

SOUTH HOLLAND DISTRICT COUNCIL

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

To: Council 27 February 2019

Author: Carl Holland – Strategic Business Partner (Compass Point
Business Services)

Subject: Budget, Medium Term Strategy and Capital Strategy

Purpose: To consider the General Fund and Housing Revenue Account
2019/20 revenue and capital estimates and the Financial Medium
Term Strategy

Recommendations:

1. That Council approves:
 - a. The Revenue Estimates for the General Fund, Housing Revenue Account and Spalding Special Expenses for 2019/20 (Appendices A, B and C) be approved.
 - b. That the use of reserves (Appendix D) be approved.
 - c. That the Council Tax for a Band A property in 2019/20 be set at £116.52 a £3.30 per annum increase on 2018/19 levels (band D £174.78 for 2019/20, a £4.95 per annum increase on 2018/19 levels).
 - d. That the Spalding special expense for a Band A property be set at £15.78 for 2019/20, (previously £15.66 in 2018/19) and Band D £23.67 for 2019/20, (previously £23.49 in 2018/19).
 - e. That the Medium Term Financial Strategy (Appendix B) be approved.
 - f. That the Housing Revenue Account weekly dwelling rents reduce by 1% over the previous year, 2018/19, rent with effect from Monday 1st April 2019. This is in line with current government guidelines and legislation.
 - g. That the Capital Strategy and Capital Programme (Appendices E and F) be approved.
 - h. That the Treasury Management Strategy, including the Minimum Revenue Provision policy and Investment Strategy be approved. (Appendix G).
 - i. That the fees and charges shown in Appendix H be approved for adoption from 1 April 2019.
2. Approve the increase in the establishment of 1.0 FTE (shared with BDC, 60% BDC and 40% SHDC), to create a post that adds capacity to support the Chief Executive and Directors at a senior level to move forward a number of strategic priorities and helps to identify the key impacts of emerging national and local policy on the organisation(s) from a corporate point of view, enabling effective mitigation as required (as detailed in Appendix A, paragraph 3.7.2).
3. Approve the additional council tax premium for long term empty properties as detailed in 1.21.

1.0 GENERAL FUND

Purpose of Report

- 1.1 This report sets out the 2019/20 Budget and associated Medium Term Financial Strategy (MTFS) for the South Holland District Council General Fund and Housing Revenue Account (HRA). The Budget and MTFS are based on the latest information currently available. The budget has been through a budget consultation process with the public and members, draft budget proposals were subject to review by Scrutiny at its meeting on 9th January 2019. Cabinet have reviewed the proposals and approved the recommendation to Full Council. Full Council are asked to consider and approve the associated Council Tax level for 2019/20.
- 1.2 Since the report was considered by Cabinet the following changes have been required to be made to the estimates:
- The Value of the Internal Drainage Board levies have now been confirmed at £2.447m (an overall increase on 2018/19 values of 2.67%, £63.7k)
 - An extension in funding of £146.8k (additional to the £100k approved in previous years) for Pride in South Holland.
 - A contribution towards Spalding Western Relief Road costs and capital expenditure of £300k for the Food Enterprise Zone project, approved by Council on 23rd January 2019.
 - Income from the Leisure Management Contract taken to reserves.
 - A net increase of £494k in the use of specific reserves as a result of the above.

Summary of the 2019/20 Budget and MTFS

- 1.3 For 2019/20 the Council is able to present a balanced budget position taking into account the following main budget issues and changes from 2018/19:
- An increase in Council Tax for a Band D Property of £4.95 (2.91%) to £174.78.
 - In addition there is a projected Business Rates surplus of £1.276m in the 2019/20 budget, as a result of an in year review of appeals provision, with a zero balance assumed in future years.
 - An increase in Internal Drainage Board Levies payable of 2.67%.
 - An increase in Pay budgets to reflect the 2% pay awards, annual increments and pension cost pressures.
 - Budget reductions and growth in income across a number of budgets identified through budget challenge sessions with managers.

Background

- 1.4 2019/20 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 future of funding, however, is extremely uncertain with an unprecedented level of change anticipated in 2020/21 and onwards.

- 1.5 The Moving Forward Programme builds on prudent financial management of the council and innovative income generation, with savings targets in phase 1 of the programme totalling £1.105m by 2020/21 as a result of transforming Council Services to:
- generate additional revenue streams via **commercial activities** (Welland Homes, Garden Waste), **investment assets** (Investment and Growth reserve, Holbeach Food Enterprise Zone), and **economic and housing growth** (Investment & Growth reserve) and
 - invest in service improvements to improve value for money through **Digitalisation** (online payments, improvements in ICT), **partnership and collaboration** (Co-location, Breckland District Council, Department of Works and Pensions and Priory Road project) and **organisational design**.
- 1.6 A number of projects from phase 1 of the Moving Forward programme are now substantially complete including the Place Review and the initial investment in Welland Homes, which is progressing well against the Business Plan.
- 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 MTFS. These projects reflect the Council's developing agenda for growth and commercialisation with projected savings for some aspects of the proposed programme built into current forecasts.
- 1.9 As part of Moving Forward phase 2 this draft budget continues the principle of contributing to an "Investment & Growth" fund to deliver on-going revenue income streams over the medium term. This will reduce the reliance on uncertain sources of funding and will make the Council a more stable organisation, able to deliver services to residents with more certainty in the longer term.

2019/20 Draft Budget & Medium Term Financial Strategy (MTFS)

- 1.10 The key elements of the draft 2019/20 Budget and MTFS 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),
 - draft budgets in relation to Spalding Special Expenses (Appendix C),
 - the schedule of movements in Council Reserves (Appendix D),
 - the Capital Strategy and Capital Programme (Appendix E & F),
 - the Treasury Management Policy and Strategy (Appendix G), and
 - the fees and charges schedule (Appendix H).

2019/20 Local Government Finance Settlement

- 1.11** The final Finance Settlement for 2019/20 was released on 29 January 2019. There were a few areas of change affecting the 2019/20 budget and future years including:-
- In 2018/19 the District was part of a successful bid to the Government to trial 100% business rates retention for 2018/19 only. The Lincolnshire Pilot authorities submitted a further bid to try and extend the existing pilot arrangements for 2019/20, but this was not successful. However, South Holland still benefit from the substantive Lincolnshire Business Rates Pooling arrangements that are in place. The 2019/20 estimates are therefore based on the retention of business rates growth at 50%. 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. Uncertainties still remain around the exact design of future schemes.
 - Revenue Support Grant (RSG) and Rural Services Support Grant (RSDG) 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 (NHB) 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.

2019/20 Council Tax Base

- 1.12** The Council Tax base for 2019/20 is 27,931 properties, an increase of 629 (2.3%) properties over the 2018/19 tax base giving additional income of approximately £245k illustrating the current uplift in housing delivery. An ongoing increase at 1.5% per annum is assumed over the MTFS period.
- 1.13** 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 Finance Settlement confirms there has been no change to the capping regime for local authorities.

2019/20 Collection Fund Surplus

- 1.14** Each year the Council is required to calculate the balance on its Collection Fund, current estimates indicate a £100k surplus in 2019/20 for council tax with a zero balance assumed in future years.
- 1.15** In addition there is a projected Business Rates surplus of £1.276m in the 2019/20 budget, as a result of an in year review of appeals provision, with a zero balance assumed in future years. 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 one-off surpluses are created these will be allocated to reserves to assist with the funding of future deficits. This is a prudent approach for managing Business Rates income volatility and has been approved by the External Auditor and S151 Officer.

SHDC Detailed Budget Changes

- 1.16** Key assumptions made within the current four year MTFS 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 due to loss of pilot status 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.
- 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.
- Savings from the new Leisure Services management contract.
- Maximising income generation through Investment & Growth.
- Maximising income from fees and charges through undertaking a cross cutting service review.
- Ongoing Budget challenge to ensure that budgets are aligned with corporate priorities.

1.17 The 2019/20 estimates currently shows a balanced position, although this is subject to any final budget adjustments.

1.18 All budgets have been subject to “budget challenge” by the Section 151 officer which has allowed operational budget reductions to be made in order to deliver a balanced budget in 2019/20. There has been a further budget verification process to ensure that final budgets are robust for the next financial year.

1.19 The current forecast for 2020/21 to 2022/23 shows a deficit up to 2022/23 when a surplus is estimated. 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.

1.20 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 Council Tax – Long Term Empty Premium

Since April 2013 Councils have the discretion to charge up to 50% empty homes premium for properties that have been empty for over 2 years. In offering these new powers the Government were seeking to influence owners to bring empty homes back into use as well as the ability for councils to increase Council Tax income.

As part of the 2017 Budget it was announced that the Government would be implementing new flexibilities in respect of charging an additional 50% Council Tax premium on Long Term Empty properties, bringing the total Council Tax to 200%. Additionally the changes would allow further premiums of 100% for Long Term Empty properties of greater than 5 years from 1 April 2020 and a further additional premium of 100% for Long Term Empty Properties of greater than 10 years from 1 April 2021.

The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act received Royal Assent on 1st November 2018 and is now an act of parliament. It is proposed as part of the MTFs to increase the premium on long term empty dwellings as follows: -

- An additional 50% Council Tax premium on Long Term Empty properties, raising the Council Tax to 200%, from 1 April 2019

- An additional 100% Council Tax premium on Long Term Empty properties longer than 5 years, raising the Council Tax to 300%, from 1 April 2020.
- An additional 100% Council Tax premium on Long Term Empty properties longer than 10 years, raising the Council Tax to 400%, from 1 April 2021.

The direct financial benefits from Council Tax income for this proposal are small for South Holland (around £6k per year) and if this proposal is approved this will be included within the collection fund. The main benefits are non-financial, to encourage homes back into use.

2.0 Housing Revenue Account

2.1 The draft Housing Revenue Account (HRA) budget shows a forecast deficit of £0.754m. This reflects:

- The annual rent reduction of 1% from 2018/19 to 2019/20 and nil inflation imposed by the Government,
- Expenditure for Capital investment of £3.447m has been charged to revenue for 2019/20,
- An assumed rent loss of 1% for void properties and 1.5% for bad debts,
- Estimated additional net rent arising from new units included within the HRA capital programme from 2019/20 onwards, which are in excess of Right to Buy sales numbers forecasted.
- A review of charges where appropriate.

3.0 Reserves

3.1 General Fund Specific Reserves are budgeted to reduce by £818k in 2019/20. This figure may change depending on the out-turn for 2018/19.

3.2 It is anticipated that the 2018/19 General Fund position will generate a further surplus which will be transferred to the Council Tax Reserve and be available to support the 2019/20 budget as required.

3.3 HRA Reserves are projected to decrease by £5.183m (net) during 2019/20 due to the increased use of the Major Repairs Reserve to finance capital investment within the HRA.

3.4 A breakdown of the Reserve movements for both the General Fund and Housing Revenue Account are included in Appendix D to this report and paragraph 7.1 of Appendix A.

4.0 Capital Programme

4.1 The Council's Capital Strategy is shown in Appendix E and focuses on the core principles of capital investment.

4.2 The draft four year General Fund capital programme (Appendix F) 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 new provision for commercial acquisitions over the term of the programme.

4.4 The HRA summary programme is included in Appendix F. 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 Homes England. The programme will be delivered through new build and the purchase of affordable housing units. A total of £17.124m has been allocated over the MTF5, including:

- 34 units at Small Drove, Weston;
- A 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 upgrade of key housing IT Systems.

5.0 OPTIONS

5.1 That the draft capital and revenue budget estimates, the Medium Term Financial Strategy and the Capital Strategy be recommended to Council for approval.

5.2 There are no alternative options presented, however amendments may be made by Cabinet for recommendation to Council.

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 2019/20 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
	MTFS	Medium Term Financial Strategy
	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:-

Appendix A – General Fund and HRA Budget 2019/20 and Medium Term Financial Plan 2019/20 to 2022/23.

Appendix B – General Fund and HRA Medium Term Financial Strategy.

Appendix C – Spalding Special Expenses Budget

Appendix D - Use of Reserves Schedule

Appendix E – Capital Strategy

Appendix F – Capital Programme

Appendix G1 – Treasury Management Policy Statement

Appendix G2 – Treasury Management Strategy

Appendix H – Fees and Charges Schedule

Lead Contact Officer:

Name/Post: Carl Holland, Strategic Business Partner (CPBS)

Telephone Number: 01775 764681

Email: Carl.Holland@cpbs.com

Key Decision:

No

Exempt Decision:

No