

**Draft Budget 2021/22 and Medium Term Financial Strategy 2021/22 to 2024/25.**

**1. Introduction**

**1.1** This appendix sets out the draft combined 2021/22 budget estimates and Medium Term Financial Strategy (MTFS) for the period 2021/22 to 2024/25 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 Appendix sets out:

- The Council's Medium Term Financial Strategy for the period 2021/22 to 2024/25.
- The 2021/22 General Fund Revenue Budget & Financing.
- The General Fund Reserves Position.
- The General Fund Capital Programme and Financing.
- The 2021/22 Housing Revenue Account (HRA) Revenue Budget.
- The HRA Reserves Position.
- The HRA Capital Programme and Financing.
- Risks, key issues, sensitivity and monitoring.
- Consultation proposals, timetable and links to other strategies.
- Treasury management policy and investment strategy (to follow in final budget report).

**2. Unprecedented Level of Uncertainty**

**2.1** 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.

**2.2** 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.

**2.3** 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.

### **3. Medium Term Financial Strategy**

#### **3.1 Strategy, Aspirations and Forward Projections**

**3.1.1** 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,
- 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,
- manage and use our resources to deliver value for money and better sustainable outcomes and efficiencies for local people,
- aim for a minimum balance on the Collection Fund,
- 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.

**3.1.2** 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:**

**3.1.3** 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 level of pay awards are not known at the time of drafting estimates, therefore a provision has been 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.
- 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 2021/22 budget will be formally approved. Future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

## **3.2 Budget Requirement and Forward Estimates**

- 3.2.1** Outline estimates through to 2024/25 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.
- 3.2.2** 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 on a Fair Funding Review anticipated in the spring of 2020 has been postponed.
- 3.2.3** The budget will be subject to final 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 a savings requirement in 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.
- 3.2.4** As part of the budget review, a number of potential schemes have been explored at officer level to generate savings and increase income. Areas being considered which currently have a high level of spend or which require a greater review to reduce costs and provide services differently include:

- review of publicly owned assets including a strategic asset plan review and consideration of alternative management models,
- further shared service opportunities,
- growth and commercialisation opportunities including generating income streams from increasing asset ownership,
- Welland Homes, and
- a Service Efficiency Programme.

**3.2.5** The MTFFS 2021/22 to 2024/25 draft estimates currently show a savings target requirement for 2021/22:

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

\* 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.

The budgets reported for 2022/23 onwards contain a high degree of uncertainty and assumptions and as such it is difficult to accurately forecast future years' savings targets.

Further work is being undertaken as the budget is finalised and as the year progresses to achieve this efficiency target and extensive work is currently underway to support this process. Any timing issues relating to when savings materialise can be managed through use of reserves to facilitate timing issues.

## **4. General Fund Budget and Financing 2021/22**

### **4.1 External Financing – 2021/22 Provisional Settlement**

#### **4.1.1 Background**

The Provisional Local Government Financial Settlement 2021/22 was announced Friday 18<sup>th</sup> December. These include a one-year continuation of Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG) for 2021/22 only, no change to the Business Rates Multiplier and one further year of New Homes Bonus (a one-year allocation only with no future legacy payments).

The 2021/22 settlement consultation confirmed that the re-set of the Business Rates Baseline has been deferred, this presents a potentially significant risk to future levels of funding.

#### **4.1.2 Revenue Support Grant (RSG)**

An assumption for RSG is included in the 2021/22 estimates for one final year, at the slightly increased value of £276k (increased by 0.5%). The RSG will cease after 2021/22, the MTFFS reflects the following values:

<b>Financial Year</b>	<b>RSG Receivable £000</b>
2020/21	(276)
2021/22	(277)
2022/23	-
2023/24	-
2024/25	-

#### 4.1.3 New Homes Bonus (NHB)

The 2021/22 NHB allocation has been allocated for one year only. It has been assumed that there will be no new allocations beyond 2021/22, with only the 2019/20 legacy payments made in future years (based on the lack of legacy payments for 2020/21 and 2021/22)

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 £346k and a total value on NHB for 2021/22 of £758k as detailed below.

2018/19 (yr8)	£128,345
2019/20 (yr9)	£283,969
2020/21 (yr10)	-
2021/22 (yr11)	£345,761
<b>TOTAL</b>	<b>£758,076</b>

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 currently assume that all NHB is paid into the Investment and Growth Reserve.

#### **New Homes Bonus Allocations over MTFS period**

<b>£'000</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
2018/19	128	-	-	-
2019/20	284	284	-	-
2020/21	-	-	-	-
2021/22	346	-	-	-
<b>TOTAL</b>	<b>758</b>	<b>284</b>	-	-

#### 4.1.4 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 2021/22 so the MTFS does not include any values for those future years. The amounts included within the draft budget are:

Financial Year	RSDG Receivable £000
2020/21	(159)
2021/22	(159)
2022/23	-
2023/24	-
2024/25	-

#### 4.1.5 Business Rates (NDR)

There remains considerable uncertainty around the future arrangements for local government funding and how the postponed Fair Funding Review 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.

	2020/21 £000	2021/22* <sup>1</sup> £000	2022/23 £000	2023/24 £000	2024/25 £000
Retained Business Rates	(10,101)	(10,306)	(10,486)	(10,690)	(10,690)
S31 Grants	(1,252)	(1,252)	(1,300)	(1,300)	(1,300)
Tariff	5,893	6,024	6,145	6,267	6,393
<b>Pre - levy Income</b>	<b>(5,460)</b>	<b>(5,534)</b>	<b>(5,641)</b>	<b>(5,722)</b>	<b>(5,597)</b>
Levy to / (from) Lincs CC	285	657	53	15	(67)
Estimated Deficit/(Surplus) on Collection Fund	430	0	0	0	0
<b>Net Retained Business rates Income</b>	<b>(4,745)</b>	<b>(4,877)</b>	<b>(5,588)</b>	<b>(5,707)</b>	<b>(5,664)</b>
Net (gain from) / contribution to the Pool	428	0	80	23	(100)

*Notes to Table:*

\*<sup>1</sup> Based on the estimated position as at December 2020

## 4.2 Collection Fund

4.2.1 Each year the Council is required to calculate the balance on its Collection Fund.

- 4.2.2** 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 deficits to be spread across 3 financial years to minimise the impact.
- 4.2.3** Current estimates indicate a £31k council tax surplus in total for 2021/22 for and South Holland's share of this would be £4k, with a zero balance assumed in future years.
- 4.2.4** 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 Council Tax Reserve will continue to be used to manage these swings between a Business Rates deficit and surplus as a result of large adjustments.
- 4.2.5** The draft Settlement announced funding for 75% of irrecoverable Council Tax and Business Rates income in 2020/21, once these have been calculated the collection fund balances may change and these will be updated in the final budget

## **5.1 Council Tax Base**

**5.1.1** 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 2020,
- the impact of the Local Council Tax Support Scheme (Changes for 2021/22 to be reported at Council 20<sup>th</sup> January 2021), and
- assumed growth estimated during December 2020.

**5.1.2** The Council Tax base for 2021/22 is currently estimated at 28,794 properties, an increase of 302 properties (1.06%) over the final 2020/21 tax base giving additional income of approximately £197k. The calculation will be updated once the final tax base is known. An ongoing annual increase of 1.5% per annum is assumed over the MTFS period.

## **5.2 Council Tax**

**5.2.1** The Provisional Settlement announced on 18<sup>th</sup> December confirmed that the referendum capping limit is the higher of 2% or £5. The 2021/22 budgets assume a £4.95 increase which equates to a 2.75% increase. The MTFS assumes an ongoing increase of £4.95 per annum.

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

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
<b>A Council Tax base (band D equivalents) *</b>	28,492	28,794	29,226	29,810	30,407
<b>B Council Tax band D (£.p.)</b>	£179.73	184.68	189.63	194.58	199.53
<b>Annual increase (£.p.)</b>	£4.95	4.95	4.95	4.95	4.95
<b>Annual increase %</b>	2.83%	2.75%	2.68%	2.61%	2.54%
<b>C Annual Council tax collected (a x b)</b>	(5,121)	(5,318)	(5,542)	(5,801)	(6,067)
<b>D Surplus on Collection Fund</b>	(64)	0	0	0	0
<b>Gross Council Tax (c + d)</b>	<b>(5,185)</b>	<b>(5,318)</b>	<b>(5,542)</b>	<b>(5,801)</b>	<b>(6,067)</b>

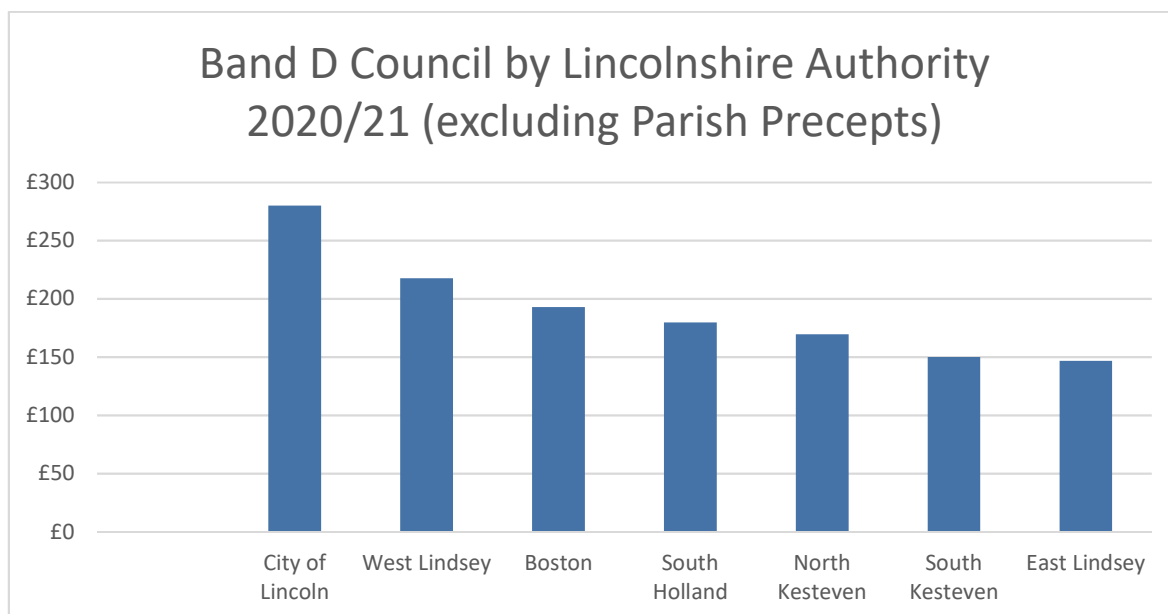
\* The estimated tax base for 2021/22 is currently increased by 1.06% and is assumed to increase by a minimum of 1.5% for each year thereafter.

5.2.3 The following table sets out the estimated 2021/22 Council Tax for each Property Band and the changes over 2020/21 values:

Band	Ratio	2020/21 £	2021/22 £	2020/21 to 2021/22 change	
				Annual £	Weekly £
<b>A</b>	6/9	<b>119.82</b>	<b>123.12</b>	3.30	0.06
<b>B</b>	7/9	<b>139.79</b>	<b>143.64</b>	3.85	0.07
<b>C</b>	8/9	<b>159.76</b>	<b>164.16</b>	4.40	0.08
<b>D</b>	9/9	<b>179.73</b>	<b>184.68</b>	4.95	0.10
<b>E</b>	11/9	<b>219.67</b>	<b>225.72</b>	6.05	0.12
<b>F</b>	13/9	<b>259.61</b>	<b>266.76</b>	7.15	0.14
<b>G</b>	15/9	<b>299.55</b>	<b>307.80</b>	8.25	0.16
<b>H</b>	18/9	<b>359.46</b>	<b>369.36</b>	9.90	0.19



5.2.4 The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2020/21.



### 5.3 Budget Summary 2021/22

#### 5.3.1 Total Financing – 2020/21 to 2024/25

The table below shows the impact of the 2021/22 final settlement (to be confirmed) within the overall financing of the authority:

Source of Financing	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Council Tax	(5,121)	(5,318)	(5,542)	(5,801)	(6,067)
Non Domestic Rates	(5,175)	(4,877)	(5,588)	(5,707)	(5,664)
Revenue Support Grant (RSG)	(276)	(277)	0	0	0
Rural Service Delivery Grant	(159)	(159)	0	0	0
New Homes Bonus Grant	(1,067)	(758)	(284)	0	0
Spalding Special Expenses	(223)	(227)	(229)	(230)	(232)
Town & Parish Councils	(897)	(915)	(934)	(952)	(971)
Collection Fund Deficit/(Surplus) - Non Domestic Rates	430	0	0	0	0
Collection Fund Deficit/(Surplus) - Council Tax	(64)	0	0	0	0
<b>Total Financing</b>	<b>(12,552)</b>	<b>(12,531)</b>	<b>(12,576)</b>	<b>(12,690)</b>	<b>(12,934)</b>
Band D Charge	£179.73	£184.68	£189.63	£194.58	£199.53
Tax Base	28,492	28,794	29,226	29,810	30,407
Band D cost per week	£3.46	£3.55	£3.65	£3.74	£3.84

## 5.4 Draft 2021/22 General Fund Estimates

The table below shows the draft budget estimates for 2021/22 analysed by type of expenditure/income as shown in **Appendix B**.

- 5.4.1 The draft estimates show a net balanced position for 2021/22, after transfers to and from reserves.

The following main variances from 2020/21 should be noted:

- A net decrease in cost of homelessness (£108k), as a result of increased utilisation of the authority owned property to meet the increased demand in response to the Homelessness Reduction Act.
  - The impact of an assumed 2% pay award and incremental pay progression on employee budgets.
  - An increasing pension fund deficit reflecting the most recent triennial review outcome £51.8k.
  - A 2% increase in levy towards the five Internal Drainage Boards.
  - Additional Council tax income due to growth in the tax base (£241k), the increased Band D charge and a small surplus on the collection fund (£50k).
- 5.4.2 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.
- 5.4.3 Notes providing further explanations of major variances between the two years are given in the below the table.

<b>General Fund Estimates by Income and Expenditure 2020/21 to 2021/22</b>			
<b>Description</b>	<b>2020/21 Original Estimate £'000</b>	<b>2021/22 Estimate £'000</b>	<b>Variance from OE £'000</b>
Employees	9,970	10,218	249
Premises	1,021	926	(95)
Transport	773	788	15
Supplies & Services	4,228	4,018	(211)
Transformation	0	0	0
Drainage Board Levies	2,559	2,611	51
Parish Precepts	897	915	18
Third Party Payments (PSPS Contract Payments)	3,206	3,203	(3)
Transfer Payments	15,457	14,411	(1,046)
Depreciation & Impairment Charges	1,022	993	(29)
Direct Revenue Financing	1,569	379	(1,190)
Capital - Contra Entries	(1,097)	(1,068)	29
Transfers to/from Earmarked Reserves	(1,314)	215	1,528
Efficiencies required	(993)	(1,520)	(527)
<b>Total Expenditure</b>	<b>37,298</b>	<b>36,088</b>	<b>(1,210)</b>

<b>Description (Continued)</b>	<b>2020/21 Original Estimate £'000</b>	<b>2021/22 Estimate £'000</b>	<b>Variance from OE £'000</b>
Rents and Service Charges	(1,167)	(1,166)	2
Fees & Charges	(4,042)	(3,803)	239
Grants, Reimbursements & Contributions	(16,244)	(15,330)	913
Investment Income	(383)	(228)	155
Recharges	(2,911)	(3,030)	(120)
<b>Total Income</b>	<b>(24,746)</b>	<b>(23,557)</b>	<b>1,189</b>
<b>Net Expenditure</b>	<b>12,552</b>	<b>12,531</b>	<b>(21)</b>

## 5.5 Explanation of 2021/22 Budgets:

### 5.5.1 Employee Related Expenses

The overall increase in employee costs is as a result of incremental pay progression and provision for a national pay award of 2%. Since the budget estimates were produced a public sector pay freeze has been announced and the final budget will reflect this change and the saving will contribute towards are efficiency target.

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's pension secondary rate (deficit payment) increases on the General Fund by £52k from £521k (2020/21) to £573k in 2021/22. The results of the triennial review have been assigned to future years to 2024/25.

### 5.5.2 Premises Related Expenses

Charges for Water have increased by £7k (11.9%), other utilities remain at 2020/21 levels as do business rates. A provision of £51k has been made for Leisure Business rates which is under review. Maintenance of properties for the homeless is new provision of £56k.

Following an update of costs allocated to the Housing Revenue Account, the cost of operational premises attributable to the HRA, offsets the above increases by a favourable (£128k).

### 5.5.3 Transport

Vehicle fuel costs are reduced (£56k) on the previous year.

The accounting categorisation of employee car allowances from Employee costs to Transport Related costs as per CIPFA, the Public Sector accounting advisory body increases costs in this category of spend by £64k.

#### **5.5.4 Supplies & Services**

- Homelessness spend on temporary accommodation reduces (£176k) however, this will be offset by a related reduction in income for the service of £67k.
- Budget for spend on Contractor fees is reduced by (£58k), significantly through reduced transaction costs on car parking income (£21k) and the balance comes from across other various services as a result of reduced need.
- The impairment for bad debts in respect of Housing Benefit Overpayments has been reduced by (£86k) as a result of the continuing shift towards Universal Credit.

#### **5.5.5 Transfer Payments**

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

- A £1.164m 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).
- A reduction of £16k budgeted distribution of Grants for Growth to £565k disbursed by the Inward Investment service.
- Increased spend on Disabled Facilities Grant £65k matched by an increase in grant.

#### **5.5.6 Depreciation and Impairment Charge**

The estimated depreciation and impairment charges are based on previous budgets and will be revised for the final budget following conclusion of the 2019/20 audit of financial statements.

#### **5.5.7 Drainage Board Levies**

The Council's 2021/22 budget and forward estimates include amounts for the five Internal Drainage Boards (IDB) that service South Holland. 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 2.0%. Precepts levied by the five Internal Drainage Boards form 18.7% of the Councils Budget.

#### **5.5.8 Direct Revenue Financing**

This budget relates to the direct revenue funding of capital expenditure on ICT Infrastructure, Castle Sports Hall Boiler, Industrial Units Roof Repairs plus equipment and vehicles for both Grounds Maintenance, Street Cleansing and Garden Waste. (See capital programme at **Appendix E**).

### 5.5.9 Transfer to and from earmarked reserves

The following table sets out the net contributions to and from earmarked reserves in 2021/22. Reserve balances are further explained in paragraph 4:

	<b>2021/22</b>
	<b>£'000</b>
<b><u>Contribution To Reserves</u></b>	
<u>Council Tax Reserve:</u>	
District Council Elections	(40)
Noise monitoring equipment	(9)
<u>Investment &amp; 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	(758)
<u>Replacement &amp; Refurbishment Reserve:</u>	
GF Revenue contribution R&R	(136)
<b>Contribution To Reserves Total</b>	<b>(1,041)</b>

<b><u>Contribution From Reserves</u></b>	
<u>Council Tax Reserve:</u>	
Noise monitoring equipment replacement contribution	8
South Holland Centre	11
<u>Investment &amp; Growth Reserve:</u>	
Digital Strategy	89
Delivery Unit contribution	120
Temporary Establishment Funding	105
PSPS Transformation Investment	15
Environmental Services vehicle and equipment replacement programme	
- Grounds Maintenance	37
- Cleansing	7
- Garden Waste	52
ICT Infrastructure	84
ICT Infrastructure Office365	20
Temporary Accommodation Electrical Upgrade, Heating and Boiler Replacement	29
Industrial Units - Roof replacement - Sutton Bridge ind. estate	93
Sports Hall Castle Boiler - Dryside	50
Future Towns	29
<u>Replacement &amp; Refurbishment Reserve:</u>	
Programmed use of R&R Reserve	77
<b>Contribution From Reserves Total</b>	<b>826</b>
<b>Net Contribution From / (to) Reserves</b>	<b>(215)</b>

### **5.5.10 Rents and Service Charges**

Income forecast for Council owned Industrial Units and for other Council managed sites remains at prior year levels.

The income from shared Council office rents and service charges are budgeted at prior year levels.

### **5.5.11 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.

As a result of lower spend on temporary accommodation there will be a related reduction in amounts recoverable towards that costs reducing the budget for income by £67k.

Income as a form of rebate of (£65k) is budgeted based on prior year actuals arising from the Council's sustainably sourced electricity usage.

Additional income of (£44k) from Administration charges of increased distribution of Disabled Facilities Grant referred to above in Transfer Payments above.

The budgeted income for Land Charges is anticipated to reduce by £41k as a result of increased demand for lower cost services. Building Control income has been budgeted to increase by (£5k) through the offer of additional services.

Income from recovery of Housing Benefit Overpayments is budgeted to reduce £170k recognising the continued move to Universal Credit.

Grounds Maintenance income from other services previously classified as income now shows as an offset in Premises costs £11k, in accordance with CIPFA guidance.

Other adjustments have been made to budget to reflect 2019/20 actual income.

The budget assumes that fees and charges remain at current levels and these are listed at Appendix G

### **5.5.12 Grants, Contributions & Reimbursements**

This budget includes the following adjustments:

- Increased rechargeable income (£95k).
- Grant income increases (£95k) to match increased distribution of Disabled Facilities Grants.
- Previously contracted reimbursement from third party £15k towards HR software removed following end to use of current software.
- Reduced income for housing benefits £1.089m – offset by reduced benefit expenditure as noted above.

### **5.5.13 Investment Income**

This income budget has decreased by £155k to £228k. Interest rates for investments have continued to fall as a result of global economic impacts.

### **5.5.14 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.

## **5.6 Other Budget Assumptions**

**5.6.1** The budget estimates and Medium Term Plan cover the period 2021/22 to 2024/25. 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.

**5.6.2** 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 (2020/21) 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 2021/22.

## **5.7 Spalding Special Expenses**

- 5.7.1** 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 2021/22 is estimated at £226,900 (2020/21, £223,100). The detailed estimates are to be reported 3<sup>rd</sup> February 2021 to Spalding Town Forum for review.

## **6 General Fund Reserves and Balances**

- 6.1** 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.
- 6.2** **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.
- 6.3** The proposed Council's budget for 2021/22 makes some assumptions about future increases in income from 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.
- 6.4** The General Fund has a forecast working balance of £2.078m at 1<sup>st</sup> April 2020. The Council has an assessed minimum prudent working balance of £2.000m.



**6.5** The table below gives a summary of General Fund Specific Reserve movements (excluding the General Reserve):

<b>Reserves Summary (Excluding the General Reserve including Spalding Special)</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>
<b>Balance b/d</b>	(3,728)	(3,942)	(3,630)	(3,210)
<b>Transfers from Earmarked Reserves (Revenue)</b>	448	107	197	0
<b>Transfers from Earmarked Reserves (Capital)</b>	379	759	401	33
<b>Transfers to Earmarked Reserves</b>	(1,041)	(554)	(178)	(54)
<b>Balance c/d</b>	(3,942)	(3,630)	(3,210)	(3,231)

*Notes to Reserves table:*

- In addition to specific reserves the general fund working balance at 1<sup>st</sup> April 2020 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 2020/21 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.

**6.6** 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.

## **7 General Fund Capital Strategy and General Fund Capital Estimates**

**7.1** 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.

**7.2** Appendix E details the updated capital programme of schemes that are either currently in progress or approved to be delivered for 2021/22 and future years, taking into account the anticipated outturn for 2020/21. The values for 2021/22 may change depending upon the ultimate level of spend and delivery in 2020/21 and other initiatives.

**7.3** The main schemes included in the approved 2021/22 programme relate to ICT investment, commercial vehicle replacements, grants for Growth, Disabled Facility Grants – funded work and investments via Commercial Acquisitions.

**7.4** 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. The Council acknowledge the requirement not to borrow from PWLB for commercial investment.

## 8 Housing Revenue Account (HRA)

8.1 The Budget for 2021/22 and the Medium Term Financial Strategy are shown in Appendix B.

8.2 The following table shows the summary HRA for 2021/22 compared to the 2019/20 position:

### HRA Estimates by Income & Expenditure 2020/21 to 2021/22

Description	2020/21 Estimate £000	2021/22 Estimate £000	Variance £000
Rent Income – Dwellings	(15,049)	(15,275)	(226)
Charges for Services & facilities	(1,176)	(1,188)	(12)
Contributions to Expenditure	(27)	(22)	5
<b>Total Income</b>	<b>16,252</b>	<b>(16,485)</b>	<b>(233)</b>
Repairs & Maintenance	2,894	3,007	113
Supervision & Management	2,164	2,466	302
Rents Rates Taxes and Other Charges	76	72	(4)
Depreciation	3,235	3,324	89
Provision for Doubtful Debts	271	271	-
Stat. Recharge to HRA for Support Serv.	2,877	3,158	281
<b>Total Expenditure</b>	<b>11,517</b>	<b>12,298</b>	<b>781</b>
<b>Contribution from Operations</b>	<b>(4,735)</b>	<b>(4,187)</b>	<b>548</b>
Investment Income	(161)	(81)	80
Interest on Loans			
Capital Expenditure charged to Revenue	2,348	2,348	-
<b>Net operating (surplus)/Deficit</b>	<b>(2,548)</b>	<b>(1,920)</b>	<b>628</b>

## 8.3 Explanation of Budget Variations

### 8.3.1 Rent Income - Dwelling Rents

- The rent reductions of 1% introduced in 2017/18 came to an end in 2019/20 and rent increases from 2020/21 onwards are set at CPI + 1%, which for 2021/22 is 1.5%.
- The Council had 3,779 HRA dwellings at 1<sup>st</sup> April 2020 with an average weekly rent of £74.73 (on a 52-week basis).
- The budget includes an assumed rent loss of 1% for void properties, 1.5% for bad debts and a rent loss from selling 20 homes per annum under Right to buy.

### **8.3.2 Charges for Services and Facilities**

#### **Sewage Charges**

Charges for sewage are increased in line with the annual increase applied by Anglian Water. For 2021/22 this figure is not yet known so no increases have been applied. When we receive the information from Anglian Water, the estimates will be updated to reflect the increased level of charge.

### **8.3.3 Repairs & Maintenance**

An increase in total spend on Repairs and Maintenance is mainly due to payroll costs, including 2 new roles to assist with the delivery of the decent homes programme alongside inflationary increases, employers' pension and pension top-up.

### **8.3.4 Supervision & Management**

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.

Additional posts have been created in the Housing Delivery team, to support the delivery of the Affordable Housing capital programme.

### **8.3.5 Depreciation**

The increased depreciation charge has increased is mainly due to depreciation charges on new vans for the housing repairs team. The total depreciation amount is charged to the HRA and credited to Major Repairs Reserve, and used to fund future capital expenditure.

### **8.3.6 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 £281k.

### **8.3.7 Capital Expenditure charged to Revenue**

As part of the Council's year end accounts the annual revenue contribution to the capital programme is credited to the Major Repairs Reserve (MRR). The HRA affordable housing program, which commenced early in 2019, and the delivery of S106 units and the building program at Small Drove Weston and Wignals Gate Holbeach will be funded partly from the MRR. The Reserve will stand at over £3.5m before any 2020/21 funding. A further £3.3m funding is expected during 2021/22, 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 2021/22 to support the delivery of the re-phased capital programme.

## **9 HRA Reserves**

**9.1** The table below shows the unallocated reserve balances as at 31<sup>st</sup> March 2020 and the estimated movements to 31<sup>st</sup> March 2022. 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.

	<b>HRA Working Balance £'000</b>	<b>Insurance Reserve £'000</b>	<b>Major Repairs Reserve £'000</b>
<b>Balance at 1<sup>st</sup> April 2020</b>	19,809	200	3,586
<b>Transfers in</b>	2,548	-	3,235
<b>Transfers Out</b>	-	-	(4,974)
<b>Balance at 31<sup>st</sup> March 2021</b>	<b>22,357</b>	<b>200</b>	<b>1,847</b>
<b>Transfers in</b>	1,920	-	3,324
<b>Transfers Out</b>	(5,008)	-	(5,171)
<b>Balance at 31<sup>st</sup> March 2022</b>	<b>19,269</b>	<b>200</b>	-

**9.2** The Major Repairs Reserve will be used to finance capital investment within the HRA. (See Appendix E).

## **10 HRA Capital**

**10.1** The HRA summary programme is shown in **Appendix E**.

**10.2** Detailed planned maintenance programmes have been compiled from asset management data to address key decent homes criteria.

**10.3** The Council has accrued nearly £3.6m in its Major Repairs Reserve over the last 3-4 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.

**10.4** The programme will be delivered through a combination of new build and the purchase of affordable housing units. A total of £16.6m has been allocated during the period of the MTFS from 2020/21 to 2024/25. This will allow the Council to deliver:

- A development of 34 units for rent/shared ownership at Small Drove, Weston,
- A development of 19 units for rent/shared ownership at Wignals Gate, Holbeach
- Acquisition of approximately 20 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.

**10.5** 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.

## **11 Risk, Key Issues, Sensitivity and Monitoring**

**11.1** 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.

**11.2** The following table details the key risks and issues identified and how we intend to treat them.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Action</b>
Cost pressures or changes to services as a result of the Covid-19 pandemic lead to financial pressures to the Council	Medium	Medium	Continued financial monitoring in year. Allocation of Covid-19 grants to areas with the greatest needs.
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 date not confirmed in 21/22 provisional settlement.
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification in consultation with Audit and Governance Committee and Finance Portfolio holder.
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.
Recoverability of Housing Benefit Overpayments	Low	Medium	The implementation of the 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

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Action</b>
			arrears. This will be closely monitored.
Additional duties arising from the Homeless Reduction Act	High	High	Embed structure changes in service and maximise use of Government funding and closely monitor impact.
Lack of clarity for funding levels beyond 21/22 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.
Universal Credit effect on service demand	Medium	Medium	The implementation of the 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 reset 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 income.	Medium	Medium	Prudent budget set to provide best estimate.
Low income levels from fees and charges	High	High	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 in line with Cabinet Decisions
Increased maintenance costs of ageing physical assets	High	High	Review and maintain Asset Management Plan. Adopting a pro-active rather than reactive maintenance programme.

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigating Action</b>
Inflation rises by more than budgeted projections	Medium	Medium	Budget assumptions kept up to date with most recent projections.
Brexit negotiations and trade deals impact on the levels of NNDR income and Housing Benefits demand.	Medium	Low	Reserve to manage potential fall to NNDR safety net levels
Court Income	High	Low	Court income projections are in line with budget. The budget has not been increased due to concerns over collectability of this income. A year-end review will be undertaken to inform future year's budgets.
Public Sector Partnership Services may be unable to deliver an effective service within the agreed reduced contract price	Low	Medium	Service Level Agreements activity levels and service priorities, reviewed regularly. Performance monitored against the PSPS Transformation Programme

## **12 Treasury Management Policy and Investment Strategy**

- 12.1** The Treasury Management Policy and Investment Strategy will be presented to Governance and Audit for their scrutiny in January before being included as part of the budget report to members in February. This document will pull together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.