

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

1. Introduction

- 1.1** This appendix sets out the final 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.
 - Treasury management policy and investment strategy.

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 finalising 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** 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 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

* In 2021/22 the council will receive a one-off windfall allocation for new homes bonus, this funding could be used to support the in year 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 Spending Review 2021 on 25 November 2020 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.

4.1.2 Revenue Support Grant (RSG)

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

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

4.1.3 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.

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

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.

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

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
2017/18	225				
2018/19	128	128	-	-	-
2019/20	284	284	284	-	-
2020/21	430	-	-	-	-
2021/22	-	346	-	-	-
TOTAL	1,067	758	284	-	-

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 final budget are:

Financial Year	RSDG Receivable £000
2020/21	(159)
2021/22	(167)
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 £000	2022/23 £000	2023/24 £000	2024/25 £000
Retained Business Rates	(10,101)	(10,317)	(10,317)	(10,523)	(10,734)
S31 Grants	(1,252)	(1,154)	(577)	(289)	(144)
Tariff	5,893	5,893	5947	6065	6182
Pre - levy Income	(5,460)	(5,578)	(4,947)	(4,747)	(4,696)
Levy to / (from) Lincs CC	285	0	0	0	0
Levy to / (from) Central Govt	0	828	0	0	0
Estimated Deficit/(Surplus) on Collection Fund	430	0	0	0	0
Net Retained Business rates Income	(4,745)	(4,750)	(4,947)	(4,747)	(4,696)

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 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.

4.2.4 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.

4.2.5 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

4.2.6 The provisional Settlement announced funding for 75% of irrecoverable Council Tax and Business Rates income in 2020/21, and the quarter 3 finance performance report includes a recommendation to hold this grant in reserves to help offset future year collections fund income fluctuations.

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 reported at Council 20th January 2021), and
- assumed growth estimated during December 2020.

5.1.2 The Council Tax base for 2021/22 is 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. 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 18th 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 MTF5 assumes an ongoing increase of £4.95 per annum.

5.2.2 The following table shows the estimated level of Council Tax for the MTF5 period.

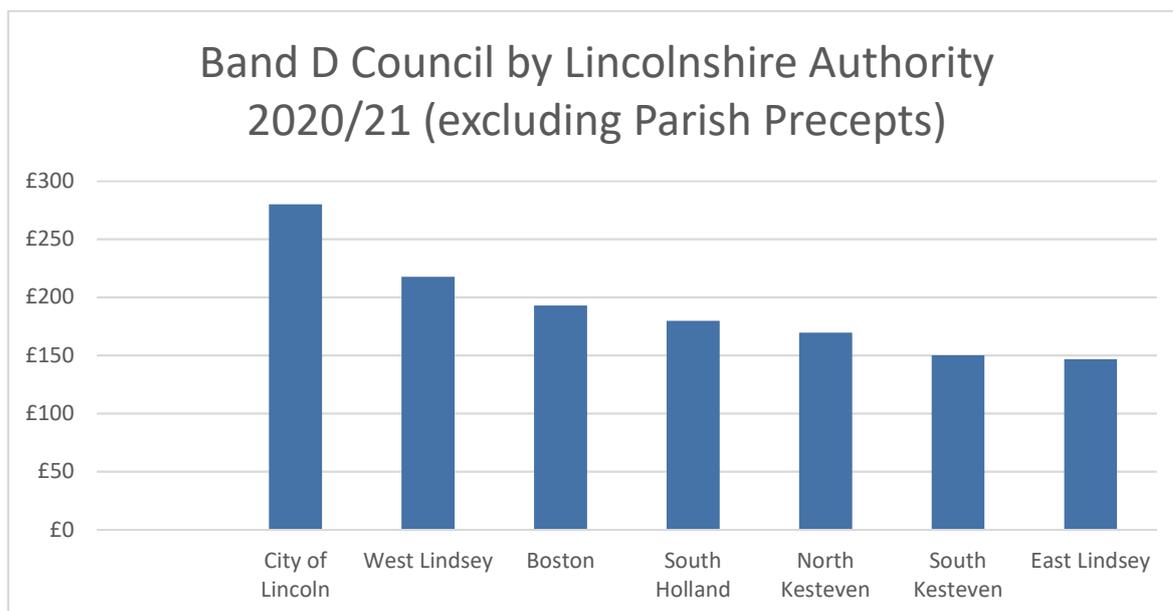
	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
A Council Tax base (band D equivalents) *	28,492	28,794	29,226	29,810	30,407
B Council Tax band D (£.p.)	£179.73	184.68	189.63	194.58	199.53
Annual increase (£.p.)	£4.95	4.95	4.95	4.95	4.95
Annual increase %	2.83%	2.75%	2.68%	2.61%	2.54%
C Annual Council tax collected (a x b)	(5,121)	(5,318)	(5,542)	(5,801)	(6,067)
D Surplus on Collection Fund	(64)	(12)	0	0	0
Gross Council Tax (c + d)	(5,185)	(5,330)	(5,542)	(5,801)	(6,067)

* 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 £
A	6/9	119.82	123.12	3.30	0.06
B	7/9	139.79	143.64	3.85	0.07
C	8/9	159.76	164.16	4.40	0.08
D	9/9	179.73	184.68	4.95	0.10
E	11/9	219.67	225.72	6.05	0.12
F	13/9	259.61	266.76	7.15	0.14
G	15/9	299.55	307.80	8.25	0.16
H	18/9	359.46	369.36	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	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Council Tax	(5,121)	(5,318)	(5,542)	(5,801)	(6,067)
Non Domestic Rates	(5,175)	(4,750)	(4,947)	(4,747)	(4,696)
Revenue Support Grant	(276)	(277)	(278)	(280)	(281)
Rural Service Delivery Grant	(159)	(167)	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)	(935)	(935)	(935)	(935)
Collection Fund	430	0	0	0	0
Deficit/(Surplus) - NNDR					
Deficit/(Surplus) - CTAX	(64)	(12)	0	0	0
Total Financing	(12,552)	(12,444)	(12,215)	(11,993)	(12,211)
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 Final 2021/22 General Fund Estimates

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

5.4.1 The final 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. This is offset by a cost of £56k towards upkeep of the authority owned premises.
- 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).
- Reduced Income (£170k) from recovery of Housing Benefit Overpayments recognising the continued move to Universal Credit.

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.

General Fund Estimates by Income and Expenditure 2020/21 to 2021/22	2020/21 Original Estimate	2021/22 Estimate	Variance from OE
Description	£'000	£'000	£'000
Employees	9,970	10,236	267
Premises	1,021	904	(117)
Transport	773	753	(20)
Supplies & Services	4,228	4,049	(179)
Drainage Board Levies	2,559	2,611	51
Parish Precepts	897	935	38
Third Party 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	825	(743)
Capital - Contra Entries	(1,097)	(1,068)	29
Transfers to/from Earmarked Reserves	(1,314)	(276)	1,038
Efficiencies required	(993)	(1,676)	(683)
Total Expenditure	37,298	35,901	(1,397)

Rents and Service Charges	(1,167)	(1,111)	56
Fees & Charges	(4,042)	(3,803)	239
Grants, Reimbursements & Contributions	(16,244)	(15,477)	767
Investment Income	(383)	(182)	201
Recharges	(2,911)	(2,885)	26
Total Income	(24,746)	(23,457)	1,289
Net Expenditure	12,552	12,444	(108)

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%.

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 temporary accommodation use is a new provision of £41k.

Following an update of costs allocated to the Housing Revenue Account, the cost of operational premises attributable to the HRA has increased by £214k.

5.5.3 Transport

Vehicle fuel costs are reduced (£20k) on the previous year.

5.5.4 Supplies & Services

- As a result of a review of temporary accommodation costs spend on private 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 (£6k), significantly through reduced transaction costs on car parking income (£21k), this is offset by additional planned spend of £15k in the remaining year of funding for digital development as approved by Council in March 2019.
- Additional Supplies and materials costs of £16k for waste collection sacks, £11k for Protective equipment and clothing across Environmental Services.
- An increase in telecommunications costs of £14k is budgeted based on current year forecast. An one off increase to budget has been set to upgrade telecommunications equipment £21k.

- Members allowances increase by £6k as a result of Cabinet changes in 2020/21.
- Additional allocation of spend on Disabled Facilities Grants of £30k, as funded from the increased DFG grant referred to in the grants section below.
- 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 as funded from the increased DFG grant referred to in the grants section

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 21.0% 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:

	2021/22 £'000
<u>Contribution To Reserves</u>	
<u>Council Tax Reserve:</u>	
District Council Elections	-40
Noise monitoring equipment	-9
<u>Investment & Growth Reserve:</u>	
Capital repayment - workshop van	-4
Leisure Management cost recovery	-29
Capital repayment - Garden Waste	-52
New Homes Bonus	-758
<u>Replacement & Refurbishment Reserve:</u>	
GF Revenue contribution R&R	-136
Contribution To Reserves Total	-1,028

<u>Contribution From Reserves</u>	
<u>Council Tax Reserve:</u>	
Noise monitoring equipment replacement contribution	8
South Holland Centre	11
<u>Investment & Growth Reserve:</u>	
Digital Strategy	89
Delivery Unit resources	120
Temporary Establishment Funding	84
PSPS Transformation Investment	15
Environmental Services vehicle and equipment replacement programme	
- Grounds Maintenance	37
- Cleansing	62
- Garden Waste	29
- Facilities	35
ICT Infrastructure	84
ICT Infrastructure Office 365	20
Temporary Accommodation Property Works	29
Ayscoughfee Hall lighting	146
Priory Road	
- Sash Windows	87
- Atrium Heating	30
Industrial Units – Sutton Bridge Roof replacement	93
Industrial Units – External Compound Railway Lane	50

Sports Hall Castle Boiler – Dryside and Wetside	100
Future Towns	29
<u>Earmarked Grants Reserve</u>	
Establishment Funding	52
<u>Transformation Reserve:</u>	
Public Protection Software	17
<u>Replacement & Refurbishment Reserve:</u>	
Programmed use of R&R Reserve	77
Contribution From Reserves Total	1,304
Net Contribution From / (to) Reserves	276

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. A planned development at Crease Drove has yet to commence and therefore the forecast for £55k of income has been re-profiled.

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 a review of temporary accommodation costs there will be a related reduction in amounts recoverable towards costs which reduces the budget for income by £67k, this is offset by a similar reduction in spend on supplies & services.

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.

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 to outside bodies (£31k).
- Grant income increases (£95k) to match increased distribution of Disabled Facilities Grants.
- The Council has been allocated (£45k) of additional homelessness grant and a grant for Lower Tier Services of (£142k).
- The Council has budgeted to receive (£9k) of additional grant for the cost of NDR collection.
- 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 £201k to £182k. 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. The increase charge to the HRA is budgeted within both the Premises and Recharges Headings and amounts to £212k as reported in the HRA further on in this report.

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 were reported on 3rd 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 1st April 2020.

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

Reserves Summary (Excluding the General Reserve including Spalding Special)	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Balance b/d	(7,285)	(7,010)	(6,599)	(6,233)
Transfers from Earmarked Reserves (Revenue)	478	153	197	85
Transfers from Earmarked Reserves (Capital)	825	826	401	33
Transfers to Earmarked Reserves	(1,028)	(568)	(232)	(242)
Balance c/d	(7,010)	(6,599)	(6,233)	(6,357)

Notes to Reserves table:

- In addition to specific reserves the general fund working balance at 1st April 2020 was £2.078m.
 - 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 2020/21 position:

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

Description	2020/21 Estimate	2021/22 Estimate	Variance
	£000	£000	£000
Rent Income – Dwellings	(15,049)	(15,275)	(226)
Charges for Services & facilities	(1,176)	(1,188)	(12)
Contributions to Expenditure	(27)	(22)	5
Total Income	16,252	(16,485)	(233)
Repairs & Maintenance	2,894	3,006	112
Supervision & Management	2,164	2,418	254
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	3,089	212
Total Expenditure	11,517	12,180	663
Contribution from Operations	(4,735)	(4,305)	430
Investment Income	(161)	(13)	148
Interest on Loans			
Capital Expenditure charged to Revenue	2,348	2,348	-
Net operating (surplus)/Deficit	(2,548)	(1,970)	578

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 1st April 2020 with an average weekly rent of £74.71 for 2019/20 and £75.83 for 2020/21 (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 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 £212k, budgeted for in the General fund under the Premises and Recharges headings.

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 31st March 2020 and the estimated movements to 31st 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.

	HRA Working Balance £'000	Insurance Reserve £'000	Major Repairs Reserve £'000
Balance at 1st April 2020	19,809	200	3,586
Transfers in	2,548	-	3,235
Transfers Out	-	-	(4,351)
Balance at 31st March 2021	22,357	200	2,470
Transfers in	1,970	-	3,324
Transfers Out	(3,403)	-	(5,794)
Balance at 31st March 2022	20,924	200	-

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 £3.0m 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.

Risk	Likelihood	Impact	Mitigating Action
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

Risk	Likelihood	Impact	Mitigating Action
			council services and on the HRA in terms of increased 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

Risk	Likelihood	Impact	Mitigating Action
			than reactive maintenance programme.
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 was presented to Governance and Audit for their scrutiny in January and has been updated to reflect the final budget accompanying this report. This document pulls together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.