

SOUTH HOLLAND DISTRICT COUNCIL

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

To: Cabinet 18 February 2020

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Subject: Final Budget, Medium Term Plan and Capital Strategy

Purpose: To consider the Final General Fund and Housing Revenue
Account 2020/21 revenue and capital estimates and the Final
Financial Medium Term Plan (for Recommendation to Council)

Recommendations:

1. To recommend to Full Council:
 - a. That the Revenue Estimates for the General Fund, Housing Revenue Account and Spalding Special Expenses for 2020/21 (Appendices A, B, C and I) be approved.
 - b. That the use of reserves (Appendix D) be approved.
 - c. That the Council Tax for a Band A property in 2020/21 be set at £119.82 (a £3.30 per annum increase on 2019/20 levels) and band D £179.73 for 2020/21 (a £4.95 per annum increase on 2019/20 levels).
 - d. That the Spalding special expense for a Band A property be set at £15.88 for 2020/21, (previously £15.78 in 2019/20) and Band D £23.82 for 2020/21, (previously £23.67 in 2019/20).
 - e. That the Medium Term Financial Strategy (Appendix B) be approved.
 - f. That Housing Revenue Account weekly dwelling rents increase by 2.7% over the previous year, 2019/20, with effect from Monday 6th April 2020. 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 and H).
2. To provide an additional project management resource, funded from the investment & growth reserves, for a period of 2 years, to support the delivery and achievement service efficiencies in Environmental Services.
3. That delegated authority be given to the Executive Director Commercialisation (s151), in consultation with the Portfolio Holder for Finance, to make any necessary amendments to the budget prior to council due to late notifications.

1.0 GENERAL FUND

Purpose of Report

- 1.1** This report sets out the 2020/21 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 14th January 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 have received a further one-year Settlement for 2020/21.

At the time of writing this report the final Local Government Settlement has not been announced, but budget assumptions have been taken from the provisional Local Government Settlement. These include 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 (a one-year allocation only with no future legacy payments).

The planned changes from the Fair Funding Review and 75% Business Rates retention have been delayed by one year until April 2021.

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 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 National Non Domestic Rates (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 Authorities and we are expecting that all NNDR growth will be reset (& therefore no longer retained by the authority).

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 so the financial outcomes are difficult to predict at this time.

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)

As detailed in the provisional Local Government Settlement, we are receiving an additional one-year allocation of NHB for 2020/21 due to delays in implementing any replacement scheme, however this is for one year only 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 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 £430k will also be transferred to this reserve.

2.5 Business Rates: Additional Reliefs and Discounts

On 27 January 2020, the government announced additional business rates measures that will apply from 1 April 2020, these measures will: -

- Increase retail discount from one third to 50% for eligible businesses occupying a property with a rateable value less than £51,000. It is estimated that this relief will increase by £241k, to £725k, and benefit 164 businesses in South Holland.
- Extend retail discount to eligible music venues and cinemas. No eligible businesses have been identified in South Holland.
- Extend the £1,500 business rates discount for office space occupied by local newspapers for another 5 years, to 31 March 2025. This will benefit one ratepayer in South Holland.
- Provide additional £1,000 discount to eligible pubs with a rateable value of less than £100,000 in 2020/21. It is estimated around 25 ratepayers will benefit from this relief.

These reliefs will be administered in line with government guidance, and state aid rules. Local authorities will be fully funded for awarding these reliefs, including new burden funding for administration and IT costs.

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

3.1 The key elements of the final 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 (Appendices A, B and 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 H),
- final budgets in relation to Spalding Special Expenses (Appendix I),

3.2 The Local Government Act 2003 introduced a requirement that the Chief Financial Officer reports on the robustness of the budget. I am satisfied the estimates have been prepared in a prudent manner, although it is recognised that there are a number of elements outside of the Council's control and these are identified within the risks section of appendix A and will be mitigated through the budget monitoring and risk management processes of the Council. I can confirm there is no dependency on reserves to finance recurrent expenditure and appendix A gives details of the General Fund and earmarked reserve balances and movements, which I consider to be adequate for the purposes of the Council over the medium term.

3.3 2020/21 Council Tax Base and Collection Fund Surplus

The Council Tax base for 2020/21 is 28,492 properties, an increase of 561 (2.01%) properties over the 2019/20 tax base, illustrating the current uplift in housing delivery. The increase in properties and proposed band D charge generates an additional income of approximately £240k. An ongoing increase at 2% 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 £64k surplus share for SHDC in 2020/21 for council tax with a zero balance assumed in future years.

3.5 In addition there is an estimated Business Rates deficit of £430k 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 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 was £1.276m and was allocated to the Council Tax Reserve, the forecast deficit of £430k 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 £4.95 (Band D) and a 2% assumed growth in the tax base.
- Maximising income generation through Investment & Growth, funded through NHB.
- An assumed increase in staff pay of 2%, however national pay negotiations are currently ongoing and are unlikely to be resolved until the summer.
- An overall increase of 4.58% in the Drainage Board levies in 2020/21 and 2% for the remainder of the MTFS (£2.447m in 2019/20 to £2.559m in 2020/21).
- Allowance for unavoidable growth on services (i.e. new statutory obligations, pay & contractual inflation) but no allowance for any increase for general inflation. This will likely be impacted by the recent government decision to increase the National Living Wage rate by 6.2% to £8.72 from 1st April.
- 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.

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.

3.8 The budget estimates for 2020/21 contain a number of significant service demands and pressures, these are:

- Increased costs of temporary accommodation for homelessness £350k
- Reduction in planning fee income by £320k to £750k.
- Increase in Internal Drainage Board levies £112k.
- Fleet maintenance contract changes £134k
- Inclusion of Pride in the Council's base budget £182k.
- The impact of an assumed 2% pay award and incremental pay progression on employee budgets £202k
- Results of the pension triennial valuation increasing in pension fund contributions by £108k.

3.9 As a result of these demands, numerous savings and income generating opportunities have and are being explored in order to address this pressure. The MTFS 2020/21 to 2023/24 budget estimates currently show a savings target requirement, set out in the table below. However concern still remains regarding the impact of business rates changes and fair funding.

	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Initial Savings Efficiency Target	956	1,177	1,043	1,389
Savings Total - Achievable	-228	-309	-398	-241
Interim Savings Efficiency Target	728	868	645	1,148
Savings Total - Options Identified	-180	-272	-172	-172
Final Savings Efficiency Target	548	596	473	976

3.10 Some of the savings options identified will require additional project management resources to ensure the required savings are delivered. It is recommended to fund a dedicated post for a period of 2 years, funded from the investment & growth reserve to support delivery in service efficiencies within Environmental Services. Further resources may be released from this reserve to support savings, on a business case basis, as those projects emerge.

4.0 Housing Revenue Account

4.1 The final Housing Revenue Account (HRA) budget shows a forecast surplus of £2.548m. This reflects:

- An annual rent increase of 2.7% from 2019/20 to 2020/21,
- An assumed rent loss of 1% (£154k) for void properties and 1.5% (£232k) for bad debts,
- Estimated additional net rent arising from additional units included within the HRA capital programme from 2019/20 onwards,
- A review of charges where appropriate.

5.0 Reserves

5.1 General Fund Specific Reserves are budgeted to reduce by £1.314m (net) in 2020/21, 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.

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

6.0 Capital Programme

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

6.2 The 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 £21.1m 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.

5.0 OPTIONS

5.1 That the 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 2020/21 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.
Public consultation has been undertaken

11. ACRONYMS

11.1	AGS	Annual Governance Statement
	CSU	Construction Services Unit
	DFG	Disabled Facilities Grant
	HRA	Housing Revenue Account
	ICT	Information & Communications Technology

IDB	Internal Drainage Boards
LCC	Lincolnshire County Council
LCTRS	Local Council Tax Reduction Scheme
MHCLG	Ministry of Housing, Communities and Local Government
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
PSPS	Public Sector Partnership Services Limited

Background papers:-

Appendix A – General Fund and HRA Budget 2020/21 and Medium Term Financial Plan 2020/21 to 2023/24.

Appendix B – General Fund Medium Term Financial Strategy.

Appendix C – HRA Medium Term Financial Strategy 2020/21 to 2023/24

Appendix D – Use of Reserves Schedule 2020/21 to 2023/24

Appendix E – Capital Programme 2020/21 to 2023/24

Appendix F – Capital Strategy

Appendix G – Treasury Management Policy Statement

Appendix H – Treasury Management Strategy

Appendix I – Spalding Special Expenses Budget 2020/21

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Key Decision:

No

Exempt Decision:

No