

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Portfolio Holder for Finance and the Executive Director - Commercialisation (S151)

To: Joint Performance Monitoring Panel and Policy Development Panel
Wednesday, 9 January 2019

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Subject Draft Budget 2019/20, Medium Term Financial Plan (Scrutiny)

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

Recommendations:

That the Joint Panel reviews the draft General Fund, Housing Revenue Account and Capital Budgets and makes comments/recommendations for consideration by Cabinet at its meeting on 12th February 2019.

1.0 INTRODUCTION

- 1.1 The draft budget is currently in a consultation period with responses invited from residents and businesses through the Council's website, and also through this budget scrutiny meeting.
- 1.2 This joint PMP and PDP panel are asked to examine the draft estimates and provide comments for Cabinet to consider at their meeting on 12th February 2019. Cabinet will then make their recommendation to full Council on 27th February 2019.
- 1.3 The Appendices to this report set 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 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.
- 1.4 The draft budgets will be subject to some further internal change and review during the consultation period. In particular the projections for business rates will need to be adjusted to reflect those returned to the government in the NNDR1 return (due to be completed in January). Other areas of adjustment include confirmation of the Internal Drainage Board Levies.
- 1.5 The updated Treasury Management Strategy 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.

2.0 **BACKGROUND**

- 2.1 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.
- 2.2 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.
- 2.3 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.
- 2.4 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
- 2.5 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.
- 2.6 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.

3.0 **REASONS FOR RECOMMENDATION(S)**

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

- 3.1 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),
 - Treasury Management Strategy (to follow with the budget report in February),

2019-20 Draft Local Government Finance Settlement

- 3.1 The draft budget report for cabinet was published before the provisional local government settlement was announced on 13th December and as such the estimates are based on the best knowledge available at that time. 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.
- 3.2 The settlement confirmed the following assumptions that has been used to build the draft budget:
- The Lincolnshire business rates pool was not chosen as a pilot for 2019-20
 - The New Homes Bonus baseline will remain at 0.4%
 - 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.
- 3.3 The provisional settlement contains some minor funding benefits to the Council and these will be incorporated into the final report presented to Cabinet in February, along with any other changes that occur as part of the budget verification process which is currently underway.

2019-20 Council Tax Base

- 3.4 The Council Tax base for 2019-20 is currently estimated to be 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.
- 3.5 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 Council Fund Surplus

- 3.6 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.
- 3.7 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

- 3.8 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.
 - 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.
- 3.9 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).
- 3.10 All budgets have been subject to “budget challenge” by the Section 151 officer which has allowed significant operational budget reductions to be made in order to deliver a balanced budget in 2019-20. There will be ongoing budget verification to ensure that final budgets are robust for the next financial year.
- 3.11 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 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.
- 3.12 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.
- 3.13 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.
- 4.0 **Housing Revenue Account**
- 4.1 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.

5.0 Reserves

5.1 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.

5.2 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.

5.3 A detailed breakdown of Reserve movements for both the General Fund and Housing Revenue Account are included in Appendix D to this report

6.0 Capital Programme

6.1 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.

6.2 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.

6.3 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.

6.4 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.

7.0 **OPTIONS**

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

8.0 **REASON FOR RECOMMENDATION**

- 8.1 To comply with the budgetary and policy framework

9.0 **EXPECTED BENEFITS**

- 9.1 To provide an early view of the Council's financial position and seek stakeholder feedback prior to setting an affordable and balanced budget for 2019-20 that ensures delivery of the priorities of the Council

10.0 **IMPLICATIONS**

10.1 **Financial**

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

11.0 **WARDS/COMMUNITIES AFFECTED**

- 11.1 Budget implications affect all wards

12.0 **ACRONYMS**

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

Background papers: - None

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Key Decision: No

Exempt Decision: No

Appendices attached to this report:

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

Appendix B Draft General Fund Summary

Appendix C HRA 5 Year Plan 2018-19 to 2022-23

Appendix D Reserves 2019-20 to 2022-23

Appendix E Capital Programme 2019-20 to 2022-23