk to future levels of funding.

### 3.1.2 Revenue Support Grant (RSG)

Due to the success of the Business Rates Pilot the Council will not receive RSG in 2018-19. This value (£693k) will now be incorporated into the level of retained Business Rates. As the Business Rates Pilot is currently announced for one year only, the final assumed year of RSG will be 2019-20 and the value below is that agreed as part of the 4-year Settlement agreement in 2016. As part of the Settlement it was announced that from 2020-21 the introduction of business rates retention (BRR) will incorporate a new needs formula with RSG incorporated into this. As such RSG will cease from 2020-21. This has already been factored into the Council's MTFS.

| **Financial Year** | **RSG Receivable £000** |
|---|---|
| 2017-18 (for information) | (1,072) |
| 2018-19 | Nil |
| 2019-20 | (271) |
| 2020-21 | Nil |
| 2021-22 | Nil |

### 3.1.3 New Homes Bonus (NHB)

The Settlement did not include any changes to the existing New Homes Bonus scheme. The current scheme, agreed as part of the 2017-18 consultation, includes:

- A reduction in the number of years payments are made from 5 years in 2017-18 to 4 years from 2018-19 (for existing and future years allocations),
- No payment to be made on housing growth up to 0.4% of the council tax base in each year, which for South Holland District Council in 2018-19 equates to approximately £208k per annum,
- No proposals to withhold payments of NHB in 2018-19 for homes built following an appeal, and
- No proposal to withhold payments for areas without a local plan.

The Council has annualy utilised £286k of New Homes Bonus to support the General Fund Budget each year. From 2018-19 this element of NHB will no longer be contributed to the revenue budget and all NHB will be invested through the Investment and Growth Reserve.

The Council has been awarded £1.007m for 2018/19. This is made up of the following 4 year amounts:

| | |
|---|---|
| 2015-16 (yr5) | £288,148 |
| 2016-17 (yr6) | £364,838 |
| 2017-18 (yr7) | £225,172 |
| 2018-19 (yr8) | £128,345 |

As can be seen above, the reward payments have been declining in recent years due to changes in the methodology for calculating the NHB and due to a reduction in the number of units completed. The MTFS assumes that payments will continue at the same level as that received in 2018/19. However, work will be undertaken to asses whether the Council could receive higher amounts in future years. The total estimated values of NHB over the MTFS are given below. The removal of the use of NHB to support the budget means that the Council will contribute an additional £176k to the Investment and Growth Reserve compared to that assumed in last years MTFS despite the projected overall reduction in the values received.

| | **Total NHB Receivable £000** | **To General Fund Budget £000** | **To Investment & Growth Reserve £000** | **Contribution to I&G in 2017-18 MTFP £000** | **Change £000** |
|---|---|---|---|---|---|
| 2017-18 | (1,385) | (286) | (1,099) | (1,099) | **0** |
| 2018-19 | (1,007) | (0) | (1,007) | (817) | **(190)** |
| 2019-20 | (847) | (0) | (847) | (754) | **(93)** |
| 2020-21 | (610) | (0) | (610) | (615) | **5** |
| 2021-22 | (513) | (0) | (513) | (615) | **102** |
| | | | | | **(176)** |

### 3.1.4 Rural Services Delivery Grant (RSDG)

This grant is paid to the upper quartile of local authorities based on the super-sparsity indicator. Similar to the position with Revenue Support Grant the Council will not receive RSDG in 2018-19 by virtue of its Pilot status. It is not known if the grant will continue beyond 2019-20 so the MTFS does not include any values for those future years. The amounts included within the draft budget are:

| **Financial Year** | **RSDG Receivable £000** |
|---|---|
| 2017-18 (for information) | (128) |
| 2018-19 | 0 |
| 2019-20 | (128) |
| 2020-21 | 0 |
| 2021-22 | 0 |

### 3.1.5 Business Rates (NDR)

A revaluation exercise for business rates took effect from 1 April 2017. This was 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 2017-18 Settlement included a formula which aimed to adjust local authorities' income to ensure (as far as is practicable) that the retained income was the same after revaluation as immediately before. At the time of the revaluation of business rates future increases were linked to the level of RPI. The recent Autumn Budget has changed the basis for such increases linking them to the lower rate of CPI from 1 April 2018 (3.0% compared to 3.9%). The Government has said that it will compensate Local Authorities for this reduction in the amount of rates that will be collected.

The Settlement confirmed the success of the Lincolnshire Business Rates Pilot Bid as mentioned in paragraph 3.1.1 above. The arrangements for the distribution of any additional growth amounts through the Pilot are not yet known. Further information on this will be provided to members as it becomes established. If there is additional business rates growth then this will not be received until 2019-20.

The success of the Pilot means that no RSG or RSDG will be paid in 2018-19. However, this will be incorporated into the value of business rates retained by the Council. The estimates show that projected retained Buisness Rates for 2018-19 is significantly higher than in 2017-18. This growth has contributed to a net surplus position for the 2018-19 budget. The estimates as presented has moved this growth into the Council Tax Reserve. This will provide a buffer for the Council against future buisness rates volatility.

The Settlement also made a number of further announcements regarding the future of business rates and local government funding beyond 2018/19. These were notably:

- 100% business rates retention (BRR) will be reduced to 75% and start in 2020-21. Consultation will be held on this. The impact of this is not known or reflected in the MTFS at this stage,
- BRR will be introduced alongside a new needs formula to provide a new funding baseline. Again the impact of this is not yet known, and
- Business rates baseline reset will occur in 2020-21. This does present a potentially significant risk to future levels of funding. Growth in the business rates tax base prior to the reset will benefit the Council less than that achieved after the reset.

Members should note that the above proposed changes in the retention of Business Rates from 2020-21 present a significant uncertainty around future funding levels.

The values for retained business rates in the estimates are detailed below:

| | **2017-18 £000** | **2018-19*2 £000** | **2019-20 £000** | **2020-21 £000** | **2021-22 £000** |
|---|---|---|---|---|---|
| Retained Business Rates | (9,137) | (14,202) | (9,761) | (9,950) | (10,144) |
| S31 Grants*3 | (549) | (1,207) | (1,235) | (1,260) | (1,285) |
| Tariff | 5,173 | 9,580 | 5,790 | 5,906 | 6,024 |
| **Pre - levy Income** | **(4,513)** | **(5,829)** | **(5,206)** | **(5,304)** | **(5,405)** |
| Levy to Lincs CC*1 | 539 | 0 | 235 | 228 | 222 |
| Estimated Deficit/(Surplus) on Collection Fund | 573 | (402) | 0 | 0 | 0 |
| **Net Retained Business rates Income** | **(3,401)** | **(6,231)** | **(4,971)** | **(5,076)** | **(5,184)** |
| Net gain from the Pool | NA | NA | (351) | (342) | (332) |

*Notes to Table*:

*1 Paid to Government in 2017-18 as outside the Lincolnshire Pool. No Levy in 2018-19 as part of the Pilot.
*2 Based on the NNDR1 return
*3 The value of S31 grant has increased from 2017-18 due to a widening of the cohort of ratepayers who are now eligible for small business rates relief.

## 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 £79k surplus in 2018-19 for council tax with a zero balance assumed in future years.

**3.2.3** 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.

## 3.3 Council Tax Base

**3.3.1** Delegated authority was given to the S151 Officer to approve the tax base, as, by law, 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 2017,
- The impact of the Local Council Tax Support Scheme (no change for 2018-19), and
- Assumed growth.

**3.3.2** The Council Tax base for 2018-19 is 27,302 properties, an increase of 410 properties (1.52%) over the final 2017-18 tax base giving additional income of approximately £204k. An ongoing increase of 1.5% per annum is assumed over the MTFS period.

## 3.4 Council Tax

**3.4.1** 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 has the option of applying a 3.0% increase where this is higher than £5,

**3.4.2** The following table shows the estimated level of Council Tax for the MTFS period.

| | | 2017-18 £000 | 2018-19 £000 | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|---|---|---|---|---|---|---|
| **A** | **Council Tax base (band D equivalents) *** | 26,892 | 27,302 | 27,575 | 27,851 | 28,129 |
| **B** | **Council Tax band D (£.p.)** | 164.84 | 169.83 | 174.78 | 179.73 | 184.68 |
| | **Annual increase (£.p.)** | 5.00 | 4.99 | 4.95 | 4.95 | 4.95 |
| | **Annual increase %** | 3.13% | 3.03% | 2.91% | 2.83% | 2.75% |
| **C** | **Annual Council tax collected (a x b)** | (4,433) | (4,637) | (4,820) | (5,006) | (5,195) |
| **D** | **Surplus on Collection Fund** | (65) | (79) | 0 | 0 | 0 |
| | **Gross Council Tax (c + d)** | **(4,498)** | **(4,716)** | **(4,820)** | **(5,006)** | **(5,195)** |

* the tax base for 2018-19 has increased by 1.52% and is assumed to increase by 1.5% for each year thereafter.

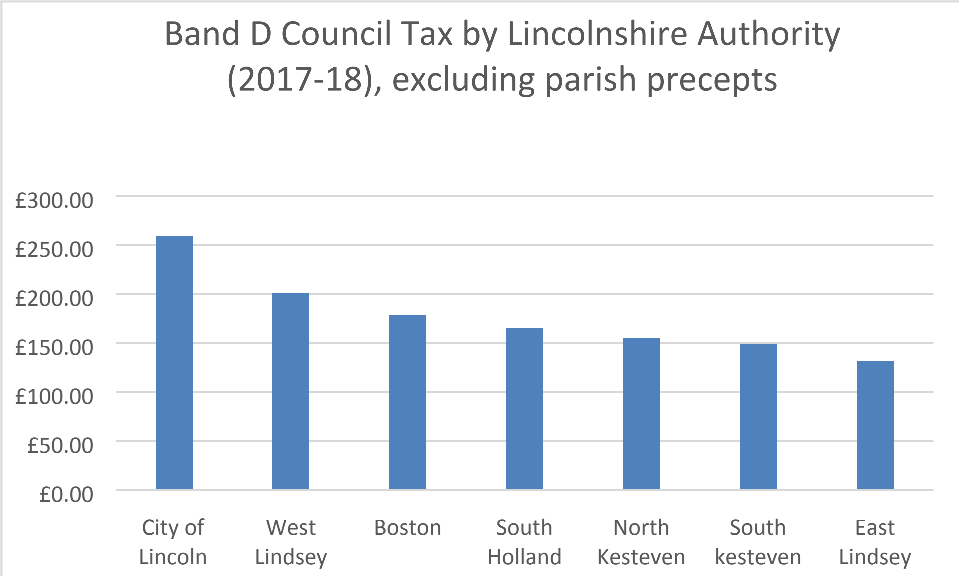
**3.4.3** The following table sets out the estimated 2018-19 Council Tax for each Property Band and the changes over 2017-18 values:

| Band | Ratio | 2017-18 £ | 2018-19 £ | 2017-18 to 2018-19 change Annual £ | Weekly £ |
|---|---|---|---|---|---|
| **A** | 6/9 | 109.89 | 113.22 | 3.33 | 0.06 |
| **B** | 7/9 | 128.21 | 132.09 | 3.88 | 0.07 |
| **C** | 8/9 | 146.52 | 150.96 | 4.44 | 0.09 |
| **D** | 9/9 | 164.84 | 169.83 | 4.99 | 0.10 |
| **E** | 11/9 | 201.47 | 207.57 | 6.10 | 0.12 |
| **F** | 13/9 | 238.10 | 245.31 | 7.21 | 0.14 |
| **G** | 15/9 | 274.73 | 283.05 | 8.32 | 0.16 |
| **H** | 18/9 | 329.68 | 339.66 | 9.98 | 0.19 |

**3.4.4** The table below details the proposed council Tax band D information for the precepting authorities in South Holland DC (Subject to formal confirmation).

| Authority | Proposed band D 2018-19 (£.p) | Increase over 2017-18 £ | Increase over 2017-18 % |
|---|---|---|---|
| Lincolnshire County Council | 1,231.47 | 58.05 | 4.95% |
| Police and Crime Commissioner | 217.44 | 11.97 | 5.83% |
| South Holland DC | 169.83 | 4.99 | 3.03% |
| Parishes including Spalding Special (average) | 36.83 | 2.70 | 7.91% |

**3.4.5** The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2017-18



## 3.5 Budget Summary 2018-19

### 3.5.1 Total Financing – 2017-18 to 2021-22

The table below shows the impact of the 2018-19 settlement within the overall financing of the authority:

| Source of Financing | 2017-18 £'000 | 2018-19 £'000 | 2019-20 £'000 | 2020-21 £'000 | 2021-22 £'000 |
|---|---|---|---|---|---|
| Council Tax | (4,433) | (4,637) | (4,819) | (5,006) | (5,195) |
| Non Domestic Rates | (3,974) | (5,829) | (4,970) | (5,076) | (5,184) |
| Revenue Support Grant (RSG) | (1,072) | 0 | (271) | 0 | 0 |
| Rural Service Delivery Grant | (128) | 0 | (128) | 0 | 0 |
| New Homes Bonus Grant | (1,385) | (1,007) | (847) | (610) | (513) |
| Spalding Special Expenses | (204) | (211) | (221) | (225) | (230) |
| Town & Parish Councils | (713) | (794) | (810) | (826) | (843) |
| Collection Fund Deficit/(Surplus) - Non Domestic Rates | 573 | (402) | 0 | 0 | 0 |
| Collection Fund Deficit/(Surplus) - Council Tax | (65) | (79) | 0 | 0 | 0 |
| **Total Financing** | **(11,401)** | **(12,959)** | **(12,066)** | **(11,743)** | **(11,965)** |
| **Band D Charge** | **£164.84** | **£169.83** | **£174.78** | **£179.73** | **£184.68** |
| **Tax Base** | **26,892** | **27,302** | **27,575** | **27,851** | **28,129** |
| **Band D cost per week** | **£3.17** | **£3.27** | **£3.36** | **£3.46** | **£3.55** |

## 3.6 Draft 2018-19 General Fund Estimates

The table below shows the draft budget estimates for 2018-19 analysed by type of expenditure/income as shown in Appendix B.

**3.6.1** The estimates show a net balanced position for 2018-19, after transfers to reserves. This position has arisen mainly due to the increased level of retained business rates from the Pilot. In addition the following main variances from 2017/18 should be noted:

- A surplus on the NDR Collection Fund of £402k as a result of the withdrawal of the power station appeals (in 2017/18 the collection fund had a £573k deficit – a net £975k beneficial movement)
- 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.

**3.6.2** 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.

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

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

**3.6.4** Notes providing further explanations of major variances between the two years are given below the table. Please note that variances against both 2017-18 Original Estimates and Revised Estimates are shown as the 2017-18 budgets have moved significantly as a result of the Place Review and other service developments.

| **Description** | **2017-18 Original Estimate** | **2017-18 Revised Estimate** | **2018-19 Estimate** | **Variance from OE** | **Variance from RE** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Employees | 6,677 | 6,799 | 7,582 | 905 | 783 |
| Premises | 926 | 926 | 947 | 21 | 21 |
| Transport | 783 | 749 | 772 | (11) | 23 |
| Supplies & Services | 2,660 | 3,068 | 3,400 | 740 | 332 |
| Transformation | 273 | 273 | 391 | 118 | 118 |
| Drainage Board Levies | 2,350 | 2,350 | 2,384 | 34 | 34 |
| Parish Precepts | 713 | 713 | 794 | 81 | 81 |
| Third Party Payments | 2,608 | 3,200 | 3,259 | 651 | 59 |
| Transfer Payments (including Housing Benefits) | 19,342 | 19,599 | 20,491 | 1,149 | 892 |
| Depreciation & Impairment Charges | 986 | 986 | 1,030 | 44 | 44 |
| Direct Revenue Financing | 3,750 | 3,750 | 100 | (3,650) | (3,650) |
| Capital – Contra Entries | (1,061) | (1,322) | (1,105) | (44) | 217 |
| Transfers to/(from) Earmarked Reserves | (3,335) | (4,046) | 672 | 4,007 | 4,718 |
| Transfers to/(from) General Reserve | (301) | 0 | 0 | 301 | 0 |
| **Total Expenditure** | **36,371** | **37,045** | **40,717** | **4,346** | **3,672** |
| Rents & Service Charges | (760) | (760) | (1,021) | (261) | (261) |
| Fees & Charges | (3,637) | (3,656) | (3,788) | (151) | (132) |
| Grants, Reimbursements & Contributions | (19,551) | (19,552) | (20,930) | (1,379) | (1,378) |
| Investment Income | (88) | (88) | (196) | (108) | (108) |
| Recharges | (934) | (1,588) | (1,823) | (889) | (235) |
| **Total Income** | **(24,970)** | **(25,644)** | **(27,758)** | **(2,788)** | **(2,114)** |
| **Net Expenditure** | **11,401** | **11,401** | **12,959** | **1,558** | **1,558** |

**3.6.5** As shown at Appendix B the MTFS current forecast for 2019-20 to 2021-22 shows a deficit in each year as follow:

| £000 | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|
| Net Expenditure | 12,959 | 12,537 | 12,362 | 12,524 |
| Financing | (12,959) | (12,068) | (11,744) | (11,965) |
| **Budget gap** | **0** | **469** | **618** | **559** |

## 3.7 Explanation of 2018/19 Budgets:

### 3.7.1 Moving Forward Savings

Efficiency savings from the Moving Forward Programme are included in the budget as follows:

| Year | Built into Service Budgets £'000 | Savings Still to be Identified £'000 | Total MF Savings Target £'000 |
|---|---|---|---|
| 2018-19 | 672 | 313 | 985 |
| 2019-20 | 759 | 346 | 1,105 |
| 2020-21 | 956 | 149 | 1,105 |
| 2021-22 | 1,027 | 78 | 1,105 |

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. Savings of £672k have now been built into individual service budgets. Of the overall £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.

In addition the next phase of the Moving Forward 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.

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.

### 3.7.2 Employee Related Expenses

The overall increase in employee costs is as a result of changes across a number of areas, notably:

- incremental pay progression and the national pay award (2% and other pay grade uplifts), The full year effect of the Place Review staff savings has been reflected in the Estimates
- approved new posts within new activities (e.g. Delivery Unit, Contracts and Procurement Unit, Grants for Growth). Some of these costs have off-setting savings,grant income or reserve contributions
- the extension to the garden waste scheme (with offsetting fee income),
- Staffing budget for the delivery of the Pride project approved by members in September 2017, funded from reserves in 2017-18 and 2018-19 only,

- the apprentice levy and new apprenticeship programme
- an increase in the pension deficit costs; and
- The removal of a savings line in the 17-18 salary estimates which related to savings from service re-designs. The elements of this which are yet to be achieved have been moved to supplies and services budgets in 2018/19, (hence the 17-18 salary estimates were comparatively low).

Staffing budgets include a £136k salary vacancy factor which equates to 2.1% of the total salary budget. The vacancy factor has been applied at the rate of 3.5% to those service areas where there is scope to hold vacancies but it has not been applied in those areas where vacancies have to be backfilled with agency in order to ensure appropriate levels of service delivery. The vacancy factor is £16k less than in previous years, which reflects the reducing work force and a more appropriate target.

In line with the pension triennial valuation through to 2019-20 the employer's contribution rate is 16.7% for 2018-19. The secondary rate (deficit payment) increases by £64k from £507k (17/18) to £571k in 18/19 of which £407k relates to General Fund and £164k to the HRA. The amount for 2019-20 will be £638k. Figures beyond that are not currently known but an increase of £50k per annum has been built into the MTFS in future years.

### 3.7.3 Premises Related Expenses

The main variances relate to savings made against utilitiy budgets, offset by cost pressures for business rates, industrial unit rents and responsive repairs.

### 3.7.4 Transport

Savings have been made where possible on mileage and lump sum budgets. Savings identified in relation to reduced vehicle fuel and maintenance costs on existing vehicles have been largely offset by the additional costs of the new garden waste vehicle being introduced from 2018-19 (this cost will be offset by income from new subscribers to the service).

### 3.7.5 Supplies & Services

Savings have been made across a number of service budget areas although these are offset by budget pressures in respect of:

- unavoidable costs relating to ICT (new ITrent system, additional licenses and server costs);
- costs relating to the extended garden waste sevice (to be offset against income),
- increased banking charges;
- increased bed and breakfast costs; and
- Increased investment expenditure in the planning service to offset 20% increased planning fee income

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

The impairment allowance for bad debts will be assessed before the final budget alongside work on Revenues and Benefits estimates.

### 3.7.6 Third Party Payments

This budget includes contractual commitments to both Compass Point Business Services (CPBS) and Lincolnshire Legal Services.

CPBS budgets have increased by £76k as a result of the agreed re-investment in the Revenues and Benefits service. The Lincs Legal Budget has been reduced by £86k from the 2017-18 original budget as a result of the Legal Services review implemented in 2017-18.

### 3.7.7 Transfer Payments

This budget consists of Housing Benefits, grant payments and other allowances. The large increase in budgets reflects the introduction of the expenditure on the Grants for Growth scheme (£896k), which has an offsetting grant income budget.

In addition reductions have been made in relation to grants to outside bodies in respect of Community Development (£15k) and Housing works in default (£50k). This latter reduction provides a budget that reflects historical spend, however any unexpected large future spend requirements will need additional funding from reserves.

### 3.7.8 Depreciation and Impairment Charge

The increased depreciation and impairment charges are due to the revaluation of various Council Properties, the transfer of garages to the General Fund and investment in new IT system licences.

### 3.7.9 Transformation

This budget relates to expenditure required to support the delivery of projects within the Moving Forward programme and as part of the Delivery Units Project Development work which has has required an increase in this budget (offset by an increased contribution from reserves).

### 3.7.10 Drainage Board Levies

The Council's 2018-19 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 budget is based on the values confirmed for 2018/19 (£2.384m, a 1.98% increase on the values levied for 2017/18).

### 3.7.11 Direct Revenue Financing

This budget relates to the direct revenue funding of potential capital expenditure on grounds maintenance vehicles from the Investment and growth reserves (see capital programme at Appendix E).

### 3.7.12 Transfer to and from earmarked reserves

The following table sets out the net contributions to and from earmarked reserves in 2018-19 with further information on reserves and balances provided in paragraph 4:

| | **2018-19 £000** |
|---|---|
| Contribution to Repairs & Renewals Reserve | 136 |
| Planned use of Repairs & Renewals Reserve | (77) |
| Transfer of New Homes Bonus to Investment & Growth Reserve | 1,006 |
| Capital Expenditure funded from Investment & Growth Reserve | (100) |
| Revenue Funding from Investment and Growth Reserve (garden waste, Delivery unit set up costs, North Spalding SUE and commercial feasibility studies) | (475) |
| Contribution from Council Tax Reserve towards Pride budget | (100) |
| Contribution from Council Tax Reserve towards a shared officer to deliver General Data Protection Regulation work | (28) |
| Contribution from Council Tax Reserve towards Spalding Special Expenses | (5) |
| Moving Forward Expenditure funded from Transformation Reserve | (43) |
| Delivery Unit projects funded from Transformation Reserve ( South Holland Centre and Ayscoughfee Hall) | (300) |
| Use of Earmarked Grants Reserve for Spalding SUE | (64) |
| **Contributions From Reserves** | **(50)** |
| | |
| Transfer of Estimated Budget Surplus to Council Tax Reserve | **722** |
| **Net Contribution To Reserves** | **672** |

### 3.7.13 Rents and Service Charges

The increase in income reflects the new Income from the DWP for Priory Road (£30k) and a revised estimate of the houisng rental income from Broadgate Managed Properties (£40k).

### 3.7.14 Fees & Charges

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.

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.

Fees and charges increases are to be reviewed during 2018-19.

Planning application fee income has increased steadily over the last three years. The original 2017-18 budget was set at £700k and for 2018-19 this has been increased to £775k (an increase of 11%). The 2018-19 Draft Settlement includes provision for a 20% increase in planning fees from January 2018. Any increase in fee income which relates to the 20% additional charge must be re-invested in the Planning service. An additional £125k of income and expenditure has been included in the estimates. A report will be brought to Council later this year outlining how these monies will be invested in the Planning Service.

The budget in respect of Building Control Fee income has increased by £24k. Service charge fees to the DWP at £24k have been included and car parking charges increased by £10k.

The extended garden waste service is forecast to deliver additional fee income of £124k in 2018-19.

A review of income previously transferred from the HRA to the GF has identified that Sheltered Alarm Monitoring income of approximately £174k had been moved from the HRA to General Fund. This income is not general fund related and needs to be retained, alongside appropriate costs, in the HRA.

### 3.7.15 Grants, Contributions & Reimbursements

This budget includes the following adjustments:

- additional government funding for Community Cohesion from the Controlling Migration Fund (£60k), offset by staff and other service delivery costs,.2nd phase Grant for Growth income of £916k offset by grant payments and staff expenditure,
- additional income of £20k from Breckland DC and East Lindsey LDC in respect of shared IT Systems,
- additional Disabled Facility Grant income from LCC of £260k,
- Increased income from Breckland DC in respect of shared services (£52k), and.
- Reduced Housing Benefit Administration Grant income of £20k.

### 3.7.16 Investment Income

Forecast interest rates have now risen in the longer term following the November 2017 rise in the Bank of England base rate, compared to the estimates used in the 2017-18 budget. In addition, the Council is now earning a commercial rate of interest on its investment in Welland Homes Limited. As a result, this income budget has increased by £108k compared to the previous year. Outturn on this budget will be subject to future changes in interest rates and decisions made on the use of investments to fund future capital.

It is anticipated that the Council's Investment Income will continue to grow in future years as a result of:

- The full impact of investments decisions already taken (e.g. Welland Homes Limited),
- The implementation of phase 2 of the Moving Forward Programme, and

- The evaluation and implementation of other potential commercial investment opportunities.

### 3.7.17 Recharges

Recharges have been reviewed and adjusted as required to reflect inflationary and activity increases. These include an increased recharge to the Housing Revenue Account, to reflect its share of the Corporate and Democratic Core and its share of support services.

## 3.8 Other Budget Assumptions

**3.8.1** The budget estimates and Medium Term Plan cover the period 2018-19 to 2021-22. Over this timescale it is important that we make realistic assumptions as to how costs will rise or fall. This section details the key assumptions made.

**3.8.2** The key assumptions used are:

- That services will deliver all savings identified through the Moving Forward Programme,
- Revenue budgets will be used to deliver services during the year for which they are approved,
- There will be an allowance for unavoidable growth on services (i.e. new statutory obligations and contractual inflation) but no allowance for any increase for general inflation,
- Estimates are prepared on the understanding that appropriate service budgets were produced for the previous year (2017-18) 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, and
- In 2016-17 Council Tax levels were approved to increase by up to £5 per annum over the life of the MTFP which equates to an approximate 3% increase in each year.

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

| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
|---|---|---|---|---|---|
| **RPI** | 3.0% | 3.2% | 3.0% | 3.0% | 3.0% |
| **National pay increase*** | 1.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| **Staffing Salary Level** | 96.5% | 96.5% | 96.5% | 96.5% | 96.5% |
| **Pension contribution rate (excluding lump sum)** | 16.7% | 16.7% | 16.7% | 16.7% | 16.7% |
| **Pension Deficit Payment** | £507k | £571k | £638k | £688k | £738k |

* These values represent the approximate increase as the actual increase will reflect the differential rates that have been applied to different spinal column points and re grouping of pay bands.

### 3.8.4 Universal Credit

Universal Credit has been operating in South Holland since November 2015 for single unemployed claimants, however from 1 January 2018 new claims for this group will return to legacy benefits, including Housing Benefit. The DWP's latest planning assumptions for Universal Credit are that the transition to full service will be complete by the end of 2018. For South Holland, transition is now scheduled for July 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.

### 3.9 Spalding Special Expenses

**3.9.1** 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 2018-19 is estimated at £216,000 (2017-18, £204,353). The total expenditure for 2018-19 has been supported by £4,500 from reserve. Detailed estimates are shown at **Appendix C,** including the calculation of the Council Tax charge of £23.49 (2017-18 £23.07).

## 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. The forecast balances on the reserves are considered to be appropriate for the Council's future requirements.

**4.2** As part of this review it is noted that the Insurance Reserve has not been used to fund any general fund excessive claims (most claims have been absorbed within service base budgets). As such it is recommended that the balance on the Insurance Reserve (£220k) be transferred to the Council Tax reserve. Any future insurance claims that require funding from reserves will have funding taken from this reserve.

**4.3** **Appendix D** outlines the current position with regard to 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 that these risks could be financially significant, Council reserves are currently at a reasonable level.

**4.4** Moving forward, the General Fund has a forecast working balance of £2.064m at 1st April 2018. The Council has an assessed minimum prudent working balance of £2.000m.

**4.5** The table below gives a summary of General Fund Specific Reserve movements (excluding the General Reserve):

| General Fund Specific Reserves (inc Spalding Special Estimates) | 2017-18 £'000 | 2018-19 £'000 | 2019-20 £'000 | 2020-21 £'000 | 2021-22 £'000 |
|---|---|---|---|---|---|
| Brought Forward | **8,342** | **7,379** | **8,051** | **7,312** | **6,745** |
| Transfer In | 1,455 | 1,864 | 1,035 | 798 | 701 |
| Transfers Out | (2,418) | (1,192) | (1,774) | (1,365) | (65) |
| Carried Forward | **7,379** | **8,051** | **7,312** | **6,745** | **7,381** |

*Notes to Reserves table:*

- In addition to specific reserves the general fund balance at 1 April 2017 was £2.064m. This is currently forecast to remain unchanged,
- This table reflects the current estimated effect of the 2017/18 out-turn (Q3 Forecasts). If there is a net overspend at the end of the current year, this will need to be covered from Reserves.
- 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 has been taken to the Investment & Growth Reserve,
- Moving Forward expenditure of £343k will be financed from the Transformation reserve during 2018-19, with a further £169k estimated requirement in 2019-20,
- The Investment and Growth Reserve will be used to fund feasibility work relating to the development of commercial opportunities, funding towards the establishment of the extended Garden Waste service and the set up of the Delivery Unit. In future years this reserve will fund potential capital schemes such as vehicle replacements, Crease Drove and the Food Enterprise Zone.
- The estimated budget surplus for 2018-19 (£722k) will be transferred into the Council Tax reserve to provide a financing resource in the event of future business rates variability.

**4.6** 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. The Council has an amibitious transformation programme and is scheduled to carry out a review of Council-owned assets. This will result in the asset strategy being revised and has been scheduled to take place during September 2018.

**5.2** Appendix E details the updated capital programme of schemes currently in progress or approved to be delivered for 2018/19 and future years, taking into account the anticipated outturn for 2017/18. All such schemes are actively monitored through the Capital Programme Working Group. The values for 2018/19 may change depending upon the ultimate level of spend and delivery in 2017/18.

**5.3** The main schemes included in the approved 2018/19 programme relate to ICT investment, re-roofing of industrial units, grants for growth, Disabled Facility Grants – funded work and housing investments via Welland Homes.

**5.4** Under the Moving Forward programme, it is a priority of the Council that future capital investment must be directed at generating future growth in housing and economic development. Additionally the Council needs to make more effective use of its assets to secure future income streams and make revenue savings. Investment in Priory Road is a key example where this has been made possible through working with partners such as the Department for Work and Pensions.

**5.5** Appendix E also sets out a number of potential schemes where further detailed work is required before formal approval to proceed will be requested.

**5.6** The Council's new Delivery Unit has been set up to progress investment opportunities which contribute to the above objectives. The Team is working on a number of key future schemes which will require funding from the Council's Investment and Growth Reserve. Such schemes include the South Holland Centre, Environmental Services Replacement Programme, Moulton Park, Ayscoughfee Hall Museum and Gardens and Extra Care Housing. Some of these projects will need detailed feasibility studies to be carried out before they are approved. The Council has set aside £100k from revenue reserves in 2018-19 to progress this work with a view to realising the benefits in future years.

## 6 Housing Revenue Account

**6.1** The Budget for 2018-19 and the medium term financial plan are shown in Appendix B. The budget now reflects the full-year effect of the Place Review, implemented during 2017-18, which impacts on both General Fund and Housing Revenue Account budgets.

**6.2** A comprehensive review of the Housing Revenue Account and associated landlord functions has been carried out during 2017-18 following the implementation of the Place Review.

**6.3** The following table shows the summary HRA for 2018-19 compared to the 2017-18 position:

**HRA Estimates by Income & Expenditure 2017-18 to 2018-19**

| Description | 2017-18 Estimate | 2018-19 Estimate | Variance |
|---|---|---|---|
| | **£000** | **£000** | **£000** |
| Rent Income – Dwellings | (15,024) | (14,713) | 311 |
| Charges for Services & facilities | (958) | (1,179) | (221) |
| **Total Income** | **(15,982)** | **(15,892)** | **90** |
| Repairs & Maintenance | 3,486 | 3,327 | (159) |
| Supervision & Management | 2,413 | 2,728 | 315 |
| Service Charge Costs | 1,129 | 1,238 | 109 |
| Depreciation | 2,300 | 2,923 | 623 |
| Provision for Doubtful Debts | 119 | 169 | 50 |
| **Total Expenditure** | **9,447** | **10,385** | **938** |
| **Contribution from Operations** | **(6,535)** | **(5,507)** | **1,028** |
| Financing charges | 2,360 | 2,368 | 8 |
| Capital Expenditure charged to Revenue | 3,977 | - | (3,977) |
| **Net operating (surplus)/Deficit** | **(198)** | **(3,139)** | **(2,941)** |

## 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:

- A rent reduction of 1% from 17-18 to 19-20 and nil inflation imposed by the Government. The Council had 3,804 HRA dwellings at 1st April 2017 with an average weekly rent of £76.32 (on a 52 week basis). The average rent in 2017-18 will be £75.57 per week
- An assumed rent loss of 1% for void properties and 1.5% for bad debts, and
- Estimated net rent arising from additional units included within the HRA capital programme from 2019/10 onwards.

### 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. Charges were increased by 2.5% in 2017-18 to catch up for several years' increases which had not been actioned. For 2018-19 it is proposed that charges be increased in line with the annual increase applied by Anglian Water. This figure is not yet known. When we receive the information from Anglian Water, the Estimates will be updated to reflect the increased level of charge.

**Hire of Guest Rooms**

Charges for the hire of Guest Rooms for tenant guests were subject to a detailed review in 2017-18. For 2018-19 and future years the charges will be increased on an annual basis in line with the December CPI.

**Other Service Charges**

The key change to this budget line reflects the re-instatement of alarm monitoring charges, for which the cost and income were deleted in error in the previous year's budget. The impact of this is neutral across the HRA.

Prior to 2017-18 other Service Charges had not been increased for several years as the HRA has been able to defer any increase. In 2017-18 it was considered prudent that the charges be increased on an annual basis in line with the December CPI. A detailed review of service charges will now be carried out to reflect the updated budget and service changes implemented as part of the Place Review. For 2018-19 service charges will be maintained at 2017-18 levels while the detailed review is completed.

### 6.4.3 Repairs & Maintenance

The implementation of the Place Review will deliver significant savings across Repairs and Maintenance Budgets, particularly in relation to Void Properties and Responsive Repairs. As part of the implementation of the review current systems and processes are being re-designed to ensure that the Operation Repairs Team operates efficiently and delivers value for money. As part of this on-going work external contracts will also be reviewed to ensure that demand is met in the most effective way.

Therefore a prudent approach has been taken with regard to the 2018-19 budget, with a contingency provision allowed against anticipated savings in order to address any peaks in demand. This contingency will be removed from 2019-20 to reflect the full impact of the on-going savings arising from the Place Review.

### 6.4.4 Supervision & Management

A detailed review of all HRA Budgets has been carried out alongside the implementation of the Place Review. As a result a number of changes have been made to supervision and management budgets to reflect:

- Operational budgets to support the revised structure,
- Increases in costs such as external Court Costs,
- Resources required to review HRA Assets, and
- Strengthened programme support to ensure the delivery of the HRA Affordable Housing Programme.

### 6.4.5 Service Charge Costs

This budget line relates to additional “special services” provided to certain groups of tenants and funded through service charges, usually collected alongside tenant rents. This service includes sheltered housing, alarm monitoring, community facilities, estate management and sewerage works.

All budgets have been reviewed in detail following the Place Review. The major variation in 2018-19 relates to the re-instatement of the Alarm Monitoring Budget, which is offset by additional service charge income.

### 6.4.6 Depreciation

The net depreciation charge to the HRA has increased from £2.3m to £2.923. This amount, is currently charged to the HRA and credited to Major Repairs Reserve, and used to fund capital expenditure. In 2017-18 the basis of calculation has changed nationally to reflect an increase in the social housing factor (the proportion of open market value used for calculation) from 34% to 42%. This has increased the value of depreciation charged.

### 6.4.7 Provision for Doubtful Debts

The phased roll out of Universal Credit is likely to have significant impact on the Housing Revenue Account. Further modelling is required to quantify the impact, however, at this stage the provision for doubtful debts has been increased within the MTFS by £50k per annum.

### 6.4.8 Capital Expenditure charged to Revenue

As part of the Council’s year end accounts for 2015-16 and 2016-17 the annual revenue contribution to the capital programme has been credited to the Major Repairs Reserve and has been unspent due to delays in the delivery of the HRA Affordable Housing Programme. The Major Repairs Reserve now stands at over £6m and this will be used to fund capital expenditure in 2018-19 without the need for a revenue contribution. A revenue contribution will be required in 2019-20 to support the delivery of the re-phased capital programme.

## 7 HRA Reserves

**7.1** The table below shows the unallocated reserve balances as at 31st March 2017 and the estimated movements to 31st March 2019. 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 Working Balance £'000 | Insurance Reserve £'000 | Major Repairs Reserve £'000 |
|---|---|---|---|
| **Balance at 1st April 2017** | 8,968 | 200 | 6,697 |
| **Transfers in** | 3,539 | - | 2,865 |
| **Transfers Out** | - | - | (3,001) |
| **Balance at 31st March 2018** | **12,507** | **200** | **6,561** |
| **Transfers in** | 3,139 | - | 2,923 |
| **Transfers Out** | | - | (8,100) |
| **Balance at 31st March 2019** | **15,646** | **200** | **1,384** |

**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.

**8.3** The Council has accrued over £6.5m in its Major Repairs Reserve over the last 2-3 years due to slippage in the planned Affordable Housing Programme. A re-phased Affordable Housing Programme has now been established to replace units sold through increased right to buy (RTB) sales in order to:

- ensure that reserves are spent effectively,
- maximise the use of resources available through retained RTB receipts, and
- access opportunities for additional grant funding through the Homes & Communities Agency (HCA).

**8.4** The programme will be delivered through a combination of new build and the purchase of affordable housing units. A total of £14m has been allocated during the period of the MTFP from 2018-19 to 2021-22. This will allow the Council to deliver:

- A development of 34 units for rent/shared ownership at Small Drove, Weston,
- A development of 24 units for rent/shared ownership at Severn Road, Spalding,
- Acquisition of approximately 30 units of affordable housing directly from developers to provide properties to address key areas of housing need; and
- Support to a £2.5m annual programme which will deliver approximately 18-20 units per year.

**8.5** 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.

## 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 | Mitigating Action |
|---|---|---|---|
| Reduced public sector funding from Central Government (e.g.New Homes Bonus) | 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<br>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 in line with Cabinet Decision (21/11/17) |
| 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, develop a suitable Transformation Programme |

| Risk | Likelihood | Impact | Mitigating Action |
|---|---|---|---|
| Garden Waste take-up of scheme. | High | High | A pilot scheme introduced over 2016-172016-17 and 17/18 has now been extended with another round for 2018-19. |
| Court Income | High | Low | Court income projections are in line with budget. The budget has not been increased due to concerns over collectability of this income. A year-end review will be undertaken to inform future year's budgets. |
| Housing Benefit Overpayments | High | High | The level of Housing Benefit Overpayments and their recoverability needs to be monitored closely through the year in order to ensure budget levels are appropriate. |
| Additional duties arising from the Homeless Reduction Act | High | High | Embed structure changes as part of Place Review, maximise use of DCLG funding and closely monitor impact. |
| Universal Credit | High | Medium | The implementation of the Universal credit may impact on the General Fund in terms of running costs for the Benefits service and additional demand on other council services and on the HRA in terms of increased arrears. 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 draft budget was available for consultation on the website during January with commentary invited from council tax payers, business rate payers and key stakeholders.

**10.2** 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.

**10.3** 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 G1 and G2) 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, minimum revenue provision policy and associated treasury prudential indicators.

**11.3** The are no changes proposed to the Treasury Management Policy.

**11.4** The DCLG Prudential Framework of Capital Finance, Guidance on Local Government Investments and Statutory Guidance on Minimum Revenue Provision has recently been out to consultation as has the CIPFA Treasury Management Code of Practice and the Prudential Code. As some of the revised documents have only very recently been published following consultation the proposed strategy has been produced on the same basis as previous years. If any changes are needed to these documents, these will be reported back to a future meeting to ensure the 2018/19 Policy and Strategy documents remain compliant.

**11.5** Cash balances will continue to be invested to generate income. These investments will be made in accordance with the strategy approved by Council. Additional income is also being raised through the Council's commercial loans to Welland Homes.

**11.6** A new directive which regulates both retail and wholesale investment business called the "Markets in Financial Instruments Directive II" became effective from 3rd January 2018. To ensure the Council could continue to invest its surplus funds in the markets the Council has had to opt up to professional client status with brokers and financial institutions.

**11.7** During 2014/15 the Council paid £50,000 to the Local Capital Finance Company Limited (part of the Municipal Bonds Agency) for the purchase of an equity stake in their newly created company. The intention is that they will be offering loans to local authorities in the future and that borrowing rates will be lower than those offered by the Public Works Loan Board. This Authority intends to make use of this new source of borrowing in the future if it is the cheapest form of borrowing.

**11.8** The Council's external treasury advisors issued an amended interest rate forecast on 12th February 2018 to that shown in the Treasury Strategy at Appendix G2. This was as a result of the comments made by the Monetary Policy Committee following their meeting in February 2018. The revised forecast is now estimating an additional increase in bank base rates to 0.75% in May 2018 as well as the 0.25% increase in December 2018. If bank base rates do increase in accordance with this forecast then the Council should achieve higher levels of investment interest during 2018/19.