

**Final Budget 2022/23 and Medium Term Financial Strategy 2022/23 to 2026/27.**

- 1.1** This appendix sets out the draft combined 2022/23 budget estimates and Medium Term Financial Strategy (MTFS) for the period 2022/23 to 2026/27 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 2022/23 to 2026/27.
  - The 2022/23 General Fund Revenue Budget & Financing.
  - The General Fund Reserves Position.
  - The General Fund Capital Programme and Financing.
  - The 2022/23 Housing Revenue Account (HRA) Revenue Budget.
  - The HRA Reserves Position.
  - The HRA Capital Programme and Financing.
  - Proposed Fees & Charges
  - Risks, key issues, sensitivity and monitoring.
  - Treasury management policy and investment strategy (to follow in final budget report).
- 1.4** The unprecedented challenges faced by all of us in 2021/22 have continued into 2022/23, the Government has provided a one year settlement which has taken some uncertainty away regarding certain grants, however the uncertainty remains significant and into the medium term.
- 1.5** In October the Chancellor delivered the much anticipated spending review which gave the local government sector welcome news of a global funding increase. The provisional local government settlement delivered in mid December gave South Holland slightly more than expected including additional New Homes Bonus monies which will help support future capital projects and support revenue expenditure where necessary.
- 1.6** In 2022/23 a budget is proposed that allows expenditure to be financed through the use of reserves in order to smooth the impact of the council's ongoing pressure, however savings are required going forward as a result of slowing business rates growth and the ending of the New Homes Bonus. This means that the Council can continue to provide services whilst also supporting its overall objectives. The Council will continue to strive to be as efficient as possible in all its work, building on the South and East Lincolnshire Council's Partnership with its partners at East Lindsey District Council, Boston Borough Council and PSPS, whilst ensuring it maximises the income it receives.

## **2. Medium Term Financial Strategy**

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

#### **2.1.1** The objectives of the Council's Medium Term Financial Strategy are to:

- manage a budget process that will make progress in re-directing and focusing resources in line with corporate priorities and, in so doing, recognise the 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.

#### **2.1.2** 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:**

#### **2.1.3** 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 Financial Services 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, these 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 2022/23 budget will be formally approved. Future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

## **2.2 Budget Requirement and Forward Estimates**

**2.2.1** Outline estimates through to 2026/27 are shown in **Appendix B**. In compiling these figures we have followed the assumptions included in this report and made specific adjustments to service budgets as and where budget holders have advised of a change over the medium term.

**2.2.2** 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

**2.2.3** The MTFS 2022/23 to 2026/27 final estimates currently show a savings target requirement for 2022/23:

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Final Savings Efficiency Target</b>	<b>397</b>	<b>1,495</b>	<b>1,091</b>	<b>962</b>	<b>835</b>

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.

### **3. General Fund Budget and Financing 2022/23**

#### **3.1 External Financing – 2022/23 Provisional Settlement**

##### **3.1.1 Background**

On 16<sup>th</sup> December 2021 the Local Government Finance Settlement 2022/23 was delivered. The papers included additional New Homes Bonus for 2022/23 and a new grant stream entitled 'Services Grant'. Both of these mean additional income for 2022/23 and for New Homes Bonus additional resources for the future capital programme and potentially one-off revenue initiatives.

There was no update on funding reform or a Business Rates reset which are high risk areas for the Council's funding from 2023/24 onwards.

As a result of this announcement it makes planning the years from 2023/24 onwards very difficult as many things could change because of these reviews and resets. The full effects of the pandemic are yet to be felt economically and therefore could alter quite drastically the amount of government resources the Council is afforded. As and when further announcements are made Members will be kept up to date accordingly and the financial impact assessed.

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

Following the announcement of four year figures in 2016/17, significant reductions of Revenue Support Grant (RSG) have occurred in recent years, and from 2022/23 RSG is included in the estimates, at the slightly increased value of £286k (increased by 3.1% in line with what would have been the increase to the multiplier). The table below currently builds in the assumption RSG will continue throughout the MTFS period with the following values:

Financial Year	RSG Receivable £000
2021/22	(277)
2022/23	(286)
2023/24	(286)
2024/25	(286)
2025/26	(286)
2026/27	(286)

### 3.1.3 New Homes Bonus (NHB)

There were new 2022/23 New Homes Bonus (NHB) allocations announced as part of the Local Government Finance Settlement for 2022/23 only as far as we are aware. The government has added a year of additional grant. As previously announced, the 2021/22 “in year” allocations will not have future years legacy payments nor has the 2022/23 allocation. If the scheme was to be continued in its current form next years payment would reflect just the growth in the previous year.

The values in the table below for 2022/23 to 2026/27 are the amounts which have been announced to date.

Financial Year	NHB Receivable £000
2021/22	(758)
2022/23	(1,118)
2023/24	Nil
2024/25	Nil
2025/26	Nil
2026/27	Nil

### 3.1.4 Rural Services Delivery Grant (RSDG)

The Government has also continued to recognise the additional costs of providing services in rural areas. This grant is paid to the upper quartile of local authorities based on the super-sparsity indicator. The table below currently builds in the assumption the grant will continue beyond 2022/23. The amounts included within the draft budget are:

Financial Year	RSDG Receivable £000
2021/22	(167)
2022/23	(167)
2023/24	(167)
2024/25	(167)
2025/26	(167)

### 3.1.5 Business Rates (NNDR)

Under the current part localisation regime, where the Council collects more business rates than the baseline set by Central Government, a levy of 50% is applied and paid to Central government. A way to avoid this levy to Central Government is to pool business rates with a County Council, and, as in most years since 2016/17, South Holland has entered into a voluntary pooling arrangement for 2022/23 with Lincolnshire County Council and some of the District Councils in the area (in 2018/19, the Council was part of a successful bid across the county to be a pilot for 100% localisation).

The Government concluded its review of business rates which were published alongside the Chancellor's budget statement. The aim of the review was to reduce the burden of business rates in England, support investment, and make the system more responsive.

Following the review, the government have confirmed the following:-

- A freeze on the business rates multiplier for a second year, from 1 April 2022 until 31 March 2023, keeping the multipliers at 49.9p and 51.2p
- Introduce a new temporary business rates relief for eligible retail, hospitality and leisure properties for 2022-23. Eligible properties will receive 50% relief, up to a £110,000 per business cap
- Introduce a 100% improvement relief for business rates. This will provide 12 months relief from higher bills for occupiers where eligible improvements to an existing property increase the rateable value. The government will consult on how best to implement this relief, which will take effect in 2023 and be reviewed in 2028
- Introduce from 1 April 2023 until 31 March 2035 targeted business rate exemptions for eligible plant and machinery used in onsite renewable energy generation and storage, and a 100% relief for eligible heat networks, to support the decarbonisation of non-domestic buildings
- Increase the frequency of business rates revaluations so that they take place every 3 years instead of every 5 years, starting in 2023
- Provide additional funding to the Valuation Office Agency to support the delivery of the new revaluation cycle.
- Extend transitional relief for small and medium-sized businesses, and the supporting small business scheme, for 1 year. This will restrict bill increases to 15% for small properties (up to a rateable value of £20,000) and 25% for medium properties (up to a rateable value of £100,000), subject to subsidy control limits

The Council remains aware of the issues surrounding business rate appeals and this will be under continuous management by officers with the emphasis on making sure there is a reasonable and prudent provision made for successful appeals.

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

It is important that members note that the potential changes to the retention of Business Rates from 2023/24 presents a significant uncertainty around future funding levels. It is very likely that as part of the ongoing reassessment of Area Needs the Government may significantly change the current baseline levels. As such the current amount of retained

business rates that the Council is experiencing could be significantly reduced under these new arrangements.

The values for surplus/deficit on the Business Rates Collection Fund are shown below.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Retained Business Rates (before Levy to Lincs CC)	(10,317)	(9,371)	(9,558)	(9,750)	(9,945)	(10,144)
S31 Grants	(1,154)	(2,152)	(1,178)	(1,201)	(1,225)	(1,250)
Tariff	5,893	5,893	6,065	6,182	6,306	6,432
<b>Pre - levy Income</b>	<b>(5,578)</b>	<b>(5,630)</b>	<b>(4,671)</b>	<b>(4,769)</b>	<b>(4,864)</b>	<b>(4,962)</b>
Levy to / (from) Lincs CC	828	292	116	-	-	-
Estimated Deficit/(Surplus) on Collection Fund	-	3,520	-	-	-	-
<b>Net Retained Business rates Income</b>	<b>(4,750)</b>	<b>(1,818)</b>	<b>(4,555)</b>	<b>(4,769)</b>	<b>(4,864)</b>	<b>(4,962)</b>

Net (gain from) / contribution to the Pool	-	877	349	66	(59)	(124)
--	---	-----	-----	----	------	-------

## 3.2 Collection Fund

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

**3.2.2** Current estimates indicate a council tax surplus in for 2022/23 and South Holland's share of this would be £37k, with a zero balance assumed in future years.

**3.2.3** There is an estimated Business Rates deficit in the 2022/23 budget South Holland's share of this would be £3,520k, as noted above, with a zero balance assumed in future years. The Council Tax Reserve will continue to be used to manage these swings between a Business Rates deficit or surplus as a result of large adjustments.

### 3.3 Council Tax Base

3.3.1 Delegated authority was given to the S151 Officer to approve the tax base, as, by law, this must be set in the period 1 December to 31 January each financial year. The local Tax Base will reflect:

- changes to the baseline number of properties during 2021,
- the impact of the Local Council Tax Support Scheme (no change for 2022/23), and
- assumed growth estimated during December 2021.

3.3.2 The Council Tax base for 2022/23 is currently estimated at 29,393 properties, an increase of 599 properties (2.1%) over the final 2021/22 tax base giving additional income of approximately £256k. The calculation will be updated once the final tax base is known. An ongoing annual increase of 2.0% per annum is assumed over the MTFS period.

### 3.4 Council Tax

3.4.1 The Provisional Settlement announced on 16<sup>th</sup> December confirmed that the referendum capping limit is the higher of 2% or £5. The 2022/23 budgets assume a £4.95 increase which equates to a 2.68% increase. The MTFS assumes an ongoing increase of £4.95 per annum.

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

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
<b>A Council Tax base (band D equivalents) *</b>	28,794	29,393	29,981	30,580	31,192	31,816
<b>B Council Tax band D (£.p.)</b>	184.68	189.63	194.58	199.53	204.48	209.43
<b>Annual increase (£.p.)</b>	4.95	4.95	4.95	4.95	4.95	4.95
<b>Annual increase %</b>	2.75%	2.68%	2.61%	2.54%	2.48%	2.42%
<b>C Annual Council tax collected (a x b)</b>	(5,318)	(5,574)	(5,834)	(6,102)	(6,378)	(6,663)
<b>D Surplus on Collection Fund</b>	(12)	(37)	0	0	0	0
<b>Gross Council Tax (c + d)</b>	<b>(5,330)</b>	<b>(5,611)</b>	<b>(5,834)</b>	<b>(6,102)</b>	<b>(6,378)</b>	<b>(6,663)</b>

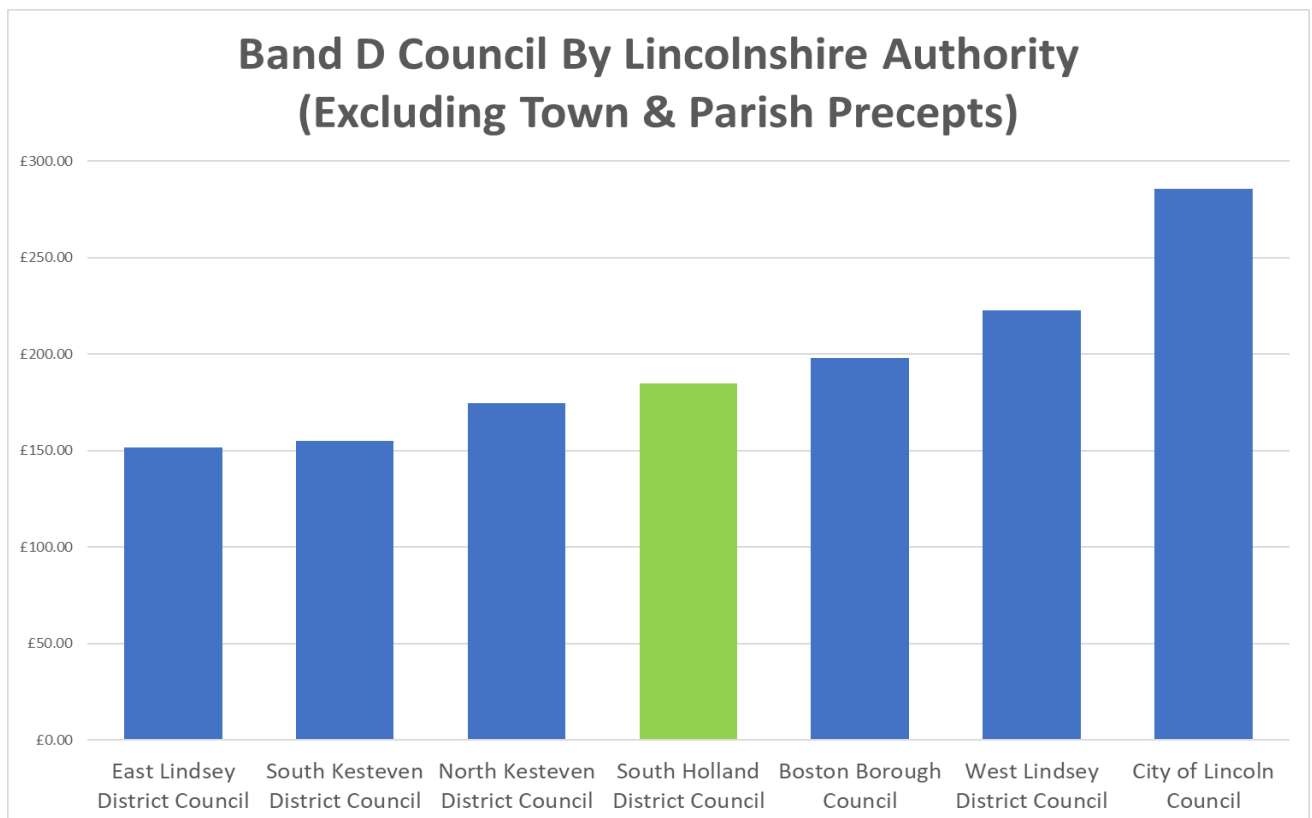
\* The estimated tax base for 2022/23 is currently increased by 2.1% and is assumed to increase by 2.0% for each year thereafter.



**3.4.3** The following table sets out the estimated 2022/23 Council Tax for each Property Band and the changes over 2021/22 values.

Band	Ratio	2021/22 £	2022/23 £	2021/22 to 2022/23 change	
				Annual £	Weekly £
A	6/9	123.12	126.42	3.30	0.06
B	7/9	143.64	147.49	3.85	0.07
C	8/9	164.16	168.56	4.40	0.09
D	9/9	184.68	189.63	4.95	0.10
E	11/9	225.72	231.77	6.05	0.12
F	13/9	266.76	273.91	7.15	0.14
G	15/9	307.80	316.05	8.25	0.16
H	18/9	369.36	379.26	9.90	0.19

**3.4.4** The following chart shows the Band D Council Tax levels (excluding parish and town precepts) for Lincolnshire Councils for 2021/22



## 4 Budget Summary 2022/23

### 4.1.1 Total Financing – 2021/22 to 2026/27

The table below shows the impact of the 2022/23 final settlement (to be confirmed) within the overall financing of the authority:

Source of Financing	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Council Tax	(5,318)	(5,574)	(5,834)	(6,102)	(6,378)	(6,663)
Non Domestic Rates	(4,750)	(5,336)	(4,555)	(4,768)	(4,863)	(4,961)
Revenue Support Grant (RSG)	(277)	(286)	(286)	(286)	(286)	(286)
Rural Service Delivery Grant	(167)	(167)	(167)	(167)	(167)	(167)
New Homes Bonus Grant	(758)	(1,118)	0	0	0	0
Spalding Special Expenses	(227)	(233)	(230)	(232)	(232)	(232)
Town & Parish Councils	(935)	(1,015)	(1,035)	(1,056)	(1,077)	(1,119)
LTS Grant	0	(150)	0	0	0	0
2022/23 Services Grant	0	(231)	0	0	0	0
Deficit/(Surplus) - NNDR	0	3,520	0	0	0	0
Deficit/(Surplus) - CTAX	(12)	(37)	0	0	0	0
<b>Total Financing</b>	<b>(12,444)</b>	<b>(10,627)</b>	<b>(12,107)</b>	<b>(12,611)</b>	<b>(13,003)</b>	<b>(13,428)</b>
Band D Charge	£184.68	£189.63	£194.58	£199.53	£204.48	£209.43
Tax Base	28,794	29,393	29,981	30,580	31,192	31,816
Band D cost per week	£3.55	£3.65	£3.74	£3.84	£3.93	£4.03

\*NHB - Being taken to reserves

### 4.1.2 Final 2022/23 General Fund Estimates

The table below shows the budget estimates for 2022/23 analysed by type of expenditure/income as shown in **Appendix B**.

The estimates show a net balanced position for 2022/23, with the table below illustrating the Councils spending plans. It shows expenditure analysed by the CIPFA Standard classification. The paragraphs below the table provide explanations for the main variances across the MTFs

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

Income and Expenditure 2021/22 to 2022/23	2021/22 Original Estimate	2022/23 Estimate	Variance from Original Estimate
	£'000	£'000	£'000
Employees	10,236	10,101	(135)
Premises	904	1,048	144
Transport	752	727	(25)
Supplies & Services	4,050	4,048	(2)
Drainage Board Levies	2,611	2,767	156
Parish Precepts	935	1015	80
Third Party Payments	3,203	3,041	(162)
Transfer Payments	14,411	13,338	(1,073)
Depreciation & Impairment Charges	993	993	0
Direct Revenue Financing	825	2,561	1,736
Capital - Contra Entries	(1,068)	(1,068)	0
Transfers to/from Earmarked Reserves	(275)	(5,032)	(4,757)
Efficiency Savings	(1,676)	(397)	1,279
<b>Total Expenditure</b>	<b>35,901</b>	<b>33,142</b>	<b>(2,759)</b>
Rents and Service Charges	(1,111)	(1,130)	(19)
Fees & Charges	(3,803)	(3,942)	(139)
Grants, Reimbursements & Contributions	(15,476)	(14,289)	1,187
Investment Income	(182)	(282)	(100)
Recharges	(2,885)	(2,872)	13
<b>Total Income</b>	<b>(23,457)</b>	<b>(22,515)</b>	<b>942</b>
<b>Net Expenditure</b>	<b>12,444</b>	<b>10,627</b>	<b>(1,817)</b>

## 4.2 Explanation of 2022/23 Budgets:

### 4.2.1 Employee Related Expenses

Employee costs have been prepared in accordance with the Council's Pay Policy. Pay generally has been increased by salary increments due to staff, and by an estimated 2% increase in 2022/23 and thereafter.

Staffing budgets include a salary vacancy factor of 4%, this presents a potential budget risk depending upon the level of vacancies within the establishment and will 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 £53k from £573k (2021/22) to £626k in 2022/23. The results of the triennial review have been assigned to future years to 2024/25.

#### **4.2.2 Premises Related Expenses**

Premises related expenditure has increased by £158k primarily as a result of increases in utility expenditure following significant increase in electric and gas prices nationally and an increase in programmed maintenance costs. This is partly offset by reduction of (£14k) in business rates on public conveniences

#### **4.2.3 Transport**

Transport costs have reduced by £25k on the previous year. This is made up of decreases of £76k in car allowances offset by a £26k increase in fuel & oil costs and a £38k increase in vehicle maintenance and commercial lease vehicle payments plus other small savings across the Authority.

#### **4.2.4 Supplies and Services**

There is an overall reduction of £6k for supplies and services although this is made from a number of services that have an overall cost increase in the year such as ICT offset by reductions in professional contractor fees and other professional fees (e.g. legal)

#### **4.2.5 Third Party Payments**

A reduction of £162k has been included in the estimates which encompasses the savings on the contract with Public Sector Partnership Services as a result of the transformation plan the company has put in place and as a result of the company expanding to encompass Boston Borough Council. There are also other minor adjustments to reflect external contracts the Authority has.

#### **4.2.6 Transfer Payments**

This budget consists of Housing Benefits, grant payments and other allowances. The reduction in these budget reflects reductions in rent allowances, rent allowances offset by increases in economic grant payments and Better Care Payments.

#### **4.2.7 Depreciation and Impairment Charge**

The estimated depreciation and impairment charges are based on previous budgets and will be revised when the conclusion of the 2020/21 audit of financial statements is known.

#### **4.2.8 Drainage Board Levies**

The Council's 2022/23 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 6%. Precepts levied by the five Internal Drainage Boards form 18.47% of the Councils Budget.

#### **4.2.9 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**).

#### 4.2.10 Transfer to and From Earmarked Reserves

The following table sets out the net contributions to and from earmarked reserves in 2022/23. Reserve balances are further explained in paragraph 4:

	<b>2022/23 £'000</b>
<b><u>Contribution To Reserves</u></b>	
<u>Council Tax Reserve:</u>	
District Council Elections	(40)
<u>Investment &amp; Growth Reserve:</u>	
Capital repayment - workshop van	(4)
Leisure Management cost recovery	(29)
Capital repayment - Garden Waste	(52)
New Homes Bonus	(1,118)
<u>Replacement &amp; Refurbishment Reserve:</u>	
GF Revenue contribution R&R	(138)
<b>Contribution To Reserves Total</b>	<b>(1,381)</b>

<b><u>Contribution From Reserves</u></b>	
<u>Council Tax Reserve:</u>	
Business Rates Shortfall	386
Noise Monitoring Equipment	8
<u>Investment &amp; Growth Reserve:</u>	
Corporate Savings	100
Priory Road	15
Footway Lighting	55
South Holland Centre roof	88
Homelessness Capital Works	92
Crease Drove Industrial Units	940
Temporary Establishment Funding	52
Environmental Services vehicle and equipment replacement programme	
- Grounds Maintenance	59
- Garden Waste	60
- Bus Station	75
- Car Park Resurfacing	70
- Parks & Open Spaces	100
ICT Infrastructure	280
ICT Officer IT Refresh	66
ICT Member IT Refresh	50
ICT Council Chamber	27
ICT Infrastructure Office365	20
Town Centre Improvement	30
Ayscoughfee Capital Works	169
West Marsh Capital Works	85
Spalding Cemetery	25

Public Conveniences	200
Old Swimming Pool	15
Castle Sports - Dryside	90
<u>Replacement &amp; Refurbishment Reserve:</u>	
Programmed use of R&R Reserve	177
<u>Earmarked Reserve:</u>	
Grants4Growth	47
Business Rates Deficit	3,032
<b>Contribution From Reserves Total</b>	<b>6,413</b>
<b>Net Contribution From / (to) Reserves</b>	<b>5,032</b>

#### 4.2.11 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.

#### 4.2.12 Fees and Charges

Fees and charges are set within the framework of the Corporate Charging Policy, which is to be included with final budget papers)

As part of the broader moves to commercialisation across the Council, in line with many other authorities as they respond to the increasing challenges of diminishing resources.

Appendix F shows the proposed fees and charges to be charged from 1 April 2022. Once these changes have been approved the full list of Council fees and charges applicable for 2022/23 will be published on the Council's website.

Land charges inspection fees and inspection fees, additional income of (£20k) in line with current income.

Homelessness £14k, increase due to reduction in payments towards bed and breakfast costs and reflects current level of expenditure.

Reduction in IT income of £59k, previously received from Breckland Council, no reduction in costs as a result.

Forecast additional income of (£166k) from Garden waste collection service expansion.

Other adjustments have been made to budget to reflect 2021/22 actual income.

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

#### **4.2.13 Grants and Contributions & Reimbursements**

This budget includes the following adjustments:

- Income has ceased from Breckland District Council, following the ending of the partnership arrangements, for the contribution towards ICT spend on projects.
- Grant income increases of £150k to match increased distribution of Disabled Facilities Grants, and £300k to match distribution of Discretionary Better Care Fund.
- Reduced income for housing benefits £1.004m – offset by reduced benefit expenditure as noted above, and reduced administration grant of £18k in relation to this.

#### **4.2.14 Investment Income**

This income budget is currently estimated to be £282k, however given recent the monetary policy committee decision to increase interest rates in mid December this budget will be reviewed to establish the change and subsequent increases that may occur in 2022/23.

#### **4.2.15 Recharges**

Recharges have been reviewed and adjusted as required to reflect inflationary and activity increases. These include recharges to the Housing Revenue Account, to reflect its share of the Corporate and Democratic Core and its share of support services. There is also a recharge between ELDC, Boston and SHDC for senior management salaries

### **4.3 Other Budget Assumptions**

**4.3.1** The budget estimates and Medium Term Plan cover the period 2022/23 to 2026/27. 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.

**4.3.2** 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 (2021/22) 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 2022/23.

#### 4.4 Spalding Special Expenses

4.4.1 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 2022/23 is estimated at £233,130 (2021/22, £226,900). The detailed estimates were reported 25<sup>th</sup> January 2022 to Spalding Town Forum for review.

#### 4.5 General Fund Reserves and Balances

4.5.1 In order to comply with the requirements of the Local Government Act 2003, the Council undertakes a review of the level of reserves as part of the annual budget preparation. The forecast balances on the reserves are considered to be appropriate for the Council's future requirements.

4.5.2 **Appendix D** outlines the current position with regard to reserve balances. The proposed budget does not require any long term support from reserve balances, however the challenging economic environment has required us to undertake a robust sensitivity analysis should these events require us to draw on balances. Whilst it is apparent that these risks could be financially significant, Council reserves are currently at a reasonable level.

4.5.3 The proposed Council's budget for 2022/23 makes some assumptions about future increases in income from fees and charges, commercial income and budget savings. The timing of the delivery of these savings may mean that full year savings are not delivered as profiled in the budget. In this event the Council will have to call on its reserves to help smooth any timing differences in the delivery of the proposed savings.

4.5.4 The General Fund has a forecast working balance of £2.078m at 1<sup>st</sup> April 2022. The Council has an assessed minimum prudent working balance of £2.000m.

General Fund Specific Reserves (inc Spalding Special)	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Brought Forward	(13,480)	(8,448)	(7,471)	(7,443)	(7,449)
Transfer In	(1,381)	(235)	(245)	(245)	(245)
Transfers Out	6,413	1,212	273	239	239
Carried Forward	(8,448)	(7,471)	(7,443)	(7,449)	(7,455)

*Notes to Reserves table:*

- In addition to specific reserves the general fund working balance at 1<sup>st</sup> April 2021 was £2.078m. This may be subject to change following the completion of the annual audit.
- 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 transferred to the Investment & Growth Reserve.

**4.5.5** In setting the level of General Balances, consideration has been given to the adequacy of financial control, the overall financial position, medium-term financial plans and the strategic, operational and financial risks facing the Council.

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

- 5.1 The Council's Capital Strategy is shown in Appendix E and focuses on the core principles of capital investment. The Council continues to actively invest with a view to generating commercial income opportunity in projects such as the letting of additional Industrial Units and shared occupation of Council assets.
- 5.2 Appendix E details the updated capital programme of schemes that are either currently in progress or approved to be delivered for 2022/23 and future years, taking into account the anticipated outturn for 2021/22. The values for 2022/23 may change depending upon the ultimate level of spend and delivery in 2021/22 and other initiatives.
- 5.3 The main schemes included in the approved 2022/23 programme relate to ICT investment, commercial vehicle replacements, grants for Growth, Disabled Facility Grants – funded work and investments via Commercial Acquisitions.
- 5.4 The Council will consider the use of borrowing to fund investment if the interest rates attached to such borrowing still enable a scheme to be financially viable. The Council acknowledge the requirement not to borrow from PWLB for commercial investment.

## **6 Housing Revenue Account (HRA)**

- 6.1 The Budget for 2022/23 and the Medium Term Financial Strategy are shown in Appendix C.
- 6.2 The following table shows the summary HRA for 2022/23 compared to the 2021/22 position:

## HRA Estimates by Income & Expenditure 2021/22 to 2022/23

Description	2021/22 Estimate	2022/23 Estimate	Variance
	£'000	£'000	£'000
Rent Income - Dwellings	(15,280)	(15,910)	(630)
Charges for Services and facilities	(1,188)	(1,182)	6
Contributions to Expenditure	(22)	(5)	17
<b>Total Income</b>	<b>(16,490)</b>	<b>(17,097)</b>	<b>(607)</b>
Repairs and Maintenance	3,553	3,444	(109)
Supervision and Management	2,690	2,973	283
Rents, Rates, Taxes and Other Charges	72	72	0
Depreciation	3,324	3,846	522
Provision for Doubtful Debts	271	271	0
Stat. Recharge to HRA for Support Serv.	2,275	2,259	(16)
<b>Total Expenditure</b>	<b>12,185</b>	<b>12,865</b>	<b>680</b>
<b>Contribution from Operations</b>	<b>(4,305)</b>	<b>(4,232)</b>	<b>73</b>
Investment Income	(13)	(13)	0
Interest on Loans	2,348	2,348	0
Transfer to Major Repairs Reserve and other adjustments	-	-	-
Capital Expenditure Charges to Revenue	-	-	-
<b>Net operating (-Surplus) / Deficit</b>	<b>(1,970)</b>	<b>(1,897)</b>	<b>73</b>

### 6.3 Explanation of Budget Variations

#### 6.3.1 Rent Income - Dwelling Rents

- Rent increases from 2020/21 onwards are set at CPI + 1%, which is proposed at 4.1% for 2022/23.
- The Council had 3,765 HRA dwellings and 28 Shared Ownership properties (17.05 equivalent properties) at 1<sup>st</sup> April 2021 with an average weekly rent of £76.73 (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.

#### 6.3.2 Charges for Services and Facilities

##### Sewage Charges

Charges for sewage are increased in line with the annual increase applied by Anglian Water. For 2022/23 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.

### **6.3.3 Repairs & Maintenance**

- Renewable Heat Incentive Grant income £145k is the main factor in the total £109k saving, together with Savings in Legal and Professional fees £36k and Repairs and Maintenance costs £32k. These savings are reduced by a £121k increase in staff related costs

### **6.3.4 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
- The majority of the increase relates to staff related changes and general inflationary increases

### **6.3.5 Depreciation**

The Depreciation charge has increased and is mainly due to increases in values of properties, and reflects increases in the actual charges made for 2020/21. The total depreciation amount is charged to the HRA and credited to Major Repairs Reserve, and used to fund future capital expenditure.

### **6.3.6 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 a decrease in charges of £16k

### **6.3.7 Capital Expenditure charged to Revenue**

As part of the Council's year end accounts the annual revenue contribution to the capital programme has been credited to the Major Repairs Reserve (MRR). The HRA affordable housing program was not achieved during 2020/21 and 2021/22 but is expected to resume again in 2022/23. The Major Repairs Reserve will stand at over £4.3m before any 2021/22 funding. A further £3.3m funding is expected during 2021/22, and £3.8m in 2022/23 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 2022/23 to support the delivery of the re-phased capital programme.

## **7 HRA Reserves**

- 7.1** The table below shows the unallocated reserve balances as at 31<sup>st</sup> March 2021 and the estimated movements to 31<sup>st</sup> March 2023. 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 2021</b>	22,828	200	4,356
<b>Transfers in</b>	1,970	-	3,324
<b>Transfers Out</b>	(4,571)	-	(7,680)
<b>Balance at 31<sup>st</sup> March 2022</b>	<b>20,227</b>	<b>200</b>	-
<b>Transfers in</b>	1,897	-	3,845
<b>Transfers Out</b>	(927)	-	(3,845)
<b>Balance at 31<sup>st</sup> March 2023</b>	<b>21,197</b>	<b>200</b>	-

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

## **8. HRA Capital**

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

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

**8.3** The Council has accrued just over £4.3m in its Major Repairs Reserve over the last 2-3 years due to slippage in the planned Affordable Housing Programme. A re-phased Affordable Housing Programme has now been established to replace units sold through increased right to buy (RTB) sales in order to:

- Ensure that reserves are spent effectively,
- Maximise the use of resources available through retained RTB receipts, and
- Access opportunities for additional grant funding through Homes England.

**8.4** The programme will be delivered through a combination of new build and the purchase of affordable housing units. A total of £12.7m has been allocated during the period of the MTFs from 2022/23 to 2025/26. This will allow the Council to deliver:

- Acquisition of approximately 26 units of affordable housing directly from developers to provide properties to address key areas of housing need; and
- Acquisition of approximately 12 units of Shared Ownership directly from developers to provide properties for individuals to get on the housing ladder
- Support to a £3.0m annual programme which will deliver approximately 25-30 units per year.

**8.5** The programme also includes specific provision for:

- Major area works - environmental improvements on estates,
- Essential improvements to Sewage Plant works, and
- Sheltered Housing Alarm system Upgrade.

## 9 Risk, Key Issues, Sensitivity and Monitoring

- 9.1** The changing environment of Local Authority finance means that the Council is facing increasing risks and uncertainty in respect of the resources that it will have available to it. From 2023/24, the Business Rates baseline reset, if implemented, will all contribute to the challenge faced by the Council.
- 9.2** The Government is currently consulting on funding allocation approaches as part of the Fair Funding Review. Local government finance specialists, LG Futures, have been appointed to represent the District Council Network in supporting district councils with their consultation responses. In order to address the risks associated with funding changes, many of which are referenced in the table below, the Council will feed in to in the consultation and highlight local funding issues including the level of drainage board special levies currently funded by the Council.
- 9.3** Government funding is one element but there are probably even larger risks attached to the ability to generate and retain business rates. Growth in the business economy, changes in the retail price index, the impact of changing business rate valuations and the number of successful appeals against rateable values will all have an impact.
- 9.4** Together with this is the ongoing effects of the COVID-19 pandemic on the local area and also on national spending decisions. Whilst the Council is working with a range of partners to address the issues the pandemic has raised the one thing that is certain is that from 2023/24 onwards the estimates of funding could well be significantly different than anticipated.
- 9.5** While predicting and controlling the level of external funding resources may be difficult, where possible the Council will use its budget management processes, reserves and general balances to mitigate those risks that it can try and control. It will also aim to deliver its services in a way which attempts to reduce its exposure to certain risks.
- 9.6** 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>
Fairer Funding and Business Rate reset/changes	High	High	To lobby as required
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification
Growth plans may require borrowing at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement.
Uncertainty re: Brexit impact	Medium	Medium	Growth plans and accurate monitoring

Increased demand for Homelessness Support Services – relating to Homelessness Reduction Act	High	High	Monitor service demand and impact on costs. Optimise use of grant funding and closely monitor impact.
Lack of clarity for funding levels beyond 20/21 and spending review	High	Medium	Prudent budget set to provide best estimate. Transitional arrangements have been applied in similar previous changes imposed on funding arrangements.
Universal Credit	High	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.
Fluctuation in business rates	High	High	Growth plans and accurate monitoring
Fair Funding Review could take into account actual levels of commercial	Medium	Medium	Prudent budget set to provide best estimate.
Pension fund deficit	Medium	Medium	Close links with LCC pension fund Increased contributions following triennial review
Additional bad debts as a result of economic circumstances	Medium	Medium	The Council has pro-active debt management and pre-pay fee policies.
Increased maintenance costs of ageing physical assets	Medium	Medium	Asset management plan. Pro-active rather than reactive maintenance programme
Inflation rises by more than budgeted projections	Medium	Medium	Budget assumptions kept up to date with most recent projections.
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.
PSPS may be unable to deliver an effective service within the agreed reduced contract price.	Low	Medium	Reviewing Service Level Agreements, activity levels and service priorities, develop a suitable Transformation Programme

Fluctuation in business rates	High	High	Growth plans and accurate monitoring
Fee Income volatility	High	High	Early monitoring of deviations
Contract Cost volatility	High	High	To seek to pre-purchase were necessary
Ongoing and continued COVID-19 Response	High	High	Regular financial monitoring, use of reserves, promoting growth plans and supporting the community
Lack of funding to partners causing displacement of service demand	High	High	Engagement and realism
Inadequate capital resources to finance future desired plans	High	High	Proportionate spending and sale of surplus assets
Central Government policy changes	High	High	Engagement in consultation and policy creation
Reductions in NHB impacting on future plans	High	High	Lobbying and service transformation
VAT – partial exemption	High	High	Close forecasting VAT partial exemption position
Failure to deliver the required transformation programme	Medium	High	Effective programme and project management
Reduction in Investment Values	Medium	Medium	Regular Monitoring, allocation of specific Reserve
Central Government policy changes	High	High	Engagement in consultation and policy creation
A poor settlement for rural councils	Medium	Medium	Lobbying as a special interest group
Increased demand for services in general	Medium	Medium	A robust performance management framework

## 10 Treasury Management Policy and Investment Strategy

**10.1** The Treasury Management Policy and Investment Strategy was 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.