

## SOUTH HOLLAND DISTRICT COUNCIL

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

**To:** Cabinet 17 December 2018

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

**Subject:** Draft Budget, Medium Term Plan and Capital Strategy  
(For Consultation)

**Purpose:** To consider the Draft General Fund and Housing Revenue  
Account 2019-20 revenue and capital estimates and the Draft  
Financial Medium Term Plan (for Consultation)

### **Recommendations:**

1. That the following documents be issued for consultation:
  - Revenue Estimates for the General Fund, Housing Revenue Account and (as set out in Appendices A, B and C).
  - Reserves position as set out in Appendix D
  - Capital Programme as set out in Appendix E
  - Capital Strategy as set out in Appendix F (to follow)
2. That a £500k annual addition be made to the capital programme for the five year period 2018-19 to 2022-23 to fund the acquisition of capital assets.
3. That members note the intention to create a Community reserve of £500k using New Homes Bonus (NHB) in 2019-20 as part of the budget setting process.
4. That members note the ongoing use of the Council Tax reserve to facilitate

## **1.0 GENERAL FUND**

### Purpose of Report

- 1.1 This report sets out the 2019-20 Draft Budget and associated Medium Term Financial Plan (MTFP) for the South Holland District Council General Fund and Housing Revenue Account (HRA). The Draft Budget and MTFP are based on the latest information that is currently available, as a starting point for the budget consultation process, leading to approval by Full Council on 27th February 2019. The Full Council meeting will also approve the associated Council Tax level and HRA Rents for 2019-20

- 1.2 The Draft Budget proposals will be subject to review by Scrutiny and the general public during the consultation period. The outcomes of both the Scrutiny review and consultation will inform the Cabinet's recommendations on the budget and Council Tax Setting for 2019-20.
- 1.3 The updated Treasury Management Strategy is not included at this point. A new set of Strategy documents is due to be presented to Governance Audit Committee in January and will be included in the Budget Report to Cabinet once approved.

#### Background

- 1.4 The 2019/20 budget is the fourth and final 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. The next few years will be subject to unprecedented change without full details available to us at this time, once more detail becomes available the necessary plans can be put into place.
- 1.5 The Moving Forward Programme built on prudent financial management of the council and innovative income generation with savings targets in phase 1 of the programme totalling £1.105m by 2020-21 by transforming Council Services.
- 1.6 A number of projects from phase 1 of the Moving Forward programme are now substantially complete including the Priory Road Review, the Place Review and the initial significant investment in Welland Homes.
- 1.7 In 2015/16 £1.1m of funding was agreed and set aside to provide up-front investment for the Moving Forward phase 1 programme, which is now in progress. The current forecast assumes all the available funding held in reserves will be used by the end of 2019/20
- 1.8 Phase 2 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 projects reflect the Council's developing agenda for growth and commercialisation and projected savings for some aspects of the proposed programme are built into current forecasts. Due to the type of projects involved, namely property based, there is more potential for slippage so this will need to be managed over the medium term.
- 1.9 As part of Moving Forward phase 2 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. This could be through the acquisition or direct development of sites.

## 2019-20 Draft Budget & Medium Term Financial Plan (MTFP)

**1.10** The key elements of the draft 2019-20 Budget and MTFP are summarised in the following paragraphs and set out in detail in the attached appendices which show:

- the 2019-20 revenue and capital estimates for the General Fund and Housing Revenue Account (Appendices A, B & C),
- schedule of movements in Council Reserves (Appendix D),
- General Fund Capital Programme (Appendix E),
- The Council's Capital Strategy (Appendix F) and
- Treasury Management Strategy (to follow with the budget report in February),

## 2019-20 Draft Local Government Finance Settlement

**1.11** The provisional Settlement announcement and consultation paper for 2019-20 has been delayed by the Government from the indicative date of 6 December and has not been released at the time of writing this report. For this reason the draft budget is based on the best knowledge available at present and makes a number of assumptions about the funding that may be available to the Council for 2019-20 and beyond this year is much more difficult to estimate or forecast due to the uncertain level of change ahead.

- Although the Council submitted a bid to be a part of a business rates pilot in 2019-20, this is currently not assumed and instead allows for arrangements to revert to the Lincolnshire Pool with a 50% business rates retention for 2019-20. The Tariff and Baseline assumptions for 2019-20 are in line with those announced in the 4 year settlement. The Government is currently developing and consulting on the proposals for business rates retention from 2020-21 onwards. There are considerable uncertainties around what the future scheme design will be and what the arrangements will be for any reset of the Business Rates Baseline. Work will be ongoing throughout 2019-20 to develop the agreed approach for future years.
- Revenue Support Grant (RSG) and Rural Services Support Grant (RSDC) are included as per the values indicated by the Government in the four year settlement. These Government grants are not assumed to continue beyond 2019-20.
- New Homes Bonus has been modelled on the assumption that this is the final year of any new awards for growth, and that future year levels are only made up of the declining legacy payments. Until the Settlement is announced it is not known what the baseline will be set at above which any growth will be rewarded. The 2019-20 estimates assume a baseline of 0.4% in line with that applied in 2018-19, the Council could receive £44k less for each 0.1% increase in the baseline.

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

#### 2019-20 Council Tax Base

- 1.13** The Council Tax base for 2019-20 is 27,712 properties, an increase of 410 properties over the 2018-19 tax base giving additional income of approximately £207k. An ongoing increase at 1.5% per annum is assumed over the MTFP period.
- 1.14** The Band D Council Tax has been budgeted at £174.78. This is a £4.95 (2.91%) increase on 2018-19 and in line with that previously recommended by members to be included as an annual increase within the MTFS. The Settlement will confirm if there are any further changes to be made to the Council Tax capping regime.

#### 2019-20 Collection Fund Surplus

- 1.15** Each year the Council is required to calculate the balance on its Collection Fund. Current estimates indicate a £58k surplus in 2019-20 for council tax with a zero balance assumed in future years. This surplus will change over the coming months and will be updated in the final budget proposals.
- 1.16** In addition there is an estimated Business Rates deficit of £252k in the 2019-20 budget with a zero balance assumed in future years. The deficit reflects a general reduction in rates collection compared to that assumed. As with Council Tax this deficit will change over the coming months and will be updated for the final budget. Volatility in business rates is a feature of the system design of funding for local authorities. As was proposed in the 2018-19 budget if future surpluses are created these will be allocated to reserves to assist with the funding of future deficits, and in the smoothing of the Councils budget requirement. For 2019-20 the deficit of £252k has been allocated from the Council Tax reserve.

#### SHDC Detailed Budget Changes

- 1.17** Key assumptions made within the current 4 year MTFP include:

- An annual increase in Council Tax of £4.95 and a 1.5% assumed growth in the tax base
- An anticipated reduction in retained Business Rates. This will be subject to the settlement announcements, the success or otherwise of the Pilot bid and the projections for levels of business rates collection for 2019-20
- The impact of a 2% pay award, incremental growth, an increase in the pension fund deficit charge, and other staffing changes
- A 2% increase in the Drainage Board levies

- Allowance for unavoidable growth on services (i.e. new statutory obligations and pay & contractual inflation) but no allowance for any increase for general inflation,
- Additional Investment interest income
- Substantial savings from the new Leisure Services management contract
- Maximising income generation through Investment & Growth, funded through New Homes Bonus,
- Maximising income from fees and charges through undertaking a cross cutting service review and implementation of changes from October 2019.
- Ongoing Budget challenge to ensure that budgets are aligned with corporate priorities and efficiencies are being made wherever possible.

**1.18** The 2019-20 draft estimates currently shows a balanced position, although this is subject to any final budget adjustments and may change once the final business rates position for 2019-20 is known (from the NNDR1 return figures produced in mid-January).

**1.19** 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 2019-20. There will be ongoing budget verification to ensure that final budgets are robust for the next financial year.

**1.20** The current forecast for 2020-21 to 2022-23 shows a deficit in each year. This position is subject to further work to develop the Council’s investment and growth strategy as it impacts on business rates, commercial income and growth in the tax base. It is also subject to the final scheme that is developed for the retention of business rates and the proposed business rates reset. As has been previously approved by members any underspends in the current year will be transferred to the Council Tax Reserve to help mitigate future budget volatility, particularly in relation to Business Rates income over the course of the MTFS.

**1.21** As part of the budget, it is proposed that a new community reserve of £500k be established, funded from the new homes bonus, proposals for this will be forthcoming to a future cabinet.

**1.22** It should also be noted, it is anticipated the 2018-19 general fund position will generate a surplus which will be transferred to the Council Tax reserve and be available to support the 2019-20 budget onward as required.

## **2.0 Housing Revenue Account**

**2.1** The draft Housing Revenue Account (HRA) budget shows a forecast surplus of £2.7m. This reflects:

- The annual rent reduction of 1% from 2017-18 to 2019-20 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 2019-20 onwards, and
- A review of charges where appropriate.

### **3.0 Reserves**

- 3.1** General Fund Specific Reserves are budgeted to reduce by £2.119m in 2019-20. This figure may change depending on the forecast out-turn for 2018-19.
- 3.2** HRA Reserves are due to increase by £684k (net) during 2019-20 but will reduce in the longer term due to the increased use of 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 are 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 General Fund capital programme (Appendix E) has been amended to reflect a revised 2018-19 forecast outturn, known slippage requests, Capital Working Group input and scheme estimates.
- 4.3** The General Fund programme includes provision for ICT investment, Priory Road enhancements, Capital grants (DFG and G4G), Crease Drove, Food Enterprise Zone and housing investment. It also includes a provision for commercial acquisitions.
- 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. A total of £16.5m has been allocated over the MTFP.
- 34 units at Small Drove, Weston
  - Development at Severn Road, Spalding
  - Acquisition of units of affordable housing from developers
  - Other scheme developments for additional units
  - Major area works - environmental improvements on estates,
  - Essential improvements to Sewage Plant works, and
  - The replacement of key housing IT Systems.

- 4.5** A new provision has been introduced, of £500k per annum (which can be flexed), for acquisitions over the length of the programme to facilitate regeneration, commercialisation and delivery of housing and commercial returns.

## **5.0 OPTIONS**

- 5.1** That the draft capital and revenue budget estimates, the medium term financial plan and the capital strategy be approved and issued for consultation.
- 5.2** There are no alternative options presented, however amendments may be made by Cabinet before release for consultation.

## **6.0 REASONS FOR RECOMMENDATION**

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

## **7.0 EXPECTED BENEFITS**

- 7.1** To set an affordable and balanced budget for 2018-19 that ensures delivery of the priorities of the Council

## **8.0 IMPLICATIONS**

### **8.1 Carbon Footprint & Environmental Issues**

- 8.1.1** None

### **8.2 Constitution & Legal**

- 8.2.1** None

### **8.3 Contracts**

- 8.3.1** None

### **8.4 Crime and Disorder**

- 8.4.1** None

## **8.5 Equality and Diversity & Human Rights**

**8.5.1** None

## **8.6 Financial**

**8.6.1** The report is of a financial nature and further financial details are included within the appendices.

## **9.0 Risk Management**

**9.1** Risks are highlighted within the appendix.

## **10.0 WARDS/COMMUNITIES AFFECTED**

**10.1** Budget implications affect all wards.

## **11. ACRONYMS**

11.1	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

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Background papers:-           None

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**Key Decision:**

No

**Exempt Decision:**

No

Draft for Consultation