

SOUTH HOLLAND DISTRICT COUNCIL

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

To: Cabinet 14 January 2020

Author: Carl Holland – Deputy Head of Finance (PSPSL)

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

Purpose: To consider the Draft General Fund and Housing Revenue
Account 2020/21 revenue and capital estimates and the Draft
Financial Medium Term Strategy (for Consultation)

Recommendations:

1. That the following documents be reviewed by Cabinet and issued for consultation in preparation for the budget setting in February 2020:
 - Revenue Estimates for the General Fund, Housing Revenue Account 2020/21, as set out in Appendices A, B and C;
 - Reserves position 2020/21 to 2023/24 as set out in Appendix D;
 - Capital Programme 2020/21 to 2023/24 as set out in Appendix E;
 - Capital Strategy as set out in Appendix F.

1.0 PURPOSE OF REPORT

- 1.1 This report sets out the 2020/21 Draft 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 and will be used for the budget consultation process. Full Council will meet on 26th February 2020 to consider the recommendations from Cabinet and to approve the Budget, Council Tax level and HRA Rents for 2020/21.
- 1.2 The Draft Budget proposals are subject to review by Scrutiny on 14th January 2020 and the general public during the consultation period. The outcomes of both the Scrutiny review and consultation will feed into the budget report to Cabinet on 11th February 2020 and then to Full Council on 26th February 2020.
- 1.3 The Treasury Management Strategy is due to be presented to Governance and Audit Committee on the 16th January 2020 and will then be presented to Cabinet on the 11th February 2020.

2.0 BACKGROUND

- 2.1 The financial year 2019/20 was due to be the final year of the Government's four-year Settlement. However, following the Spending Review 2019 we will receive a further one-year Settlement for 2020/21, as the planned changes from the Fair Funding Review and 75% Business Rates retention have been delayed by one year until April 2021.

On 5th November 2019 the Minister for Housing, Communities and Local Government wrote to all local authorities confirming that due to the General Election on December 12th, it will not be possible to comply with the 2018 Hudson Review recommendation that the provisional settlement should be announced by December 5th each year. The Provisional Local Government Financial Settlement 2020/21 was announced Friday 20th December. This includes a one-year continuation of Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG) for 2020/21 only, inflationary increases to the Business Rates Multiplier and one further year of New Homes Bonus (NHB) a one-year allocation only with no future legacy payments.

The current political uncertainty alongside other significant funding changes and complexity results in a budget with far higher levels of estimates than usual. Members should be aware that this draft budget provides a middle ground in terms of funding assumptions.

2.2 75% retained NNDR (effective April 2021)

Currently it is expected that the new NNDR scheme will reset all growth so that authorities will receive a new baseline funding level with growth removed and other grants (such as RSG and RSDG) rolled in. It is not yet known how the additional 25% retention will be distributed between Counties, Districts and Fire and we are expecting that all NNDR growth will be reset (& therefore no longer retained by the authority). Therefore, NNDR income levels in this budget from 2021/22 onwards are based on an assumed baseline with all growth removed, with inflationary increases each year and an assumed amount of income returned from central funding.

Alongside the 75% retention scheme an 'Alternative Methodology' is being worked on to update the Business Rates retention scheme to reduce the impact resulting from volatility such as appeals. Working groups have been set up nationally and continue to discuss the proposed model. It is expected this will come into force from 1 April 2021 in line with the 75% retention scheme, but the working group are still discussing details of the major components of the scheme.

2.3 Fair Funding Review (FFR) (effective April 2021)

The Fair Funding Review (FFR) will set new baseline funding allocations for all Local Authorities and aims to simplify the existing system and provide an up to date assessment of Authorities relative needs and resources. Early consultations have taken place by MHCLG, but there is insufficient information to make informed estimates to date. It is likely that any changes would be transitioned to mitigate the immediate impact on Authorities (positive or negative). This budget assumes no financial changes from this review, and the budget currently has no reliance on RSG or NHB.

2.4 New Homes Bonus (NHB)

Until the Final Settlement is announced we do not know the confirmed level of the NHB baseline (we have assumed no change at 0.4%). This baseline is the level of growth in homes before the Council receives any NHB reward. It has been confirmed we will receive an additional one-year allocation of NHB for 2020/21 due to delays in implementing a replacement scheme, with no further legacy payments in future years.

Future consultation is expected to fundamentally change the NHB scheme after 2020/21. Due to the uncertainty of the future of NHB our budgets include the contribution of the New Homes Bonus funds into an Investment & Growth Reserve over the whole medium term, to fund projects which maximise income and growth. The one off 'bonus' for 2020/21 of £380k will also be transferred to this reserve.

3.0 2020/21 Draft Budget & Medium Term Financial Strategy (MTFS)

3.1 The key elements of the draft 2020/21 Budget and MTFS are summarised in the following paragraphs and set out in detail in the attached appendices which show:

- The 2020/21 revenue and capital estimates for the General Fund and Housing Revenue Account (Appendix A);
- The Medium Term Financial Strategy for both the General Fund and HRA (Appendices B and C);
- A schedule of movements in Council Reserves (Appendix D);
- General Fund and HRA Capital Programme (Appendix E);
- The Council's Capital Strategy (Appendix F); and
- Treasury Management Strategy (to follow with the budget report in February).

3.2 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 final settlement is confirmed and more information becomes available.

2020/21 Council Tax Base & 2019/20 Collection Fund Surplus

- 3.3** The Council Tax base for 2020/21 is 28,492 properties, an increase of 561 properties over the 2019/20 tax base giving additional income of approximately £241k. An ongoing increase at 2.0% per annum is assumed over the MTFS period.
- 3.4** Each year the Council is required to calculate the balance on its Collection Fund. Current estimates indicate a £50k surplus in 2020/21 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.
- 3.5** In addition there is an estimated Business Rates deficit of £451k in the 2020/21 budget with a zero balance assumed in future years. The deficit reflects a general reduction in rates collection compared to that assumed due to a variety of factors. As with Council Tax, this deficit will change over the coming months and will be updated for the final budget in February. Volatility in business rates is a feature of the system design of funding for local authorities. As was agreed in the 2018/19 budget when 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 requirements. The forecast surplus on the Business Rates Collection Fund for 2019/20 of £1.276m was allocated to the Council Tax Reserve, the forecast deficit of £451k for 2020/21 will be funded from this reserve.

SHDC Detailed Budget Changes

- 3.6** Key assumptions made within the current 4 year MTFS include:
- An annual increase in Council Tax of up to £5,
 - Maximising income generation through Investment & Growth, funded through New Homes Bonus,
 - Allowance for unavoidable growth on services (i.e. new statutory obligations and pay & contractual inflation) but no allowance for any increase for general inflation,
 - Ongoing Budget challenge to ensure that budgets are aligned with corporate priorities.
- 3.7** The Council will seek to maximise its income from fees and charges in 2020/21 and is currently undertaking a cross cutting review across all areas with a view to implementing the majority of changes from April 2020. The budgeted income for Planning Fees is anticipated to reduce by £320k. Other adjustments have been made to budget to reflect 2019/20 actual income.

3.8 The MTFS 2020/21 to 2023/24 draft estimates currently show a savings target requirement:

	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Initial Savings Efficiency Target	872	1,268	1,204	1,088
Savings Total - Achievable	(277)	(360)	(452)	(294)
Interim Savings Efficiency Target	595	908	752	794
Savings Total – Options Identified	(251)	(343)	(243)	(243)
Final Savings Efficiency Target	344	565	509	551

3.9 This is subject to final budget adjustment and will change. As we have been developing the budget numerous savings and income generating opportunities have and are being explored in order to address this savings requirement. Many of which will feature in the final budget report to Cabinet in February. This position has arisen due to a number of key variations, in particular:

- Reduction in planning fee income by £320k to £750k.
- The cost of fleet maintenance.
- Inclusion of Pride in the Council's base budget.
- The impact of an assumed 2% pay award and incremental pay progression on employee budgets.
- Results of the pension triennial valuation increasing in pension fund contributions by £108k.
- Minimal increase in funding due to the delay in the Fair Funding Review.

3.10 The budget estimates include a £350k net increased cost of homelessness, as a result of increased service demand due to the Homelessness Reduction Act. For 2020/21 this cost has been offset using one year continuation of Revenue Support Grant (£276k) and use of reserves (£74k). This service area will continue to be monitored to mitigate impact and is a key area of concern looking forward.

4.0 Housing Revenue Account

4.1 The draft Housing Revenue Account (HRA) budget shows a forecast surplus of £2.629m. This reflects:

- A rent increase of 2.7% from 2019/20 to 2020/21 in line with Government guidelines,
- An assumed rent loss of 1% (£154k) for void properties and 1.5% (£232k) 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 £2.986m (net) in 2019/20, predominantly to fund the Capital Programme. This figure may change as a result of the outturn for 2019/20.
- 5.2** All New Homes Bonus received has been taken to the Investment & Growth Reserve. Within this reserve a sum of £500k has been ring fenced as a Community Reserve, along with a further £500k earmarked for the Market Towns Initiative as approved at Council on 27th November 2019.
- 5.4** A detailed breakdown of Reserve movements for both the Housing Revenue Account and General Fund are included in Appendix C and D to this report.

6.0 Capital Programme

- 6.1** The Council's Capital Strategy is shown in Appendix F and focuses on the core principles of capital investment.
- 6.2** The draft four year General Fund Capital Programme (Appendix E) includes provision for Investment and Growth linked to the Council's Strategic objectives. Final decisions on individual projects will be subject to approval and detailed business cases.
- 6.3** The main schemes included in the approved 2020/21 General Fund Programme relate to ICT investment, Priory Road enhancements, Grants for Growth, Disabled Facility Grants, Crease Drove, Food Enterprise Zone and investments via Commercial Acquisitions.
- 6.4** The HRA has accrued nearly £4.7m in its Major Repairs Reserve over the last 2-3 years due to re-profiling in the planned Affordable Housing Programme. A revised Affordable Housing Programme has now been established to replace units sold through increased right to buy (RTB) sales. A total of £16.4m has been allocated during the period of the MTFs from 2019/20 to 2023/24. This amount has been assigned to develop and acquire additional homes, for example, Small Drove, Weston, other significant planned development, the acquisition of land and purchase of Section 106 units.
- 6.5** Due to the nature of some capital projects it can be common for large scale project timing to change over the medium term. This budget provides the best estimates of deliverability available at the time of production and the programme will be flexed over time as reported in quarterly reports to Cabinet and Council.

7.0 OPTIONS

- 7.1** That the draft capital and revenue budget estimates, the Medium Term Financial Strategy and the capital strategy be approved and issued for consultation.

7.2 There are no alternative options presented, however amendments may be made by Cabinet before release to Council.

8.0 REASONS FOR RECOMMENDATION

8.1 To comply with the budgetary and policy framework.

9.0 EXPECTED BENEFITS

9.1 To set an affordable and balanced budget for 2020/21 that ensures delivery of the priorities of the Council

10.0 IMPLICATIONS

10.1 Carbon Footprint & Environmental Issues

11.1.1 None

11.2 Constitution & Legal

11.2.1 None

11.3 Contracts

11.3.1 None

11.4 Crime and Disorder

11.4.1 None

11.5 Equality and Diversity & Human Rights

11.5.1 None

11.6 Financial

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

11.6.2 Budget Challenge sessions have been undertaken with each budget manager to identify budget pressures, savings and further sources of income, which are reflected in the 2020/21 budget.

12.0 Risk Management

12.1 Risks are highlighted within the appendix, 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.

13.0 WARDS/COMMUNITIES AFFECTED

13.1 Budget implications affect all wards.

14. ACRONYMS

14.1	PSPSL	Public Sector Partnership Services Ltd
	MHCLG	Ministry of Housing, Communities and Local Government
	HRA	Housing Revenue Account
	ICT	Information & Communications Technology
	MTFS	Medium Term Financial Strategy
	NHB	New Homes Bonus
	NNDR	National Non Domestic Rates (Business Rates)
	RSDG	Rural Services Delivery Grant
	RSG	Revenue Support Grant

Background papers:- None

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Key Decision:

No

Exempt Decision:

No