

Final Budget 2020/21 and Medium Term Financial Strategy 2020/21 to 2023/24.

1. Introduction

1.1 This appendix sets out the final combined 2020/21 budget estimates and Medium Term Financial Strategy (MTFS) for the period 2020/21 to 2023/24 for the Council's General Fund and Housing Revenue Account. The Medium Term Strategy 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 MTFS 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 Appendices set out:

- The Council's Medium Term Financial Strategy for the period 2020/21 to 2023/24.
- The 2020/21 General Fund Revenue Budget & Financing.
- The General Fund Reserves Position.
- The General Fund Capital Programme and Financing.
- The 2020/21 Housing Revenue Account (HRA) Revenue Budget.
- The HRA Reserves Position.
- The HRA Capital Programme and Financing.
- Risks, key issues, sensitivity and monitoring.
- Treasury management policy and investment strategy
- Spalding Special Expenses Budget 2020/21
- Fees and charges schedule 2020/21

2. Medium Term Financial Strategy

2.1 Strategy, Aspirations and Forward Projections

2.1.1 The objectives of the Council's Medium Term Financial Strategy 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 2019 the Council extended the arrangement for supply of services from Public Sector Partnership Services Ltd, (PSPS) in partnership with East Lindsey District Council in order to deliver greater efficiency in the provision of back office services. South Holland are expected to benefit from additional savings of £30k for 2020/21 in addition to the £7k which had already been attributed from 2019/20.

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.

Budget principles:

2.1.4 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 PSPS 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 2020/21 budget will be formally approved. Future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

2.2 Budget Requirement and Forward Estimates

- 2.2.1** Outline estimates through to 2023/24 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.
- 2.2.2** There remains a considerable level of uncertainty around the future design of the system for business rates retention and what this will mean for the level of funding that will be secured. A Government consultation is anticipated in the spring of 2020.
- 2.2.3** 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 in the next and future years. Also, in addition to the uncertainty about future funding levels the Council may also experience increasing inflationary pressures on core budgets.

2.2.4 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.

2.2.5 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 draft 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	993	1,214	1,080	1,426
Savings Total - Achievable	-228	-309	-398	-241
Interim Savings Efficiency Target	765	905	682	1,185
Savings Total - Options Identified	-180	-272	-172	-172
Final Savings Efficiency Target	585	633	510	1,013

2.2.6 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.

3. General Fund Budget and Financing 2020/21

3.1 External Financing – 2020/21 Provisional Settlement

3.1.1 Background

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 Authority will be part of the Lincolnshire Business Rates Pooling arrangement for 2020/21. This pooling arrangement benefits the level of business rates returned to the District, for 2020/21 the Business Rates retention was set at 50%.

The 2020/21 settlement consultation confirmed that the re-set of the Business Rates Baseline has been deferred until 2021/22. This presents a potentially significant risk to future levels of funding. However, the Government plans to launch 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 Spending Review deadline.

3.1.2 Revenue Support Grant (RSG)

An assumption for RSG is included in the 2020/21 estimates for one final year, at the slightly increased value of £276k (increased by the Consumer Price Index). The one year continuation of RSG has been applied in the 2020/21 to offset the increased cost of service demand arising from the Homelessness Reduction Act. The RSG will cease after 2020/21, as it is expected to be incorporated into baseline business rates funding. The MTFS reflects the following values:

Financial Year	RSG Receivable £000
2019/20	(271)
2020/21	(276)
2021/22	Nil
2022/23	Nil
2023/24	Nil

3.1.3 New Homes Bonus (NHB)

The 2020/21 NHB allocation has been allocated for one year only. It has been assumed that there will be no new allocations beyond 2020/21, with only the 2018/19 and 2019/20 legacy payments made in future years.

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 £430k and a total value on NHB for 2020/21 of £1.067m as detailed below.

2017/18 (yr7)	£225,172
2018/19 (yr8)	£128,345
2019/20 (yr9)	£283,969

2020/21 (yr10)	£429,705
TOTAL	£1,067,191

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

New Homes Bonus Allocations over MTFS period

£'000	2020/21	2021/22	2022/23	2023/24
2017/18	225	-	-	-
2018/19	128	128	-	-
2019/20	284	284	284	-
2020/21	430	-	-	-
TOTAL	1,067	412	284	-

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. It is not known if the grant will continue beyond 2020/21 so the MTFS does not include any values for those future years. The amounts included within the final budget are:

Financial Year	RSDG Receivable £000
2019/20	(159)
2020/21	(159)
2021/22	-
2022/23	-
2023/24	-

3.1.5 Business Rates (NDR)

There remains considerable uncertainty around the future arrangements for local government funding and how the 2021/22 Fair Funding Review that is taking place will translate into any reallocation of resources to reflect need.

Members should note that delay to the Fair Funding Review presents absolute uncertainty at the time of reporting in the retention of Business Rates from 2021/22 and future funding levels.

The values for surplus/deficit on the Business Rates Collection Fund are shown below along with the figures for retained business rates resulting from being in the Lincolnshire Pooling Fund.

Members should also consider the risk of future large business rates appeals and other rating changes and the impact they may have on the budget. When large value single properties have been rated during the year, their rateable value could

be challenged and the income to the council may reduce. Funds are set aside in reserves if this is the case, until the outcome of the appeal is known, this method is also adopted where there are increases in rateable value.

	2019/20 £000	2020/21* ¹ £000	2021/22 £000	2022/23 £000	2023/24 £000
Retained Business Rates	(9,897)	(10,101)	(10,286)	(10,486)	(10,690)
S31 Grants	(1,094)	(1,252)	(1,285)	(1,300)	(1,300)
Tariff	5,798	5,893	6,024	6,145	6,267
Pre - levy Income	(5,193)	(5,460)	(5,547)	(5,641)	(5,722)
Levy to / (from) Lincs CC	259	285	89	53	15
Estimated Deficit/(Surplus) on Collection Fund	(1,276)	430	-	-	-
Net Retained Business rates Income	(6,210)	(4,745)	(5,457)	(5,588)	(5,707)
Net (gain from) / contribution to the Pool	(388)	(428)	(134)	(80)	(23)

Notes to Table:

*¹ Based on the estimated position as at November 2019

*² For 2020/21 there is a projected deficit on the Business rates collection fund of £430k, this contrasts with the £1,276k surplus in 2019/20. The volatility that Councils are experiencing with business rates income is a feature of the structure of local government funding. Members are advised that it is likely that there will be one-off future swings in Business rates income over the MTFS and as previously agreed it is proposed that the Council tax reserve be used to smooth these swings in the Collection Fund. As such it is proposed that the 2020/21 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 £64k surplus in 2020/21 for council tax with a zero balance assumed in future years.

3.2.3 As noted above there is an estimated Business Rates deficit of £430k in the 2020/21 budget with a zero balance assumed in future years. The Council Tax Reserve will continue to be used to manage these swings between a Business Rates deficit or surplus as a result of large adjustments.

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 2019,
- the impact of the Local Council Tax Support Scheme (no change for 2020/21), and
- assumed growth.

3.3.2 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 Council Tax

3.4.1 The Provisional Settlement announced on 20th December confirmed that the referendum capping limit is the higher of 2% or £5. The 2020/21 budget assumes a £4.95 increase which equates to a 2.83% increase. The MTFs assumes an ongoing increase of £4.95 per annum.

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

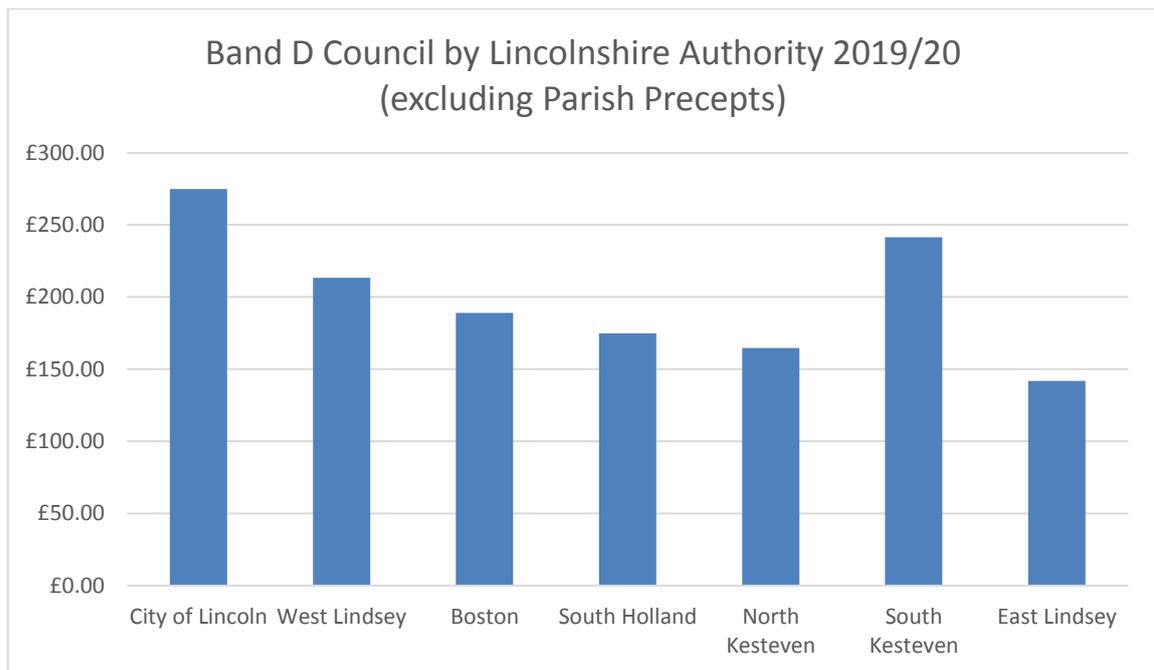
	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
A Council Tax base (band D equivalents) *	27,931	28,492	29,062	29,643	30,236
B Council Tax band D (£.p.)	174.78	179.73	184.68	189.63	194.58
Annual increase (£.p.)	4.95	4.95	4.95	4.95	4.95
Annual increase %	2.91%	2.83%	2.75%	2.68%	2.61%
C Annual Council tax collected (a x b)	(4,881)	(5,121)	(5,367)	(5,621)	(5,883)
D Surplus on Collection Fund	(100)	(64)	0	0	0
Gross Council Tax (c + d)	(4,981)	(5,185)	(5,367)	(5,621)	(5,883)

* The estimated tax base for 2020/21 is currently increased by 2.01% and is assumed to increase by 2.0% for each year thereafter.

3.4.3 The following table sets out the estimated 2020/21 Council Tax for each Property Band and the changes over 2019/20 values:

Band	Ratio	2019/20 £	2020/21 £	2019/20 to 2020/21 change	
				Annual £	Weekly £
A	6/9	116.52	119.82	3.30	0.06
B	7/9	135.94	139.79	3.85	0.07
C	8/9	155.36	159.76	4.40	0.08
D	9/9	174.78	179.73	4.95	0.10
E	11/9	213.62	219.67	6.05	0.12
F	13/9	252.46	259.61	7.15	0.14
G	15/9	291.30	299.55	8.25	0.16
H	18/9	349.56	359.46	9.90	0.19

3.4.4 The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2019/20.



3.4.5 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 2020/21 (£.p)	Increase over 2019/20 (£.p)	Increase over 2019/20 %
Lincolnshire County Council (TBC)	1,337.58	45.18	3.50%
Police and Crime Commissioner (TBC)	251.37	9.99	4.14%
South Holland DC	179.73	4.95	2.83%
Parishes including Spalding Special (average)	39.33	1.23	3.23%

3.5 Budget Summary 2020/21

3.5.1 Total Financing – 2019/20 to 2023/24

The table below shows the impact of the 2020/21 final settlement (to be confirmed) within the overall financing of the authority:

Source of Financing	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Council Tax	(4,882)	(5,121)	(5,367)	(5,621)	(5,883)
Non Domestic Rates	(4,934)	(5,175)	(5,457)	(5,588)	(5,708)
Revenue Support Grant (RSG)	(271)	(276)	-	-	-
Rural Service Delivery Grant	(159)	(159)	-	-	-
New Homes Bonus Grant	(1,002)	(1,067)	(412)	(284)	-
Spalding Special Expenses	(218)	(223)	(223)	(223)	(223)
Town & Parish Councils	(847)	(897)	(915)	(934)	(952)
Collection Fund Deficit/(Surplus) - Non Domestic Rates	(1,276)	430	-	-	-
Collection Fund Deficit/(Surplus) - Council Tax	(100)	(64)	-	-	-
Total Financing	(13,689)	(12,552)	(12,375)	(12,650)	(12,764)
Band D Charge	£174.78	£179.73	£184.68	£189.63	£194.58
Tax Base	27,931	28,492	29,062	29,643	30,236
Band D cost per week	£3.36	£3.46	£3.55	£3.65	£3.74

3.6 Final 2020/21 General Fund Estimates

The table below shows the final budget estimates for 2020/21 analysed by type of expenditure/income as shown in **Appendix B**.

3.6.1 The final estimates show a net balanced position for 2020/21, after transfers to and from reserves.

The following main variances from 2019/20 should be noted:

- Reduction in planning fee income by £320k to £750k.
- A net increase in cost of homelessness of £350k, as a result of increased service demand due to the Homelessness Reduction Act.
- Fleet maintenance contract changes £134k
- The impact of an assumed 2% pay award and incremental pay progression on employee budgets £202k.
- An increasing pension fund deficit reflecting the latest triennial review outcome £108k.
- An overall 4.58% increase in respect of increase in levy to Internal Drainage Boards £112k.
- Additional Council tax income due to growth in the tax base (£240k), the increased Band D charge and a small surplus on the collection fund (£64k).

3.6.2 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.

3.6.3 Notes providing further explanations of major variances between the two years are given in the below the table.

General Fund Estimates by Income and Expenditure 2019/20 to 2020/21			
Description	2019/20 Original Estimate £'000	2020/21 Estimate £'000	Variance from OE £'000
Employees	9,320	9,970	650
Premises	1,039	1,021	(18)
Transport	988	773	(215)
Supplies & Services	3,705	4,228	523
Drainage Board Levies	2,447	2,559	112
Parish Precepts	847	897	50
Third Party Payments	3,185	3,206	21
Transfer Payments	17,222	15,457	(1,765)
Depreciation & Impairment Charges	945	1,022	77
Direct Revenue Financing	2,102	1,569	(533)
Capital - Contra Entries	(1,020)	(1,097)	(77)
Transfers to/from Earmarked Reserves	(817)	(1,314)	(497)
Efficiencies required	0	(956)	(956)
Total Expenditure	39,963	37,298	(2,665)
Rents and Service Charges	(1,164)	(1,166)	(2)
Fees & Charges	(4,147)	(4,042)	105
Grants, Reimbursements & Contributions	(17,885)	(16,244)	1,641
Investment Income	(359)	(383)	(24)
Recharges	(2,719)	(2,911)	(192)
Total Income	(26,274)	(24,746)	1,528
Net Expenditure	13,689	12,552	(1,137)

3.7 Explanation of 2020/21 Budgets:

3.7.1 Employee Related Expenses

The overall increase in employee costs is as a result of changes across a number of areas, notably:

- Pride service 6 FTEs brought into the Establishment.
- Addition of a Fleet Maintenance team of 4.18 FTE.
- Incremental pay progression and the national pay award 2%.
- Corrections of previous establishment budgets.
- An increase in the pension deficit costs.

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.

The Council received the results of the pension triennial valuation in November 2019. This resulted in the employer's contribution rate increasing from 16.7% to 17.4% for 2020/21 to 2022/23, an increase of £42k for 2020/21. The secondary rate (deficit payment) increases on the General Fund by £66k from £455k (2019/20) to £521k in 2020/21. The results of the triennial review have been assigned to future years to 2022/23.

3.7.2 Premises Related Expenses

Whilst utilities and business rates have increased the premises related costs by £20k this has been offset by a reduction in maintenance costs to an overall reduction in Premises Related expenses of (£18k).

3.7.3 Transport

The costs allocated against transport have decreased by £215k net. This change is attributable to the Council approved decision to bring vehicle maintenance in-house. Other reductions have occurred as a result of vehicle acquisitions rather than leasing.

3.7.4 Supplies & Services

- Supplies and Services budgets have increased mostly as a result of accommodation costs under the homelessness reduction legislation £405k, an increase in budgeted spend reflecting the demand encountered during 2019/20.
- Spend in support of Grants for Growth of £57k will be recoverable from grant.
- The budget for Vehicle maintenance £366k has been redistributed across other cost areas to reflect the Council's plan to provide its own in-house vehicle maintenance service. Of this budget £175k is for supplies and services to fund the in-house provision. Bringing the service in-house prevents a further anticipated increased cost of £105k in 2020/21 for an outsourced service.

3.7.5 Third Party Payments

The contract costs of PSPS to the Council General Fund have been reduced by £37k in 2020/21. The £37k contract saving is in line with the proposals put forward to the Stakeholders group to reflect the revised base contract for PSPS from which future Transformation savings will be delivered. These savings are reflected in the Council's MTFS budgets. There is an additional cost from PSPS in support of the Council's Digital Strategy of £41k approved by Council in 2019/20.

There is an increase in budget for payment of service income to Breckland District Council in respect of Environmental Health Consultancy Service £34k, which is a 50% share of any consolidated surplus recognised by the service, with a matching amount for the additional income retained by SHDC.

The 2018/19 Leisure Contract resulted in the reduction in expense for the Peele Leisure Centre (£13.5k). The Legal Service has moved its budget for expenditure on Lincolnshire Legal Services £20k to its shared employee costs and professional and contractor fees.

3.7.6 Transfer Payments

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

- A £2.24m 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).
- An increase of £445k budgeted distribution of Grants for Growth disbursed by the Inward Investment service.

3.7.7 Depreciation and Impairment Charge

The depreciation charge has been updated following the completion of the 2018/19 accounts audit and approval by the Governance and Audit Committee.

3.7.8 Drainage Board Levies

The Council's 2020/21 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 increases by an average of 4.58% an increasing of £112k. Precepts levied by the five Internal Drainage Boards form 20.4% of the Councils Budget.

3.7.9 Direct Revenue Financing

This budget relates to the direct revenue funding of capital expenditure on ICT Infrastructure, Priory Road, Capital Acquisitions for Growth plus equipment and vehicles for both Grounds Maintenance and Facilities. (See capital programme at **Appendix E**).

3.7.10 Transfer to and from earmarked reserves

The following table sets out the net contributions to and from earmarked reserves in 2020/21. Reserve balances are further explained in paragraph 4:

	2020/21 £'000
<u>Contribution To Reserves</u>	
<u>Council Tax Reserve:</u>	
Noise monitoring equipment	(9)
District Council Elections	(40)
<u>Investment & Growth Reserve:</u>	
Capital repayment - workshop van	(4)
Kings Road cost recovery - LACE Housing	(13)
Leisure Management cost recovery	(29)
Capital repayment - Garden Waste	(52)
New Homes Bonus	(1,067)
<u>Replacement & Refurbishment Reserve:</u>	
Power Stations - equipment replacement	(5)
GF Revenue contribution R&R	(136)
Contribution To Reserves Total	(1,355)
<u>Contribution From Reserves</u>	
-	
<u>Council Tax Reserve:</u>	
Noise monitoring equipment replacement contribution	8
NNDR Deficit	430
Information Governance Officer funding	29
South Holland Centre	16
<u>Investment & Growth Reserve:</u>	
Digital Strategy	162
Delivery Unit contribution	120
Executive Programme Manager Post	81
Shared External Grants Officer	22
Capital Investment Purchases	500
PSPS Transformation Investment	124
Environmental Services Capital replacement programme	57
ICT Infrastructure	113
Homelessness	74
UPS ICT Infrastructure	8
Priory Road - Air Conditioning Phase 2	53
Priory Road -Sash Windows	83
Ayscoughfee Hall - Replacement Lighting to LED	40

Industrial Units - Roof replacement - Sutton Bridge industrial estate	100
Industrial Units - Development of external compound at Railway Lane Crease Drove	50
Planning - course funding	425
3 Year Fixed Term Post - Town Centre Improvement Plan	5
Programme Management resource	29
	49
<u>Replacement & Refurbishment Reserve:</u>	
Programmed use of R&R Reserve	77
<u>Transformation Reserve:</u>	
National Graduate Trainee	15
Contribution From Reserves Total	2,669
Net Contribution From Reserves	1,314

3.7.11 Rents and Service Charges

Income is forecast to increase for Council owned Industrial Units by (£16k) and for other Council managed sites by (£18k).

The income from shared Council office rents and service charges reduce by £45k following changes to tenant space occupied by PSPSL, which is mainly offset to the Council through a reduction in contract supply cost. Income from other tenants at the Council offices increase by (£7k).

3.7.12 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 budgeted income for Planning Fees is anticipated to reduce by £320k. Other adjustments have been made to budget to reflect 2019/20 actual income.

- 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.

3.7.13 Grants, Contributions & Reimbursements

This budget includes the following adjustments:

- Reduced Shared Management Income £42k.
- The next phase of Grant for Growth income has increased by (£581k).
- Reduced income for housing benefits £2.238m – offset by reduced benefit expenditure as noted above.

3.7.14 Investment Income

This income budget has increased by £24k to £383k compared to the previous year. There is the possibility that this could increase more. However, the impact of Brexit on the market is unknown and a potential risk.

3.7.15 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 Financial Strategy cover the period 2020/21 to 2023/24. 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 (2019/20) 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
- Council Tax levels are permitted to increase by up to 2% or £5 if greater for 2020/21.

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 2020/21 is estimated at £223,200 (2019/20, £217,500). The detailed estimates were provided to Spalding Town Forum on 28th January 2020 and agreed.

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 2020/21 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 The General Fund has a forecast working balance of £2.078m at 1st April 2020. 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 Special)	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Brought Forward	(8,702)	(4,447)	(3,133)	(3,840)	(3,446)
Transfer In	(3,500)	(1,355)	(1,632)	(640)	(264)
Transfers Out	7,756	2,669	925	1,034	307
Carried Forward	(4,447)	(3,133)	(3,840)	(3,446)	(3,403)

Notes to Reserves table:

- In addition to specific reserves the general fund working balance at 1st April 2019 was £2.078m. This may be subject to change following the completion of the annual audit.

- This table does reflect the current estimated effect of the 2019/20 out-turn (Q3 Forecasts). If, as anticipated, there is a net overspend at the end of the current year, this will be funded from reserves.
- 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, along with a further £500k earmarked for the Market Towns Initiative as approved at Council on 27th November 2019. Details of these schemes are still being validated and further information will be provided in due course.
- The balance of the Investment & Growth Reserve, after the allocation of £1m detailed above, will used to fund feasibility work relating to the development of commercial opportunities and funding of capital schemes aligned to the commercialisation agenda (such as the Food Enterprise Zone, 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 continues to actively invest with a view to generating commercial income opportunity in projects such as the letting of additional Industrial Units and shared occupation of Council assets.

5.2 Appendix E details the updated capital programme of schemes that are either currently in progress or approved to be delivered for 2020/21 and future years, taking into account the anticipated outturn for 2019/20. All such schemes are actively monitored through the Capital Programme Working Group. The values for 2020/21 may change depending upon the ultimate level of spend and delivery in 2019/20 and other initiatives.

5.3 The main schemes included in the approved 2020/21 programme relate to ICT investment, Priory Road enhancements, Grants for Growth, Disabled Facility Grants –funded work, Crease Drove, Food Enterprise Zone and investments via Commercial Acquisitions.

5.4 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 2020/21 and the Medium Term Financial Strategy are shown in Appendix C.

6.2 The following table shows the summary HRA for 2020/21 compared to the 2019/20 position:

HRA Estimates by Income & Expenditure 2019/20 to 2020/21

Description	2019/20 Estimate	2020/21 Estimate	Variance
	£000	£000	£000
Rent Income – Dwellings	(14,646)	(15,049)	(403)
Charges for Services & facilities	(1,169)	(1,175)	(6)
Contributions to Expenditure	(27)	(27)	-
Total Income	(15,842)	(16,251)	(409)
Repairs & Maintenance	2,860	2,894	34
Supervision & Management	2,961	3,079	118
Rents Rates Taxes and Other Charges	76	76	-
Depreciation	3,124	3,235	111
Provision for Doubtful Debts	221	271	50
Stat. Recharge to HRA for Support Serv.	1,721	1,962	241
Total Expenditure	10,963	11,517	554
Contribution from Operations	(4,879)	(4,734)	145
Investment Income	(161)	(161)	-
Interest on Loans	2,347	2,347	-
Capital Expenditure charged to Revenue	-	-	-
Net operating (surplus)/Deficit	(2,693)	(2,548)	145

6.3 Explanation of Budget Variations

6.3.1 Rent Income - Dwelling Rents

- The rent reductions of 1% from 2017/18 to 2019/20 have now ceased and rent increases from 2020/21 onwards are set at CPI + 1%, which is 2.7%. The Council had 3,788 HRA dwellings at 1st April 2019 with an average weekly rent of £74.73 (on a 52 week basis). 2019/20 has 53 Rent weeks in the financial year. The average rent in 2020/21 will be £76.75 per week
- An assumed rent loss of 1% (£154k) for void properties, 1.5% (£232k) for bad debts and an assumed rent loss from selling 20 homes per annum under Right to buy.
- 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. For 2020/21 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, but no subsequent increases. Charges will be reviewed in 2020 but no increase has been included in the 2020/21 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 2020 to reflect updated budget and service charges, but is unlikely to take effect until 2021/22. Again no increase has been included in the 2020/21 budget

6.3.3 Repairs & Maintenance

An increase in total spend on Repairs and Maintenance is mainly due to Payroll costs, including Inflationary Increases, employer's pension and pension top-up. A reduction in Professional and contractors fees reduces the impact.

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. Recharges for Housing Enabling service employee costs have increased to reflect the proportion of their work on HRA activity.

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 £3.124m to £3.235m in line with the HRA Business Plan. Also included is depreciation on vehicles

purchased in 2019 for the CSU. 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 2020/21.

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 MTFS 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 £241K.

6.3.9 Capital Expenditure charged to Revenue

As part of the Council's year end accounts for 2015/16, 2016/17, 2017/18 and 2018/19 the annual revenue contribution to the capital programme has been credited to the Major Repairs Reserve (MRR). The HRA affordable housing program commenced early in 2019 and the delivery of S106 units and the building program at Small Drove Weston will be funded partly from the MRR. The Major Repairs Reserve will stand at over £7.8m before any 2019/20 funding. A further £3.2m funding is expected during 2020/21, which will be fully utilised in year. A revenue contribution from the HRA Working Balance, together with the use of existing capital reserves will be required in 2020/21 to support the delivery of the re-phased capital programme.

7 HRA Reserves

7.1 The table below shows the unallocated reserve balances as at 31st March 2019 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 2019	16,575	200	4,684
Transfers in	2,693	-	3,124
Transfers Out	-	-	(7,808)
Balance at 31st March 2020	19,268	200	-

Transfers in	2,548	-	3,235
Transfers Out	(2,628)	-	(3,235)
Balance at 31st March 2021	19,188	200	-

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 nearly £4.7m 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 £21.1m has been allocated during the period of the MTFS from 2019/20 to 2023/24. This will allow the Council to deliver:

- A development of 34 units for rent/shared ownership at Small Drove, Weston,
- Acquisition of approximately 25 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. Government consultation expected 2020.
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification
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.
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 Legislation Changes	High	High	Monitor service demand and impact on costs. Optimise use of grant funding and closely monitor impact.
Lack of clarity for funding levels beyond 20/21 and spending review	High	High	Prudent budget set to provide best estimate. Transitional arrangements have been applied in similar previous changes imposed on funding arrangements.

Risk	Likelihood	Impact	Mitigating Action
Universal Credit	High	Medium	Having regard to the further extension to implementation announced by Government in 2020 the risk remains relevant, until nearer the complete implementation date. 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.
Business rates retention proposals leave Council exposed to economic fluctuations and rating appeals	High	High	Monitor developments & set aside appropriate reserves and provisions to help with potential initial pressures and fluctuations
Increased risk that liability insurance premiums will increase	Medium	Low	Prepare to go to the market again if premiums exceed market trends.
Fair Funding Review could take into account actual levels of commercial	Medium	Medium	Prudent budget set to provide best estimate.
Low income levels from fees and charges	Medium	Medium	Review and revise proposals for fees and charges and annual increases as appropriate.
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	The Council has pro-active debt management and pre-pay fee policies.
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.

Risk	Likelihood	Impact	Mitigating Action
Court Income	Medium	Low	The budget has been increased for court income projections in line with budget. The nature of these debts leads to inherent doubt over collectability of this income.
Public Sector Partnership 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