

SOUTH HOLLAND DISTRICT COUNCIL

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

To: Joint Performance Monitoring Panel and Policy Development Panel, 21 January 2021

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

Purpose: To consider the Draft General Fund and Housing Revenue Account 2021/22 revenue and capital estimates and the Draft Financial Medium Term Strategy (for Scrutiny)

Recommendations:

1. That the Joint Panel reviews and makes recommendations on the following documents for consideration by Cabinet at its meeting on 16th February 2021. The documents for consideration include:
 - Revenue Estimates for the General Fund, Housing Revenue Account 2021/22, as set out in Appendices A, B and C;
 - Reserves position 2021/22 to 2024/25 as set out in Appendix D;
 - Capital Programme 2021/22 to 2024/25 as set out in Appendix E;
 - Capital Strategy as set out in Appendix F.
 - Fees and Charges Schedule as set out in Appendix G

1.0 PURPOSE OF REPORT

- 1.1 This Joint Performance Monitoring Panel and Policy Development Panel are asked to examine the draft estimates and provide comments for Cabinet to consider at their meeting on 16th February 2021. Cabinet will then make their recommendation to the Full Council meeting on 3rd March 2021.
- 1.2 This report sets out the 2021/22 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.

- 1.3 This report forms part of the consultation process and comments to feedback to Cabinet are sought from this budget scrutiny meeting. Responses are also invited from residents and businesses through the Council's website.
- 1.4 The draft budgets will be subject to some further internal change and review during the consultation period. In particular the projections for business rates will need to be adjusted to reflect those returned to the government in the NNDR1 return (due to be completed in January). Other areas of adjustment include confirmation of the Internal Drainage Board Levies.
- 1.5 **The Covid-19 pandemic has had a profound impact across the world. In setting this budget for the medium term we have had to make wider assumptions compared to previous years.**
- 1.6 The budget assumes for 2021/22 that impacts of Covid-19 remain with us and therefore some estimates for income have been reduced (i.e. investment interest, NNDR, etc.) and then levels are assumed to recover to more normal values from 2022/23 onwards. The budget assumes that the lower income levels and our additional cost pressures can be met from the one-off Government Covid grant in 2021/22 and staff can be redeployed as they are currently. The ability to use reserves as well as one-off funding opportunities are assumptions and strategies that will also be considered to mitigate additional Covid costs.
- 1.7 The Treasury Management Strategy has been presented to Governance and Audit Committee on the 14th January 2021 and will then be presented to Cabinet on the 16th February 2021.

2.0 BACKGROUND

- 2.1 The spending review 2021 on 25 November announced that we will receive a further one-year settlement and the planned changes from the Fair Funding Review and 75% Business Rates retention have been delayed until at least April 2022.

The draft Local Government Settlement was announced on 17 December, confirming a one-year continuation of Revenue Support Grant (RSG) uplifted by inflation, a small increase to the Rural Services Delivery Grant (RSDG) for 2021/22 only, no inflationary increase to the Business Rates Multiplier, one further year of New Homes Bonus (a one-year allocation only with no future legacy payments) and a one-off Covid-19 grant. The draft Settlement also announced a new Lower Tier Grant totalling £142,485 for South Holland.

Added to this, alongside the other significant funding changes and complexity, results in a budget with far higher levels of estimates than usual and therefore the actual budgets from 2022/23 onwards will almost certainly be different to these estimates. This draft budget provides a middle ground of funding assumptions.

2.2 New Homes Bonus (NHB)

We will receive an additional one-year allocation of NHB for 2021/22 due to delays in implementing any replacement scheme, however this will be one year only with no further legacy payments in future years.

Future consultation is expected to fundamentally change the NHB scheme, the consultation paper is expected to be published over the coming months with any outcome likely to be implemented from 2022/23. Due to the uncertainty of the future of NHB our budgets currently 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.

2.3 75% retained NNDR (effective April 2022)

Currently it is expected that the new 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 with the growth).

Where large value single properties have been rated during the year, these may challenge their rateable value and the income to the council may reduce. Funds are set aside in reserve if this is the case until next year when the outcome of any appeal would be known and the changes made in next year's budget setting. The risk is higher in this budget due to the unknown future impact of Covid-19 on businesses and the potential increase in empty properties and reduction in rates payable.

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 at the same time as the 75% retention scheme, but the working group are still discussing details of the major components of the scheme.

The Spending Review also confirmed that conclusions from the recent fundamental review of business rates would be published in Spring 2021. These conclusions will shape future reforms to local government funding and may change the above assumptions.

2.4 Funding Reform (effective date April 2022)

A Fair Funding Review (FFR) had been expected to set new baseline funding allocations for all Local Authorities, simplify the existing system and provide an up to date assessment of Authorities relative needs and resources. Early consultations have been undertaken 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.

3.0 2021/22 Draft Budget & Medium Term Financial Strategy (MTFS)

3.1 The key elements of the draft 2021/22 Budget and MTFS are summarised in the following paragraphs and set out in detail in the attached appendices which show:

- The 2021/22 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.

2021/22 Council Tax Base & 2020/21 Collection Fund Surplus

3.3 The Council Tax base for 2021/22 is 28,794 properties, an increase of 302 properties over the 2020/21 tax base giving additional income of approximately £197k. An ongoing minimum increase of 1.5% per annum is assumed over the MTFS period.

3.4 Each year the Council is required to calculate the balance on its Collection Fund. 2020/21 has been an unprecedented year and therefore balances are not in line with other years, as a result of this Government has allowed for these deficits to be spread across 3 financial years to minimise the impact.

3.5 For Council Tax current estimates indicate a £31k surplus in 2021/22 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.

3.6 For Business Rates a deficit is forecast of £1,256k in total and South Hollands share of this for 2021/22 would be £167k, with a further £167k charged to the next 2 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.

SHDC Detailed Budget Changes

3.7 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.

3.8 The MTFS 2021/22 to 2024/25 draft estimates currently show a savings target requirement for 2021/22:

	2021/22 £'000
Initial Savings Efficiency Target	1,520
Savings Total - Achievable	(759)
Interim Savings Efficiency Target	761
Savings Total – Options identified*	(346)
Final Savings Efficiency Target	415

* In 2021/22 the council will receive a one-off windfall allocation for new homes bonus, this funding could be used to support the inyear savings target.

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 historic 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.
- Minimal increase in funding due to the delay in the Fair Funding Review.
- Increased cost of homelessness, as a result of increased service demand due to the Homelessness Reduction Act.

4.0 Housing Revenue Account

4.1 The draft Housing Revenue Account (HRA) budget shows a forecast surplus of £1.92m. This reflects:

- A rent increase of 1.5% from 2020/21 to 2021/22 in line with Government guidelines,
- An assumed rent loss of 1% for void properties and 1.5% for bad debts,
- Estimated net rent arising from additional units included within the HRA capital programme from 2019/20 onwards, and
- A review of charges where appropriate.

5.0 Reserves

5.1 General Fund Specific Reserves are budgeted to reduce by £4.354m (net) in 2020/21, predominantly to fund the Capital Programme. This figure may change as a result of the outturn for 2020/21.

5.2 A detailed breakdown of Reserve movements for both the General Fund and Housing Revenue Account 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 2021/22 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. 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 scrutinised and comments made for consideration by Cabinet.
- 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 2021/22 that ensures delivery of the priorities of the Council

10.0 IMPLICATIONS

10.1 Carbon Footprint & Environmental Issues

- 10.1.1** None

10.2 Constitution & Legal

- 10.2.1** None

10.3 Contracts

- 10.3.1** None

10.4 Crime and Disorder

- 10.4.1** None

10.5 Equality and Diversity & Human Rights

- 10.5.1** None

10.6 Financial

- 10.6.1** The report is of a financial nature and further financial details are included within the appendices.
- 10.6.2** 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 2021/22 budget.

11.0 Risk Management

11.1 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.

12.0 WARDS/COMMUNITIES AFFECTED

12.1 Budget implications affect all wards.

13. ACRONYMS

13.1	PSPSL	Public Sector Partnership Services Ltd
	MHCLG	Ministry of Housing, Communities and Local Government
	HRA	Housing Revenue Account
	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