

SOUTH HOLLAND DISTRICT COUNCIL

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

To: Council 3 March 2021

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Subject: Budget, Medium Term Plan and Capital Strategy

Purpose: To consider the General Fund and Housing Revenue Account 2021/22 revenue and capital estimates and the Financial Medium Term Plan

Recommendations:

1. That Council approves:
 - a. That the Revenue Estimates for the General Fund, Housing Revenue Account and Spalding Special Expenses for 2021/22 (Appendices A, B, and C) be approved.
 - b. That the use of reserves (Appendix D) be approved.
 - c. That the Council Tax for a Band A property in 2021/22 be set at £123.12 (a £3.30 per annum increase on 2020/21 levels) and band D £184.68 for 2021/22 (a £4.95 per annum increase on 2020/21 levels).
 - d. That the Spalding special expense for a Band A property be set at £16.12 for 2021/22, (previously £15.88 in 2020/21) and Band D £24.18 for 2021/22, (previously £23.82 in 2020/21).
 - e. That the Medium Term Financial Strategy (Appendix B) be approved.
 - f. That Housing Revenue Account weekly dwelling rents increase by 1.5% over the previous year, 2020/21, with effect from Monday 5th April 2021. This is in line with current government guidelines and legislation.
 - g. That the Capital Strategy and Capital Programme (Appendices E and F) be approved.
 - h. That the Treasury Management Strategy, including the Minimum Revenue Provision policy and Investment Strategy be approved. (Appendix H and I).
 - i. That the fees and charges shown in appendix G be approved for adoption from 1st April 2021.

1.0 PURPOSE OF REPORT

- 1.1** This report sets out the 2021/22 Budget and associated Medium Term Financial Strategy (MTFS) for the South Holland District Council General Fund and Housing Revenue Account (HRA). The Budget and MTFS are based on the latest information currently available. The budget has been through a budget consultation process with the public and members, draft budget proposals were subject to review by Scrutiny at its meeting on 21st January 2021.
- 1.2** Full Council will meet on 3rd March 2021 to consider the recommendations from Cabinet and to approve the Budget, Council Tax level and HRA Rents for 2021/22.
- 1.3** **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.**
- 1.4** 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 be considered to mitigate additional Covid costs.
- 1.6** The Treasury Management Strategy was presented to Governance and Audit Committee on the 14th January 2021 and has been updated to reflect the final budget accompanying this report.

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.

At the time of writing this report the final Local Government Settlement has not been approved, but budget assumptions have been taken from the provisional Local Government Settlement published on 18th December 2020. These include 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), a one-off Covid-19 grant and a new Lower Tier Grant for 2021/22 only.

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 (potential 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 Final Budget & Medium Term Financial Strategy (MTFS)

3.1 The key elements of the final 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 final 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 a £101k surplus has been calculated for 2021/22 and South Holland's share of this will be £12k, with a zero balance assumed in future years.

3.6 For Business Rates there are two elements to the deficit this year. One element relates to lost income resulting from expanded reliefs provided in the Covid pandemic, which is fully funded from Government grants received, the second element is the true in year performance position.

3.7 The overall deficit position is approximately £7.58m with South Holland’s share being £3.04m, which is fully funded from government grants received and is not shown in the budget papers, the impact of the 3 year spreading is as follows:

- 2021/22 £2.96m
- 2022/23 £0.04m
- 2023/24 £0.04m

3.8 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

3.9 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.

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

	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Initial Savings Efficiency Target	1,676	2,081	2,187	2,035
Savings Total - Achievable	(663)	(295)	(342)	(342)
Interim Savings Efficiency Target	1,013	1,786	1,845	1,693
Savings Total – Options identified	(346)	-	-	-
Final Savings Efficiency Target	667	1,786	1,845	1,693

3.11 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 final Housing Revenue Account (HRA) budget shows a forecast surplus of £1.970m. 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 £2.805m (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 Housing Revenue Account and General Fund and 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 final 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 £3.6m 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 final capital and revenue budget estimates, the Medium Term Financial Strategy and the capital strategy be approved and issued for consultation.

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

8.0 REASONS FOR RECOMMENDATION

8.1 To comply with the budgetary and policy framework.

9.0 EXPECTED BENEFITS

9.1 To set an affordable and balanced budget for 2021/22 that ensures delivery of the priorities of the Council

10.0 IMPLICATIONS

10.1 Carbon Footprint & Environmental Issues

11.1.1 None

11.2 Constitution & Legal

11.2.1 None

11.3 Contracts

11.3.1 None

11.4 Crime and Disorder

11.4.1 None

11.5 Equality and Diversity & Human Rights

11.5.1 None

11.6 Financial

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

11.6.2 Budget Challenge sessions have been undertaken with each budget manager to identify budget pressures, savings and further sources of income, which are reflected in the 2021/22 budget.

12.0 Risk Management

12.1 Risks are highlighted within the appendix, The Council has adopted a corporate risk management strategy and financial risk management is integrated into the Council's overall management and decision making processes. This ensures a robust and well integrated risk management programme, which will help the Council to identify and manage key strategic risks facing it, in pursuit of its corporate objectives.

13.0 WARDS/COMMUNITIES AFFECTED

13.1 Budget implications affect all wards.

14. ACRONYMS

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

Appendices attached to this report:

Appendix A Final General Fund Budget 2021/22

Appendix B Final Medium Term Financial Strategy 2021/22 to 2024/25 General Fund

Appendix C Final Housing Revenue Account 5 year Medium Term Financial Strategy

Appendix D Reserves Summary 2021/22 to 2024/25

Appendix E Final Capital Program

Appendix F SHDC Capital Strategy 2021/22

Appendix G SHDC Fees and Charge Schedule 21/22

Appendix H SHDC Treasury Management Statement 21/22

Appendix I SHDC Treasury Management and Investment Strategy 21/22