

Draft Budget 2019-20 and Medium Term Financial Plan 2019-20 to 2022-23.

1. Introduction

- 1.1** This appendix sets out the draft combined 2019-20 budget estimates and Medium Term Financial Plan (MTFP) for the period 2019-20 to 2022-23 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:
- 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 Plan for the period 2019-20 to 2022-23
 - The 2019-20 General Fund Revenue Budget & Financing,
 - The General Fund Reserves Position,
 - The General Fund Capital Programme and Financing,
 - The 2019-20 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 (to follow in final budget report).

2. Medium Term Financial Plan

2.1 Strategy, Aspirations and Forward Projections

2.1.1 The objectives of the Council's Medium Term Financial Plan 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 consider a Transformation Plan for CPBS aimed at delivering further financial savings.

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 2019-20 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 2022-23 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.

2.3.2 There is a considerable level of uncertainty around the future design of the system for business rates retention from April 2020 and what this will mean for the level of funding that will be secured. It is anticipated that there may need to be some significant reductions in expenditure or increases in income in order to be able to deliver future balanced budgets. Work is continuing to be carried out with services to challenge budget costs in order to reduce both in-year and on-going base budgets without impacting on core service levels. However, in addition to the uncertainty about future funding levels the Council will also experience increasing inflationary pressures on core budgets.

2.3.3 As part of the budget review, 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 increasing asset ownership, and
- Welland Homes.

3. General Fund Budget & Financing 2019-20

3.1 External Financing – 2019-20 Provisional Settlement

3.1.1 Background

In July 2018 the Government issued a technical consultation document on the financial settlement for 2019-20. At the time of writing this report, the results and feedback on that consultation have not been released. The Provisional Settlement for 2019-20 will be released in December 2018. There were a number of areas of change which could affect 2019-20 and more particularly future years and these are covered below and as part of the relevant sections of the budget report.

The Council was re-admitted to the Lincolnshire Business Rates Pooling arrangement for 2018-19. This pooling arrangement benefits the level of business rates returned to the District. In addition for 2018-19 the District was part of a successful bid to the Government to trial 100% business rates retention for 2018-19 only. The Government have invited further bids for ongoing pilots for 2019-20. The Lincolnshire Pilot authorities have submitted a further bid to try and extend the existing pilot arrangements, the Settlement in December will announce which authorities have been successful.

If this new bid is unsuccessful, then for 2019-20 the retention of business rates growth will revert to 50%. This is the basis upon which the estimates have currently been compiled. The Government has indicated that Business Rates retention will be set at 75% from 2020-21 onwards and Revenue Support Grant will be incorporated into the baseline level of funding.

As well as the potential for the authority to attract additional income through increased 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 2018-19 Settlement 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. However, the Government has launched further consultation, through its support of a Fairer Funding Review, into ways to simplify the process of funding local authorities. The outcome of this is not known at this stage, but there is a general acceptance that the current system for retention of business rates has become increasingly complex and is only really understood by a few specialists. Work to simplify the system, whilst still retaining the original principles of devolving funding through business rates, will continue over the next year ahead of the 2020-21 deadline.

3.1.2 Revenue Support Grant (RSG)

SHDC did not receive RSG in 2018-19 due to it being part of the successful Business Rates Pilot. However, within the draft budget for 2019-20 there is no presumption that the pilot will continue and as such RSG is included in the 2019-20 estimates for one final year, at the significantly reduced value of £271k (as announced as part of the 4-year Settlement agreement in 2016). RSG will cease from 2020-21, the MTFP includes the following values:

Financial Year	RSG Receivable £000
2017-18 (for information)	(1,072)
2018-19 (built into business rates pilot income)	Nil
2019-20	(271)
2020-21	Nil
2021-22	Nil
2022-23	Nil

3.1.3 New Homes Bonus (NHB)

The 2019-20 Settlement consultation has made some suggestions around a potential change to the current system for awarding NHB. For 2017-18 and 2018-19 NHB allocations were only made for growth above 0.4% of baseline housing levels. In order that the national NHB scheme does not over spend in 2019-20 the suggestion is that the baseline level may have to increase. However no value is suggested and it will probably be determined by the results of the Housing Delivery Test values. It is strongly believed that NHB will not survive in its current form beyond 2020-21 and does raise the question of whether the Government will honour legacy payments.

The estimates currently include a value based on the growth identified in the CTB1 return and a 0.4% baseline. This provides an in year allocation of £275k and a total value of NHB for 2019-20 of £993k as detailed below.

2016-17 (yr6)	£364,838
2017-18 (yr7)	£225,172
2018-19 (yr8)	£128,345
2019-20 (yr9)	£275,044
TOTAL	£993,399

The 'in year' value of £275k for 2019-20 could reduce by £44k for each 0.1% increase in the baseline value above 0.4%

The MTFP assumes that legacy payments will be honoured but no new in year allocation will be received. The total estimated values of NHB over the MTFP are given below. The estimates also assume that all NHB is paid into the Investment and Growth Reserve.

£'000	2019/20	2020/21	2021/22	2022/23
2016/17	365			
2017/18	225	225		
2018/19	128	128	128	
2019/20	275	275	275	275

TOTAL	993	629	403	275
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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 did 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 MTFP 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 (built into business rates pilot income)	0
2019-20	(128)
2020-21	0
2021-22	0
2022-23	0

3.1.5 Business Rates (NDR)

Although SHDC has been part of a further bid for a Business Rate's Pilot in 2019-20 the chances of a successful bid are unknown. As such the estimates for 2019-20 have been modelled on an assumed position whereby SHDC will revert to a 50% retention of business rates growth. This is a less advantageous position and will see a reduction in levels of funding compared to 2018-19, the successful pilots will be announced with the provisional settlement.

As noted at para 3.1.1 above there is considerable uncertainty around the future arrangements for local government funding and how the Fairer Funding Review that is taking place will translate into any reallocation of resources to reflect need. The Government has already announced its intention to move to a 75% business rate retention value for 2020-21. Decisions on the reset detail of the business rates baseline in 2020-21 are still to be made.

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:

	2018-19 £000	2019-20² £000	2020-21 £000	2021-22 £000	2022-23 £000
Retained Business Rates	(14,202)	(9,643)	(9,830)	(10,022)	(10,217)
S31 Grants	(1,207)	(1,251)	(1,259)	(1,285)	(1,300)
Tariff	9,580	5,790	5,906	6,024	6,144
Pre - levy Income	(5,829)	(5,104)	(5,184)	(5,282)	(5,372)
Levy to Lincs CC ¹	0	210	204	197	189
Estimated Deficit/(Surplus) on Collection Fund	(402)	252	0	0	0
Net Retained Business rates Income	(6,231)	(4,642)	(4,980)	(5,086)	(5,183)
Net gain from the Pool	NA	(316)	(306)	(295)	(284)

Notes to Table:

*1 No Levy in 2018-19 as part of the Pilot.

*2 Based on the estimated position as at August 2018

As noted above there is currently a projected deficit on the Business rates collection fund, with SHDC's share being £252k, this contrasts with the £402k surplus in 2018-19. The volatility that Councils are experiencing with business rates income is a feature of the structure of local government funding. In 2018-19 the Council will have benefited from being in the Pilot and overall the Council is able to make a £722k contribution to its Council Tax Reserve. Members are advised that it is likely that there will be future swings in Business rates income over the MTFP and as such it is proposed that the Council tax reserve continues to be used to smooth these swings in the Collection Fund. As such it is proposed that the 2019-20 collection fund deficit is supported by a contribution from reserves.

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 £58k surplus in 2019-20 for council tax with a zero balance assumed in future years.

3.2.3 In addition as noted above there is an estimated Business Rates deficit of £252k in the 2019-20 budget with a zero balance assumed in future years. It is proposed that any deficit is funded from the Council Tax reserve.

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 will reflect:

- Changes to the baseline number of properties during 2018,
- The impact of the Local Council Tax Support Scheme (no change for 2019-20 other than inclusion of relief for carers), and
- Assumed growth.

3.3.2 The Council Tax base for 2019-20 is currently estimated at 27,712 properties, an increase of 410 properties (1.50%) over the final 2018-19 tax base giving additional income of approximately £207k. The calculation will be updated once the final tax base is known. An ongoing annual increase of 1.5% per annum is assumed over the MTFP period.

3.4 Council Tax

3.4.1 Until the Settlement is announced it is not known what the Capping regulations will be and hence the allowable % or £ value increase in a Band D Council Tax. The 2019-20 budgets assume a £4.95 increase which equates to a 2.91% increase. The MTFP assumes an ongoing increase of £4.95 per annum.

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

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
A Council Tax base (band D equivalents) *	27,302	27,712	28,127	28,549	28,977
B Council Tax band D (£.p.)	169.83	174.78	179.73	184.68	189.63
Annual increase (£.p.)	4.99	4.95	4.95	4.95	4.95
Annual increase %	3.03%	2.91%	2.83%	2.75%	2.68%
C Annual Council tax collected (a x b)	(4,637)	(4,843)	(5,055)	(5,272)	(5,495)
D Surplus on Collection Fund	(79)	58	0	0	0
Gross Council Tax (c + d)	(4,716)	(4,901)	(5,055)	(5,272)	(5,495)

* the estimated tax base for 2019-20 is currently increased by 1.50% and is assumed to increase by 1.5% for each year thereafter.

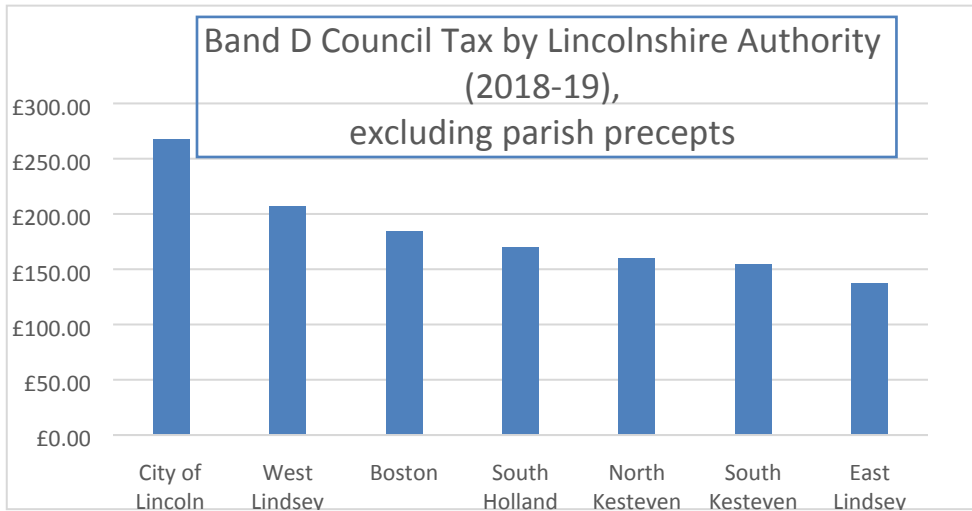
3.4.3 The following table sets out the estimated 2019-20 Council Tax for each Property Band and the changes over 2018-19 values:

Band	Ratio	2018-19 £	2019-20 £	2018-19 to 2019-20 change	
				Annual £	Weekly £
A	6/9	113.22	116.52	3.30	0.06
B	7/9	132.09	135.94	3.85	0.07
C	8/9	150.96	155.36	4.40	0.08
D	9/9	169.83	174.78	4.95	0.10
E	11/9	207.57	213.62	6.05	0.12
F	13/9	245.31	252.46	7.15	0.14
G	15/9	283.05	291.30	8.25	0.16
H	18/9	339.66	349.56	9.90	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 2019-20 (£.p)	Increase over 2018-19 £	Increase over 2018-19 %
Lincolnshire County Council Police and Crime Commissioner			
South Holland DC	174.78	4.95	2.91%
Parishes including Spalding Special (average)			

3.4.5 The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2018-19.



3.5 Budget Summary 2019-20

3.5.1 Total Financing – 2018-19 to 2022-23

The table below shows the impact of the 2019-20 settlement (to be confirmed) within the overall financing of the authority:

Source of Financing	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Council Tax	(4,637)	(4,843)	(5,055)	(5,272)	(5,495)
Non Domestic Rates	(5,829)	(4,893)	(4,980)	(5,086)	(5,183)
Revenue Support Grant (RSG)	0	(271)	0	0	0
Rural Service Delivery Grant	0	(128)	0	0	0
New Homes Bonus Grant	(1,007)	(993)	(629)	(403)	(275)
Spalding Special Expenses	(211)	(216)	(221)	(226)	(231)
Town & Parish Councils Collection Fund	(794)	(810)	(826)	(843)	(860)
Deficit/(Surplus) - Non Domestic Rates Collection Fund	(402)	252	0	0	0
Deficit/(Surplus) - Council Tax	(79)	(58)	0	0	0
Total Financing	(12,959)	(11,960)	(11,711)	(11,830)	(12,044)
Band D Charge	£169.83	£174.78	£179.73	£184.68	£189.63
Tax Base	27,302	27,712	28,127	28,549	28,977
Band D cost per week	£3.26	£3.36	£3.45	£3.55	£3.64

3.6 Draft 2019-20 General Fund Estimates

The table below shows the draft budget estimates for 2019-20 analysed by type of expenditure/income as shown in **Appendix B**.

3.6.1 The draft estimates show a net balanced position for 2019-20, after transfers to and from reserves.

The following main variances from 2018-19 should be noted:

- A significant reduction (£935k) in estimated business rates income compared to 2018/19 due to no longer being in the 100% Pilot scheme.
- An estimated deficit on the NDR Collection Fund of £252k, funded from reserves, as a result of lower than forecasted collection of business rates in 2018/19. In 2018/19 the collection fund had a £402k surplus – a net £654k adverse movement.
- The impact of an assumed 2% pay award and incremental pay progression on employee budgets together with a new banding structure,
- An increasing pension fund deficit,
- 2% increased costs of Internal Drainage Board levies
- Additional Investment Income.
- Additional Council tax income due to growth in the tax base, the increased Band D charge and a small surplus on the collection fund (£183k)
- Some budget reductions taken from services as part of the Star Chamber process

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 2019-20.

3.6.3 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	2018-19 Original Estimate	2018-19 Revised Estimate	2019-20 Estimate	Variance from OE	Variance from RE
	£'000	£'000	£'000	£'000	£'000
Employees	7,582	8,311	8,933	1,351	622
Premises	947	926	966	19	40
Transport	772	790	933	161	143
Supplies & Services	3,517	3,443	3,095	(422)	(348)
Transformation	273	273	0	(273)	(273)
Drainage Board Levies	2,384	2,384	2,431	47	47
Parish Precepts	794	794	810	16	16
Third Party Payments	3,259	3,254	3,377	118	123
Transfer Payments (including Housing Benefits)	20,491	20,509	17,210	(3,281)	(3,299)
Depreciation & Impairment Charges	1,030	1,030	945	(85)	(85)
Direct Revenue Financing	100	684	2,493	2,393	1,809
Capital – Contra Entries	(1,105)	(1,105)	(1,020)	85	85
Transfers to/(from) Earmarked Reserves	672	39	(2,119)	(2,791)	(2,158)
Total Expenditure	40,716	41,332	38,058	(2,662)	(3,278)
Rents & Service Charges	(1,021)	(1,021)	(1,164)	(143)	(143)
Fees & Charges	(3,788)	(3,846)	(4,035)	(247)	(189)
Grants, Reimbursements & Contributions	(20,930)	(20,927)	(17,838)	3,092	3,089
Investment Income	(196)	(196)	(357)	(161)	(161)
Recharges	(1,823)	(2,383)	(2,697)	(874)	(762)
Total Income	(27,758)	(28,373)	(26,091)	1,667	2,282
Net Expenditure	12,958	12,959	11,963	(995)	(996)

3.6.4 As shown at Appendix B the MTFP current forecast for 2020-21 to 2022-23 shows a deficit in each year as follows:

£000	2019-20	2020-21	2021-22	2022-23
Net Expenditure	11,964	11,987	11,925	11,955
Financing	(11,961)	(11,712)	(11,831)	(12,044)
Budget (saving) required	(3)	(275)	(94)	89

3.7 Explanation of 2019-20 Budgets:

3.7.1 Moving Forward Savings

The Council has delivered some significant savings from its original Moving Forward Programme. These savings from the Council's original £1.1m target are now built into base budgets. The budgets for 2019-20 have a remaining savings target of £135k to be delivered in year. The proposals for Moving Forward phase 2 will extend the Council's developing Growth and Commercialisation agenda, with some significant projects to deliver further ongoing savings within the MTFP.

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),
- Corrections of previous establishment budgeting errors.
- Reductions in Agency costs to reflect the revised establishment.
- Growth in the homelessness services as a result of new legislation, which will be funded from government grants.
- Movements between shared management costs and direct salaries.
- an increase in the pension deficit costs (£48k);

Staffing budgets include a salary vacancy factor, this presents a potential budget risk depending upon the level of vacancies within the establishment and may require proactive management of staffing vacancies to achieve this target saving.

In line with the pension triennial valuation through to 2019-20 the employer's contribution rate is 16.7% for 2019-20. The secondary rate (deficit payment) increases by £67k from £571k (2018-19) to £638k in 2019-20 of which £455k relates to General Fund and £164k to the HRA. The amount for 2020/21 is not known and will be subject to the next triennial review of the pension fund. A small 2% increase has been built into the MTFP.

3.7.3 Premises Related Expenses

The main increase relates to a forecast increase in the value of required repairs and maintenance costs of Council Assets. A review of the required programme of works over the MTFP has identified an increased level of spend in 2019/20 with a tapering level of spend over the remaining years of the MTFP back to current levels of expenditure.

3.7.4 Transport

Vehicle running costs (fuel and maintenance) have increased by £35k. Although prices of fuel have been reducing recently there is a pressure within 2018-19 budgets which requires this budget to be increased for 2019-20.

Car lump sum and mileage allowance budgets show an increase of £93k. Some of this relates to a realignment of costs from shared management to mileage and also reflect the increase in the value of the allowance to officers to offset the HMRC additional tax liability.

3.7.5 Supplies & Services

Supplies and Services budgets have been mostly contained at the same values as those for 2018-19. The main changes to these budgets reflect

- Savings from the new Leisure Service Management contract.
- A £74k increase in computer software and licence costs (£30k for Office 365, £10k in housing for new Jigsaw Software, £13k for other inflationary costs or additional tool, £9k increased charges for the Shared Breckland systems (with offsetting additional income) and £10k for an increase in Spektrix costs at South Holland centre.
- Insurance costs and premiums - £20k
- Moving Forward savings target reduced by £105k compared to the 2018/19 value
- Moving forward expenditure (funded from reserves) is projected to be only £74k (a £270k reduction on the 2018-19 budgeted expenditure).

- Impairment allowances for housing benefit overpayments bad debts have been reviewed and reduced by £80k

3.7.6 Third Party Payments

CPBS budgets have been increased in 2019-20, which is in line with the proposals put forward to the Stakeholders group to reflect the revised base contract for CPBS from which future Transformation savings will be delivered. These savings have been reflected through the Council's MTFP budgets. The increase reflects South Holland's share of 2 additional HR business partner, a Housing Benefits Overpayment officer, an annual pay award of 1% and incremental growth, additional pension member costs, uplifts in Senior Management Team post grades and some inflationary pressure on some budgets.

3.7.7 Transfer Payments

This budget consists of Housing Benefits, grant payments and other allowances. The large reduction in these budget reflects:

- A £2.548m reduction in the rent allowance and rent rebate budget to bring this in line with anticipated spend (there is an offsetting reduction in benefit income budgets).
- A reduction in the Grants for Growth expenditure budgets compared to that for 2018-19, this reflects the revised profile of expenditure (and income).

3.7.8 Depreciation and Impairment Charge

The decreased depreciation and impairment charges are due to changes in the values of Council properties.

3.7.9 Drainage Board Levies

The Council's 2019-20 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 estimated for 2019-20 (£2.384m, a 2.0% (£47k) increase on the values levied for 2018-19).

3.7.10 Direct Revenue Financing

This budget relates to the direct revenue funding of capital expenditure on Priory Road, ICT investment, Welland Homes and Grounds maintenance. (see capital programme at **Appendix E**).

3.7.11 Transfer to and from earmarked reserves

The following table sets out the net contributions to and from earmarked reserves in 2019-20 with further information on reserves and balances provided in paragraph 4:

	2019-20 £000
Contributions To Reserves	
Contribution to Investment & Growth Reserve to repay previous investment in the garden waste service	52
Contribution to Repairs & Renewals Reserve	136
Transfer of New Homes Bonus to Investment & Growth Reserve	993
Kings Road, Spalding – repayment of 2018-19 funding to Investment & Growth Reserve	13
TOTAL	1,194
Contributions from Reserves	
Planned use of Repairs & Renewals Reserve	(77)
District Council Election – Council Tax Reserve	(130)
Funding of shared Data Protection officer – Council Tax Reserve	(15)
Moving Forward expenditure – Transformation Reserve	(74)
National Graduate Trainee – Transformation reserve	(30)
Shared Public Protection Software – Transformation reserve	(17)
Interim Programme Manager Post – Transformation Reserve	(31)
Delivery Unit running costs – Investment & Growth Reserve	(120)
Funding of Food Enterprise Zone from New Homes Bonus in I and G	(1,091)
Grounds maintenance equipment – I and G	(50)
Crease Drove Investment – I and G	(835)
Crease Drove Investment – I and G	(500)
Capital Acquisition - I and G	(92)
Contribution towards Members discretionary budget	(92)
TOTAL	(3,313)
Net Contribution From Reserves	(2,119)

3.7.12 Rents and Service Charges

This reflects an increase in income from commercial and operational assets including, Short Street Depot, Broadgate Managed Homes and homelessness rented properties.

3.7.13 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.

The Council will seek to maximise its income from fees and charges in 2019-20 and proposes to undertake a cross cutting review across all areas with a view to implementing some changes from October 2019. As part of this strategy the Council will:

- 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.

The base budget for 2019-20 has been reviewed in some places and increases have been made in Building Control, Planning, and Environmental Health.

3.7.14 Grants, Contributions & Reimbursements

This budget includes the following adjustments:

- Additional Income in Building Control from street naming and numbering activities (£10k)
- Increased Shared Management Income (£28k)
- Additional income in Environmental Health from commercial activities (£46k)
- Funding from DWP for security costs (£24k)
- Further funding from the Government for Homelessness activities (£90k)
- Income from Breckland towards system costs (£11k)
- 2nd phase Grant for Growth income reduced by £663k offset by reduced grant spend and other costs.
- Reduced income for housing benefits £2.557m – offset by reduced expenditure noted above
- Anticipated £32k (10%) reduction in Government Benefit Administration grant.

3.7.15 Investment Income

Forecast interest rates have now risen in the longer term, in addition, the Council is earning a commercial rate of interest on its investment in Welland Homes Limited.

As a result, this income budget has increased by £164k to £360k compared to the previous year. There is the possibility that this could increase more. However, the impact of Brexit on the market is a potential risk.

3.7.16 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 2019-20 to 2022-23. 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:

- 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 (2018-19) 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.

3.9 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 2019-20 is estimated at £216,000 (2018-19, £216,000, including a contribution from reserves of £4,500). The detailed estimates will be provided to Spalding Town Forum in the January for scrutiny and review.

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 **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.

4.3 The proposed Council's budget for 2019-20 makes some assumptions about future increases in income from fees and charges, commercial income and budget savings. The timing of the delivery of these savings may mean that full year savings are not delivered as profiled in the budget. In this event the Council will have to call on its reserves to help smooth any timing differences in the delivery of the proposed savings.

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)	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
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Special Estimates)					
Brought Forward	7,618	7,180	5,061	4,732	4,356
Transfer In	1,865	1,194	857	631	503
Transfers Out	(2,303)	(3,313)	(1,186)	(1,007)	(629)
Carried Forward	7,180	5,061	4,732	4,356	4,230

NB use to fund deficit on collection fund.

Notes to Reserves table:

- In addition to specific reserves the general fund balance at 1 April 2018 was £2.064m. This is currently forecast to remain unchanged,
- This table does not reflect the current estimated effect of the 2018/19 out-turn (Q3 Forecasts). If, as anticipated, there is a net underspend at the end of the current year, this will be placed into reserves and be available to help support any slippage in the projections for savings in 2019/20.
- 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. Within this reserve a sum of £500k has been ring fenced as a Community Reserve. Details of the scheme are still being validated and further information will be provided with the final budget in February.
- The balance of the Investment and Growth Reserve, after the allocation of £500k for a community reserve fund, will be used to fund feasibility work relating to the development of commercial opportunities and funding of capital schemes aligned to the commercialisation agenda (such as FEZ, Crease Drove and other commercial acquisitions).

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 ambitious transformation programme and is scheduled to carry out a review of Council-owned assets. This will result in the asset strategy being revised during 2019-20.

5.2 Appendix E details the updated capital programme of schemes currently in progress or approved to be delivered for 2019-20 and future years, taking into account the anticipated outturn for 2018-19. All such schemes are actively monitored through the Capital Programme Working Group. The values for 2019-20 may change depending upon the ultimate level of spend and delivery in 2018-19 and other initiatives.

5.3 The main schemes included in the approved 2019-20 programme relate to ICT investment, Priory Road enhancements, Grants for Growth, Disabled Facility Grants – funded work, Crease Drove, Food Enterprise Zone and housing investments via Welland Homes and capital Acquisitions.

5.4 Under the Moving Forward phase 2 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 could require funding from the Council's Investment and Growth Reserve. Some of these projects will need detailed feasibility studies to be carried out before they are approved to ensure they meet the Council's Commercialisation priorities.

5.7 The Council will consider the use of borrowing to fund investment if the interest rates attached to such borrowing still enable a scheme to be financially viable.

6 Housing Revenue Account

6.1 The Budget for 2019-20 and the medium term financial plan are shown in Appendix C.

6.2 The following table shows the summary HRA for 2019-20 compared to the 2018-19 position:

HRA Estimates by Income & Expenditure 2018-19 to 2019-20

Description	2018-19 Estimate	2019-20 Estimate	Variance
	£000	£000	£000
Rent Income – Dwellings	(14,713)	(14,803)	(90)
Charges for Services & facilities	(1,158)	(1,161)	(3)
Contributions to Expenditure	(27)	(27)	-
Total Income	(15,898)	(15,991)	(93)
Repairs & Maintenance	3,166	3,069	(97)
Supervision & Management	2,681	2,789	108
Rents Rates Taxes and Other Charges	77	77	-
Depreciation	3,057	3,124	67
Provision for Doubtful Debts	169	221	52
Stat. Recharge to HRA for Support Serv.	1,556	1,748	192
Total Expenditure	10,706	11,028	322
Contribution from Operations	(5,192)	(4,963)	229
Investment Income	(109)	(100)	9
Interest on Loans	2,348	2,348	-
Capital Expenditure charged to Revenue	-	-	-
Net operating (surplus)/Deficit	(2,953)	(2,715)	238

6.3 Explanation of Budget Variations

6.3.1 Rent Income - Dwelling Rents

- 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 2018 with an average weekly rent of £75.54 (on a 52 week basis). 2019-20 will have 53 Rent weeks in the financial year. The average rent in 2019-20 will be £74.80 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 2019/20 onwards.

6.3.2 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. As for 2018-19 for 2019-20 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 increased by 1.6% in 2017/18. Charges will be reviewed in 2019 but probably not in effect until 2020-21, when it is likely they will be increased in line with CPI. No increase has been included in the 2019-20 budget.

Other Service Charges

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. This process needs completing again and a detailed review of service charges will be done in 2019 to reflect updated budget and service charges, but is unlikely to take effect until 2020-21. Again no increase has been included in the 2019-20 budget

6.3.3 Repairs & Maintenance

A fall in the total spend on Repairs and Maintenance is mainly due to the reallocation of Salaries to Supervision and Management (£118K). Current spend levels are expected to remain at 2018-19 levels, although risk remains regarding the price of materials following Brexit. This may also affect other contract renewals within Building Maintenance.

6.3.4 Supervision & Management

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, managing HRA Assets and delivery of the HRA affordable Housing Programme. The overspend is mainly due to reallocation of Salaries from Repairs and Maintenance above (£118K)

6.3.5 Rents Rates taxes and other Charges

This is predominately Council tax paid on Sheltered and void Properties

6.3.6 Depreciation

The net depreciation charge to the HRA has increased from £2.923m to £2.989m in line with the HRA Business Plan. 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%, and this is used in 2019-20

6.3.7 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 MTFFP by £50k per annum.

6.3.8 Statutory Recharge to the HRA for Support services

A review of the Recharge and Allocation of costs from the General fund and the HRA has taken place as part of the budgeting process. This has resulted in an increase in charges of £192K.

6.3.9 Capital Expenditure charged to Revenue

As part of the Council's year end accounts for 2015-16, 2016-17 and 2017-18 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. This will continue in 2018-19 and going forward. The Major Repairs Reserve now stands at over £6m and this will be used to fund capital expenditure in 2019-20 without the need for a revenue contribution. A revenue contribution from the HRA Working Balance will be required in 2021-21 to support the delivery of the re-phased capital programme as the forecasted Major Repairs Reserve Balance at the end of 2019-20 is only £74K

7 HRA Reserves

7.1 The table below shows the unallocated reserve balances as at 31st March 2018 and the estimated movements to 31st March 2020. 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 2018	12,752	200	6,435
Transfers in	2,953	-	3,057
Transfers Out	-	-	(5,326)
Balance at 31st March 2019	15,705	200	4,166
Transfers in	2,715	-	3,124
Transfers Out	(4,086)	-	(7,216)

Balance at 31st March 2020	14,334	200	74

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 £6.4m 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 Homes England.

8.4 The programme will be delivered through a combination of new build and the purchase of affordable housing units. A total of £16.5m has been allocated during the period of the MTFP from 2018-19 to 2022-23. This will allow the Council to deliver:

- A development of 34 units for rent/shared ownership at Small Drove, Weston,
- A development at Severn Road, Spalding. This project is still under evaluation, but is expected to deliver in excess of 20 units
- Acquisition of approximately 18 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	Review and revise proposals for fees and charges and annual increases as appropriate.
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification
Business rates retention proposals leave Council exposed to economic fluctuations and rating appeals	Medium	High	Monitor developments & set aside appropriate reserves and provisions to help with potential initial pressures and fluctuations
Pension fund deficit	Medium	Medium	Close links with LCC pension fund Increased contributions following triennial review
Additional bad debts as a result of economic circumstances	Medium	Medium	Pro-active debt management and pre-pay fee policies 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
Garden Waste take-up of scheme.	High	High	A pilot scheme introduced over 2016-17 2016-17 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 in service 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 will be available for consultation on the website during December and 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 will be presented to Governance and Audit for their scrutiny in January before being included as part of the budget report to members in February. This document will pull together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.