

**General Fund Budget 2014-15 and Financial Medium Term Plan  
2014-15 to 2018-19.**

This appendix is the combined budget estimates and Medium Term Plan 2014-19. The Medium Term Plan is the link between the Corporate Plan, which sets out the aims and ambitions agreed with our partners, and the Medium Term Financial Plan which sets out the cost of what the Council is currently providing. The plan also 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. The Housing Revenue Account estimates were approved at Council on 22 January 2014.

**1. Budget Summary**

The following table shows the headline figures relating to the budget estimates for 2014-15 compared to the 2013-14 position:

Description	2013-14 £'000	2014-15 £'000
South Holland precept requirement *	3,890	3,980
Local Government Settlement – Start-up Funding Assessment	7,316	6,372
Retained Business Rates (NNDR) Income and S31 Grant		762
Collection Fund (Deficit) NNDR		(95)
Community Right to Bid and Challenge		16
Transitional Scheme Grant	18	
Efficiency Support for Services in Sparse Areas Grant	16	
Council Tax Freeze Grant	39	39
New Homes Bonus applied	-	-
Special expenses account	187	193
Collection Fund Surplus C Tax		41
(Efficiency)/contingency requirement	-	-
Council Tax Band D	£156.15	£155.61
Tax Base	24,912	25,579
Band D cost per week	£3.00	£2.99

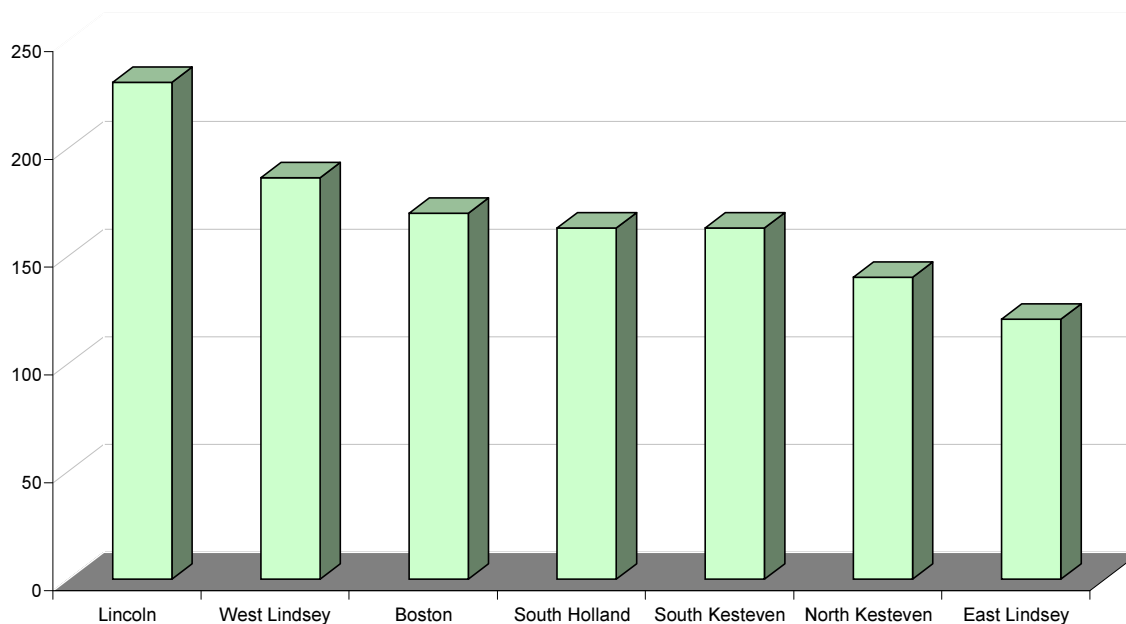
\*Of all the homes in our area 59.46% are in Band A or B, and 84.12% are in Bands A to C. Therefore the majority of homes pay less than the £2.99 per week Band D equivalent towards the District services

The following table details the Band D Council Tax levels for all precepting authorities over the last nine years:

	Lincs County Council		Lincs Police Authority		South Holland (excl special expenses)		Average Parish		Total	
	£	Increase %	£	Increase %	£	Increase %	£	Increase %	£	Increase %
2005-06	899.82	4.90%	119.43	6.42%	134.56	4.75%	19.81	2.96%	1,173.62	5.02%
2006-07	944.73	4.99%	125.37	4.97%	140.28	4.25%	23.12	16.71%	1,233.50	5.10%
2007-08	987.21	4.50%	131.58	4.95%	145.19	3.50%	23.68	2.42%	1,287.66	4.39%
2008-09	1,021.77	3.50%	165.78	25.99%	149.18	2.75%	25.55	7.90%	1,362.28	5.80%
2009-10	1,039.68	1.75%	174.06	4.99%	153.13	2.65%	26.50	3.72%	1,393.37	2.28%
2010-11	1,065.69	2.50%	179.28	3.00%	157.03	2.55%	27.35	3.21%	1,429.35	2.58%
2011-12	1,065.69	0.00%	179.28	0.00%	157.03	0.00%	28.04	2.52%	1,430.04	0.05%
2012-13	1,065.69	0.00%	186.39	3.97%	156.60	-0.27%	31.94	4.10%	1,440.62	0.74%
2013-14	1,065.69	0.00%	190.08	1.98%	156.15	-0.29%	33.26	4.13%	1,445.18	0.32%

The following chart shows the average Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2013-14.

**Average band D Council Tax by authority (2013/14) excluding Parish Precepts - Lincolnshire Authorities**



## 2. 2014-15 Estimates

The table below shows the budget estimates for 2013-14 and 2014-15 by type of expenditure/income split over the standard CIPFA classifications.

**Appendix B** shows the General Fund estimates over the medium term.

<b>Description</b>	<b>2013/14 Estimate £'000</b>	<b>2014/15 Estimate £'000</b>	<b>Variance £'000</b>
Employees	6,290	6,405	115
Premises	973	1,051	135
Transport	1,357	1,016	(341)
Supplies & Services	2,975	3,362	355
Drainage Board Levies	2,185	2,209	51
Parish Precepts	562	608	11
Grants to Parishes	77	58	(19)
Third Party Payments	2,837	2,719	(118)
Transfer Payments	18,932	19,784	868
Capital	697	973	276
Financing	(399)	(839)	(630)
Transfers to/from Earmarked Reserves	339	1,164	204
<b>Total Expenditure</b>	<b>36,825</b>	<b>38,510</b>	<b>907</b>
Rents and Service Charges	(779)	(690)	89
Fees & Charges	(3,177)	(3,354)	(177)
Grants, Contributions and Reimbursements	(19,382)	(20,695)	(1,313)
Investment Income	(50)	(95)	(45)
Recharges	(647)	(646)	1
<b>Total Income</b>	<b>(24,035)</b>	<b>(25,480)</b>	<b>(1,445)</b>
	<b>12,790</b>	<b>13,030</b>	<b>(538)</b>

### **Explanation of Variances**

#### **Employee Related Expenses**

The main increase is as a result of incremental pay progression, and a further provision for pension costs relating to vacant posts which are covered by agency staff and pension opt in. There is a 2% vacancy factor built into the estimates. The budget also includes the additional resources which have been funded by the Waste Collection Support Grant

#### **Premises Related Expenses**

The main variance is the planned maintenance programme, which is funded by the repairs and renewals reserve. This is in the process of being assessed, to ascertain where savings can be made.

## **Transport**

The commercial vehicles previously leased in Environmental Services will be purchased outright in August 2014. Revenue savings arising from this are reflected within transport costs (£373k). Fuel budgets have been maintained at their existing level, but vehicle maintenance costs have increased by (£13k.) Corporate savings have been made on leased car allowances (£5k). An increase in lump sum and mileage allowances shows for (£10k) due to Grants for Growth, which is fully funded by grant income

## **Supplies & Services**

Main variances in supplies and services include additional expenditure all funded by income, Waste Incentive grant (£29k), Health promotion grant (£116k), Grants for Growth advertising (£14k) delegated budget previously HRA element (£90k) and Lincolnshire procurement fees (£36k), offset by smaller savings.

## **Third Party Payments**

This budget includes contractual commitments to both Compass Point Business Services and Lincolnshire Legal Services. Compass Point has been budgeted at 5% savings year on year.

## **Transfer Payments**

The budget covers the payment of Rent allowances and Rent Rebates, reflecting current case loads. Additionally it covers grants and contributions paid where the Council does not benefit from the provision of a service, including a new 'Grants for Growth' project. Council Tax benefits ceased to exist from 1 April 2013, following the introduction of the localised Council Tax scheme. Housing benefit payments are funded through Government subsidy and are included under Grants, Contributions and Reimbursements.

The main variances are Grants for Growth expenditure (£585k) offset by income, rent allowances (£291k) and rent rebates (£37k). Budget savings have been made in homelessness grants and contributions (£20k), finance contributions (£10k) and insurance (£30k).

## **Fees & Charges**

This includes an increased income for Housing Benefit Overpayments (£350k) and Building control consultancy (£30k) and procurement income to offset supplies and services expenditure (£36k) and smaller other areas.

This is offset by a reduction in Car Parking income (£20k), Bulky waste collections (£8.5k), Markets (£5k), Building control fees (£40k) and Licence fees (£8k) and recycling income. These revised budgets all reflect the current year end position forecast for 2013/14.

The contract negotiations for dry recyclables has now been finalised, so income figures have been adjusted to spread the compensation received over the life of the original contract and reflect the estimated income due from the new contractor

## **Grants, Contributions & Reimbursements**

This includes additional Government subsidy for Housing benefit payments, offsetting costs included in Transfer Payments above. Additionally this includes new Government grants such as the new Grants for Growth project (£585k) and Health Promotion grant (£116k)

## **Recharges**

Recharges will be reviewed as the final part of budget setting process and include recharges to the Housing Revenue Account, to reflect its share of the Corporate and Democratic Core and its share of support services. The variance reflects the charge to the HRA for delegated Member budgets (£90k), shown in supplies and services.

### **3. Principles of Budget Preparation**

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.
- Ensure that estimates are prepared to reflect corporate priorities.

#### **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 CPBS 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 postages.
- The full effect of known pay awards is incorporated into the estimates and a provision made for future years, based on CMT 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.
- Budget Managers have signed off the salary allocations, so expenditure occurs where officer time is spent, within in each service area;
- Controllable expenditure is defined as expenditure on employees, premises (excluding business rates), transport, supplies and services, but excluding internal recharges.
- There will be no allowance for inflation, unless contractual or related to salaries.
- We should seek additional scrutiny and challenge for accessing capital resources and ensure that the programme only reflects schemes that are sufficiently scoped to allow delivery.
- A review of fees and charges to ensure optimisation of income where consistent with policy.
- An acceptance that a viable budget was already created last year and we adjust it rather than zero base. 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 2014-15 budget will be formally approved, future years are indicative only for both revenue and capital.

### **4. Grant Settlement Assumptions**

On the 18 December 2013, the Secretary of State for Communities and Local Government announced the provisional 2014-15 settlement, which determines how much grant central government will give to each local authority. The Final Local Government Settlement for 2014-15 was confirmed on 5<sup>th</sup> February 2014.

In previous years we have received a government settlement for a set number of years giving the amount of funding receivable for those years, with our last allocation being 2012-13, however government funding has changed. Instead of receiving a fixed funding amount from government, from 1 April 2013 we are now reliant on a new model which is geared towards the local raising of funds. Changes to schemes in respect of non-domestic rates (NDR) and localised council tax reduction scheme (LCTRS) have brought a greater degree of risk and variability to the Council's funding.

Under the new scheme a proportion of NDR income is retained by district and county councils through a system of top-ups and tariffs. The remaining NDR income is centralised by government and distributed back to local authorities through the formula grant process, thus allowing the government to retain a proportion of business rates centrally to meet public expenditure targets. This formula grant element has previous specific grants “rolled into” it (eg. the council tax freeze grant and the homelessness prevention grant). Whilst the headline figures of this scheme quote a 40% share of NDR income retained by district councils, in reality this is not the case. The tariff system reduces the NDR income retained by South Holland to a “baseline funding” figure calculated by government which is actually around 12.5% of the overall NDR income collected by the Council.

Any growth over and above the NDR income that Government has assumed for 2013-14 is shared between central and local government, with our local share equating to 20% of the total growth. Guidelines on how to calculate business rate tariffs and levies have now been released by government, allowing the authority to use data produced for government returns to be used as the basis for forecasting the business rates income that the authority is allowed to retain, including any grants due as a result of reliefs granted to businesses. This data has been used also for projecting future business rates income. Increases are in line with inflationary increases in the national business rates multiplier, and no growth has yet been factored into the projections despite signs of economic recovery and increases in planning applications which indicate that further growth in business rates income is likely. Additional S31 grant income has been received during 2013-14 (£286,162). This been placed in the Council Tax reserve for future use. Based on the Government NNDR 1 return, we are expecting to receive £600,440 for 2014-15, to offset reliefs granted to businesses.

SHDC is currently part of the Lincolnshire Business Rates pool (along with Lincolnshire County Council and North Kesteven District Council) which means that any additional business rates growth is retained in the county pool rather than being paid as tariff to central government. Business rates appeals on gas-fired power stations has created a major risk for the council under the retention scheme. Therefore a new Lincolnshire pool will be formed for 2014-15 without South Holland. The rating appeals are expected to be heard in 2014 and should provide more clarity for future years. Any benefits from the 2013-14 pool will be distributed to the council after year end accounts have been completed.

It is likely that Revenue Support Grant will continue to be reduced over the coming years, as greater emphasis is placed on generating business rates growth and increasing the taxbase through encouraging the development of additional homes and bringing privately owned empty homes back into use.

The table below shows the estimated level of budgeted central grants.

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>Financing</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Local Government Settlement RSG	(4,393)	(3,392)	(2,305)	(1,641)	(1,099)	(1,099)
Local Government Settlement NNDR Baseline	(2,923)	(2,980)	(3,062)	(3,160)	(3,273)	(3,391)
Retained NNDR income and NNDR S31 grant		(762)	(762)	(762)	(762)	(762)
Community Right to bid and challenge		(16)				
Transitional Grant Scheme	(18)					
Efficiency Support for Services in Sparse Areas Grant	(16)					
New Homes Bonus Grant	(762)	(1,114)	(1,466)	(1,818)	(1,815)	(1,595)
Council Tax Freeze Grant	(39)	(39)	(78)	(39)	0	0
Share of Collection Fund Deficit-NNDR		95				
Share of Collection Fund Surplus-C Tax	0	(41)	0	0	0	0
<b>Total</b>	<b>(8,151)</b>	<b>(8,249)</b>	<b>(7,673)</b>	<b>(7,420)</b>	<b>(6,949)</b>	<b>(6,847)</b>

A number of specific grants have been rolled into the Revenue Support Grant (RSG) and Business Rates Baseline Funding from 2013/14. The funding assumptions were based on the LG Futures modelling tool and have now been amended for the final Medium Term Financial Plan (MTFP) in line with the local government settlement.

CLG announced a council tax freeze grant offer to local authorities for 2014-15. The funding provided authorities with the equivalent of a 1% council tax increase if council tax is not increased in 2014-15. This will then form part of the RSG in future years.

The New Homes Bonus scheme commenced in April 2011. For 2014-15, South Holland's allocation will be £1,073,729 with an adjustment grant of £40,594. This scheme is designed to provide incentives and rewards for councils and communities who build houses in their area.

Annual grant allocations will be transferred to the Council Tax Reserve for one-off schemes and projects, and will not be used to support the base budget.

The Council has received confirmation of £1,768,050 grant funding from CLG to enhance its refuse and recycling service which has been built into the Medium Term Financial Plan. It is estimated that capital expenditure will account for £1,039,000 of this grant with the remainder being allocated to revenue.

## **5. Collection Fund**

Each year the Council is required to calculate the balance on its Collection Fund. In the current difficult economic climate, the Medium Term Plan target is to have a minimal balance on the Collection Fund, forecasting a zero balance in future years. Figures indicate an NNDR deficit of £95k and a £41k surplus for council tax and a zero balance in future years.

The Council Tax Benefits reforms will impact on future year's collection rates and Collection Fund balance.

## **6. Tax Base**

Delegated authority has been given to the S151 Officer to approve the taxbase, as legally the taxbase can only be set in the window 1 December to 31 January.

Changes to the local council tax support scheme approved at Council on 22 January 2014 have contributed to an increase in the taxbase from 24,912 in 2013-14 to 25,579 in 2014-15, and increase of 2.67%

In 2014-15 the Council will pay grants totalling £58k to parishes as part of the transitional arrangements for implementing the local Council Tax Reduction Scheme. This amount will reduce to £29k in 2015-16.

The tax base for all parishes will be included in the Council Tax Setting report, to be approved at Full Council in February 2014.

## **7. Other Budget Assumptions**

The budget estimates and Medium Term Plan cover the period 2014-15 to 2018-19. Over this timescale it is important that we make realistic assumptions as to how costs rise or fall. This section details the key assumptions made.

The key assumptions used are:

- Revenue budgets will be used to deliver services during the year for which they are approved.
- There will be allowance for unavoidable growth on services (i.e. new statutory obligations and contractual inflation) but will not allow for any increase for general inflation.
- Estimates are prepared on the understanding that appropriate service budgets were produced for the previous year (2013-14) 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.
- Council tax levels are estimated to reduce by approximately 0.35% in 2014/15 and 0.40% in 2015/16.
- Details on the grant settlement and assumptions made are shown in section 4.

The key assumptions made for the setting of these budget estimates, which influence the five year financial plan are as follows:

	2013/14	2014/15	2015-16	2016-17	2017/18	2018/19
RPI	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%
National pay increase	1%	1%	1%	1%	1%	1%
Staffing Salary Level	98%	98%	98%	98%	98%	98%
Pension contribution rate	24.8%	25.8%	26.8%	27.8%	27.8%	27.8%
Tax base	24,912	25,579	25,668	25,823	25,977	26,133
<b>Council Tax</b>	<b>156.15</b>	<b>155.61</b>	<b>154.98</b>	<b>154.98</b>	<b>154.98</b>	<b>154.98</b>

## **8. Future Developments**

The Universal Credit is due to be implemented shortly as part of a package of measures under the Welfare Reform Act. It will change the way that benefits (including Housing Benefits delivered by local authorities) are administered. It is not yet clear what role local authorities will have in this administration, what the financial consequences or the timing of the changes will be.

Planned changes to the UK state pension scheme are likely to have the effect of increasing National Insurance contributions for employers from 2016-17 and additional budgetary provision will be required once the scheme details are known. This will increase employment costs and is likely to add pressure to contracts and supplies and services, adversely affecting future year's efficiency requirements.

## **9. Strategy, Aspirations and Forward Projections**

The Council's Medium Term Financial Strategy is shown below:

- 1) To manage a budget process that will make progress in re-directing and focusing the budget on corporate priorities and in doing so, recognise the intrinsic link between this strategy, the Capital Strategy, and the Treasury Management Strategy.
- 2) Adopt a corporate approach to budget preparation and continue to provide strong timely budget control.
- 3) Use sound modern financial systems procedures and principles and promote electronic record keeping and approval processes. Ensure financial performance reporting remains integrated with financial reporting and business planning.
- 4) Ensure there is a rigorous scrutiny of the financial planning process and work towards a more effective consultation process to engage the public and stakeholders.

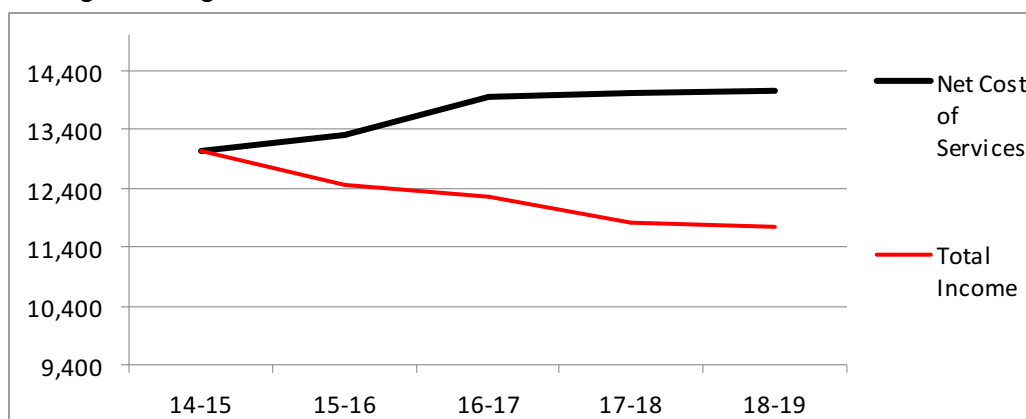
- 5) Maintain balances and reserves that will provide for known risks and liabilities and provide capacity for managing peaks in expenditure.
- 6) Operate strategies on capital and external funding that supports the Council's corporate objectives.
- 7) Undertake a risk assessment of material items of income and expenditure and report the risks to Members as part of the budget setting process (see section 14).
- 8) Manage and use our resources to deliver value for money and better sustainable outcomes and efficiencies for local people.
- 9) Set realistic targets for trading accounts and if services fail to achieve these they will be subject to a more fundamental review.
- 10) Aim for a minimum balance on the Collection Fund.
- 11) Prepare robust and realistic income and resource requirement plans for the next five years.
- 12) Promote take up of benefits and reliefs.
- 13) Maximise income collection.
- 14) Recognise our role in the community throughout and beyond the period of economic hardship by providing assistance to individuals, groups and businesses.

A key aspect of the Council's strategy to cope with the financial challenges that it faces is the creation of Compass Point Business Services (East Coast) Ltd, (CPBS), a company jointly owned with East Lindsey District Council. This innovative development is designed to deliver greater efficiency in the provision of back office services. The company is established to provide Information Technology, Human Resources, Financial Services, Customer Services and Revenues and Benefits. It is projected to make savings totalling over £30m over a 10 year period, with South Holland's share being in excess of £10m.

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
- Governance and performance reports

In 2014-15 the Council has a balanced budget. However beyond that year a funding gap has been identified which will need to be addressed in order to present a balanced and sustainable budget and medium term plan. The graph below shows the cost pressures increasing and government funding reducing over the medium term.



A programme of efficiencies and income generation is being finalised to address the authority's immediate funding needs to ensure that the Council has a balanced budget in 2015-16. The authority is also initiating a business support services cultural and functional transformation project to produce a draft transformation plan which will address the longer term funding gap.

The two phases are linked, but the transformation agenda will take longer to formulate and implement. Having achieved a balanced budget in 2014-15 the authority will continue to work on efficiency and transformation programmes to deliver a sustainable, balanced budget over the medium term.

## **10. 2013-14 Outturn**

An assessment of the 2013-14 outturn will inform the reliance that can be placed on the baseline used for the 2014-15 estimates. At December 2013 (Quarter Three) budget savings of £450,000 have been forecast for 2013-14. Whilst a number of budget pressures and savings have been identified, Budget Managers will continue to review the financial performance of their services to identify further in-year savings. Two budget challenges have taken place during 2013-14 achieving savings in year and ongoing into future financial years. In preparing the budgets for 2014-15 services have reflected the on-going pressures and savings in their new budget estimates.

## **11. Budget Requirement and Forward Estimates**

Outline estimates through to 2018-19 are shown in **Appendix B**. In compiling these figures we have followed the assumptions shown in sections 4 and 7 of this report and made specific adjustments to service budgets as and where budget holders have advised of a change over the medium term.

It should be recognised that that budget managers will be closely reviewing their budgets again in order to balance its budget for 2015-16. Significant reductions in expenditure or increases in income will be required from 2015-16 onwards, to take account of the reductions in Government funding.

Work has been carried out to challenge budget costs in order to reduce both in-year and on-going base budgets without impacting on core service levels. However the Council will experience increasing inflationary pressures on core budgets and continuing reductions in government grant funding, as well as further uncertainty on business rates retention. These factors will require the Council to consider policy changes if it is to rise to the challenge and balance its budgets in the medium term. An efficiency and transformation programme is currently being developed to reduce the funding gap and create a sustainable budget.

A number of potential schemes to generate savings and increased income have been explored at officer level. However these ideas and others have been examined during budget consultation and beyond to determine Council's appetite to introduce such changes. Areas to consider which currently have a high level of spend or will require a greater review to reduce costs and provide services differently

- Consideration of fees and income policies (including Internal review and benchmarking exercise)
- Review of public owned assets including a strategic asset plan review
- Grants Review
- Alternative management models for key assets
- Further shared service opportunities
- Growth opportunities including generating income streams from asset ownership

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 2014-15 is estimated at £193,100 (2013-14 £186,830). The tax base used for 2014-15 is 8,316 (2013-14 8,022). A proportion of the Council Tax Support Grant Funding has been allocated to finance Spalding Special expenses, with the Band D reducing by 0.26% (2013-14 £23.28) £23.22.

Detailed estimates are shown at **Appendix C**.

The Council's 2014-15 budget and forward estimates include amounts for Internal Drainage Boards (IDB). These are levies charged to the authority over which the council has little control and form part of the revenue budget. For 2014-15 £2.209m (2013/14 £2.185m) has been included. The Council will continue to lobby to have these levies removed from its precept, as it believes that the IDB's should be precepting authorities in their own right, and should not impact on the finances of district councils.

## **12. Fees and 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.

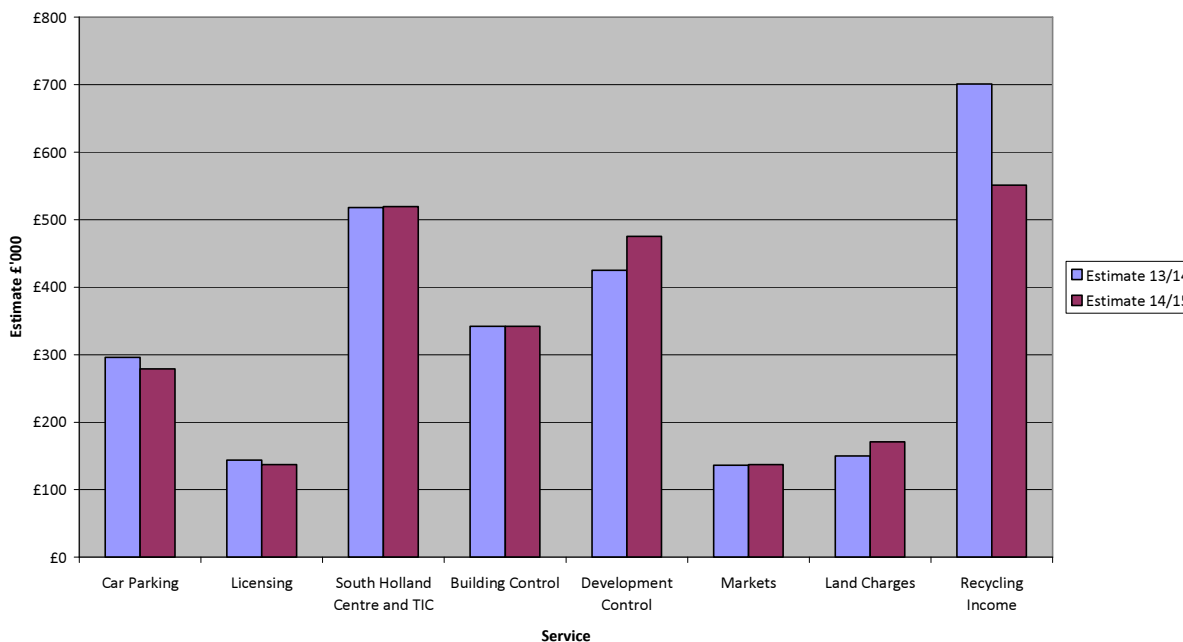
As part of our overall income strategy we will seek to:

- Maximise the return from the Council's asset holdings and continue to attract rental income by optimising the usage of office space at Priory Road.
- Ensure that the yield from fees and charges matches the increase in base budget for services that levy fees and charges, otherwise the shortfall will fall upon the Council Tax payer
- Annually review fees and charges for discretionary services
- Ensure that statutory charges are implemented
- Monitor compliance with the corporate charging policy and corporate debt policy
- Set targets for income collection and level of arrears and monitor performance against these targets.
- Treat windfall income as a corporate resource
- Use enforcement remedies effectively
- Seek to minimise benefit subsidy losses

Fees and charges have been reviewed and updated where necessary. Demand for services has also been reviewed and changes in demand have also been reflected in the budgeted level of fees and charges income. Appendix H outlines the proposals for fees and charges.

In total £3.354m (2013-14 £3.177m) is due from fees and charges in the 2014-15 budget. The chart below shows the main categories of budgeted fee income in 2014-15 (and 2013-14 for comparison).

Fees & Charges Comparisons 2013/14 & 2014/15



### **13. Reserves and Balances**

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. It is therefore a target of our medium term plan that a review of reserves is carried out and reported to Cabinet for consideration. The review includes analysis of current and future risk assessments, including an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements.

**Appendix D** outlines the position statement on 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 these risks could be financially significant, SHDC reserves are at a reasonable level. Moving forward the General Fund balance stands at £2.034 which is believed to be prudent for the Council at this time.

We also have a Council Tax reserve with a current balance of £4.534m at 31 March 2015, taking into account the New Homes Bonus for 2014-15 of £1,114,000. This reserve can be used to smooth out fluctuations and pressures on the General Fund resulting from new Government policies shifting the risk of Business Rate retention and Council Tax benefits to local authorities.

This table shows a summary of the estimated New Homes Bonus payments over the MTFS shown within the Council Tax Reserve.

Entitlement	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Year 1	355	355	355	355	355	355		
Year 2		220	220	220	220	220	220	
Year 3			187	187	187	187	187	187
Year 4				352	352	352	352	352
Year 5					352	352	352	352
Year 6						352	352	352
Year 7							352	352
<b>Total</b>	<b>355</b>	<b>575</b>	<b>762</b>	<b>1,114</b>	<b>1,466</b>	<b>1,818</b>	<b>1,815</b>	<b>1,595</b>
SR 13 estim adjust								
<b>Estimated total Reserve Balance</b>	<b>355</b>	<b>575</b>	<b>762</b>	<b>1,114</b>	<b>1,466</b>	<b>1,818</b>	<b>1,815</b>	<b>1,595</b>
	<b>355</b>	<b>930</b>	<b>1,692</b>	<b>2,806</b>	<b>4,272</b>	<b>6,090</b>	<b>7,905</b>	<b>9,500</b>

The tables below give a summary of reserve movements:

General Fund Working Balance	13-14 £'000	14-15 £'000	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000
<b>Brought forward</b>	2,034	2,034	2,034	2,034	2,034	2,034
<b>In</b>	-	-	-	-	-	-
<b>Out</b>	-	-	-	-	-	-
<b>Carried forward</b>	2,034	2,034	2,034	2,034	2,034	2,034

General Fund Specific Reserves	13-14 £'000	14-15 £'000	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000
<b>Brought forward</b>	5,008	6,347	7,511	8,353	10,144	11,822
<b>In</b>	2,184	1,929	1,602	1,954	1,951	1,731
<b>Out</b>	(845)	(765)	(760)	(163)	(273)	(117)
<b>Carried forward</b>	6,347	7,511	8,353	10,144	11,822	13,436

These are the observations from the review of reserves for the 2014-15 budget:

- The general fund balance at 1 April 2013 is £2.034m. This represents approximately 15.61% of the Council's net budget requirement and is adequate for the Council's purposes.
- Transfers to Reserves include an annual contribution of £136,000 to the Replacement and Refurbishment Reserve to assist the Council in maintaining its asset base. For 2014-15 contributions from the repairs and renewals reserve stand at £189,000.
- The Planning Reserve is to be used to deliver the Local Development Framework.
- All New Homes Bonus Scheme grant over the period of the Medium Term Financial Plan has been taken into the Council Tax Reserve.
- £31,000 is shown as a contribution to the Organisational Development reserve, for the remainder of the Waste incentive grant in 2014-15, followed by a contribution from reserves for £224,000 in 2015-16 in accordance with the grant scheme plan.
- An amount of £286,000 (2013-14) and £631,000 (2014-15) has been transferred to the council tax reserve from the retained business rates above baseline and Section 31 grant. The outcome from the Lincolnshire business rates pooling arrangement in 2013-14 is not

yet known, but once the accounting treatment is clarified, the surplus will be transferred to the Council Tax reserve.

- o £410,000 has been transferred to the Organisational Development reserve during 2013-14, from budget savings made in year.

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. Following this review, it is proposed that the General Fund remains set at a minimum level of £2 m.

#### **14. Risk, Key Issues, Sensitivity and Monitoring**

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.

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>Action</b>
Reduced public sector funding from Central Government	High	High	Keep up to date with developments and make prudent budget assumptions.
Low income levels from fees and charges	Medium	Medium	Revise spending plans
Continuation of low interest rates	High	High	Market advice and forecasting. Mitigation by diversification
Changes to CTB grant will reduce Central government funding and will impact Council Tax base. Increased caseload adds further cost pressure.	High	High	Monitor developments & develop local scheme to meet reduced Central Gov't funding
Business rates retention proposals leave Council exposed to economic fluctuations and rating appeals	Medium	High	Monitor developments & set aside appropriate reserves and provisions to help with potential initial pressures and fluctuations
Pension fund deficit	Medium	Medium	Strong links with LCC pension fund Central Gov't measures to reduce public sector pension deficit
Additional bad debts as a result of economic circumstances	Medium	Medium	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

Diminishing capital resources will mean that borrowing will be required at some point in the future	High	High	Continue to closely monitor and prioritise the Council's Capital Financing Requirement. A radical review of the capital programme and wish list will be undertaken to inform the final budget. Utilise S106 funding and revenue reserves where appropriate
Compass Point Business Services 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
Recycling credit income	High	High	Potentially recycling credit income may cease from LCC in the next three years. Current levels of income have been assumed in the five year plan. Income levels to be assessed over the medium term.
Implications of recently announced future State Pension changes.	High	Medium	Until more details have been announced there is no provision in the Medium Term Financial Plan. Potentially an impact on a part payment and part benefit scheme. Impact to be assessed. Employees are automatically enrolled for the pension scheme and would need to opt out. Those that have now remained in the scheme after auto enrolling have been included in the estimates.
Court Income	High	Low	Court income projections are considerably increased following welfare reforms. However 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.
Housing Benefit Overpayments	Medium	High	The level of Housing Benefit Overpayments and their recoverability needs to be monitored closely through the year in order to ensure budget levels are appropriate.
Universal Credit	High	Medium	The implementation of the Universal credit may impact on the General Fund both in terms of running costs for the Benefits service and additional demand on other council services. This will be closely monitored.
Increased risk that liability insurance premiums will increase	Medium	Low	Prepare to go to the market again if premiums exceed market trends.

## **15. Consultation, Timetable and Links to Other Strategies**

The budget has been out to consultation on the website and invited commentary from council tax payers, business rate payers and key stakeholders

It is important to have clear and agreed timetables for the budget process so that statutory requirements are met. Each year a timetable will be agreed with Corporate Management Team prior to the start of the process (i.e. around May each year).

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

A Performance Framework has been developed to manage delivery of the new priorities described in the Council's Corporate Plan 2011-2015. The annual business planning process will run alongside the budget setting process to ensure an integrated approach of performance and finance.

## **16. Capital Strategy and General Fund Capital Estimates**

The Council's Capital Strategy (Appendix F) focuses on the core principles that underpin capital investment.

The development of a robust five year capital programme is constrained by the level of available resources that the Council has at its disposal.

The existing capital programme (Appendix E) has been amended to reflect revised profiling and scheme estimates. A high level summary and associated financing is shown below.

The HRA capital requirements will be dealt with separately.

<b>Capital Programme by Department</b>	<b>13-14 Original Budget £'000</b>	<b>14-15 £'000</b>	<b>15-16 £'000</b>	<b>16-17 £'000</b>	<b>17-18 £'000</b>	<b>18-19 £'000</b>
Assets and Property	44	-	10	-	100	-
Community Development	89	49	39	29	19	-
Environmental Services	559	2,112	20	-	170	-
Environmental Health	91	-	-	-	-	-
Economic Development	-	-	132	-	-	-
Housing	1,087	442	442	442	442	442
ICT	67	80	80	80	80	80
<b>Total</b>	<b>1,937</b>	<b>2,683</b>	<b>723</b>	<b>551</b>	<b>811</b>	<b>522</b>

<b>Financing</b>	<b>13-14 Original Budget £'000</b>	<b>14-15 £'000</b>	<b>15-16 £'000</b>	<b>16-17 £'000</b>	<b>17-18 £'000</b>	<b>18-19 £'000</b>
Borrowing	-	1,512	-	-	130	
Capital Receipts	25	-	132	-	-	
Capital Grants and Contributions	1,447	902	332	332	332	332
Replacement and Refurbishment Reserve	120	30	10	-	140	
Organisational Development Reserve	157	-	-	-	-	
Direct Revenue Financing	188	239	249	29	19	
<b>Total</b>	<b>1,937</b>	<b>2,683</b>	<b>723</b>	<b>551</b>	<b>811</b>	<b>522</b>

As part of the 2014-15 budget process Service Managers were asked to only submit a new bid for essential schemes to be incorporated into the Capital Programme over the next five years. Each scheme is supported by a capital bid form, formulated where appropriate after the consideration of options. The cash flow implications of all schemes and the impact on revenue need careful consideration before new schemes are incorporated within the capital programme. The joint preparation of both a capital and revenue budget should ensure a sustainable position for the Council.

Due to the constraints around financing, some schemes have yet to be included in the Capital Programme that were submitted as essential and desirable schemes during last years estimate process. A review of the approved programme and proposed projects will be carried out before to co-ordinate resourcing requirements with the efficiency programme.

The current programme includes budget and funding for providing grants for carrying out disabled adaptations to properties. With the introduction of the Better Care Fund to deliver better outcomes and greater efficiencies through more integrated services for older and disabled people involving the NHS and local authorities it is likely that the current system of disabled facilities grants will fundamentally change from 2015-16 with pooled budgets being introduced. The capital programme continues to recognise these schemes based on the current arrangement; however this will need to change once local plans affecting South Holland's residents are drawn up and adopted.

The HRA capital programme has been dealt with separately with the HRA budget and Business Plan.

## **17. Treasury Management Policy and Investment Strategy**

The Treasury Management Policy and Investment Strategy (Appendix G) pulls together the decisions of capital investment, use of reserves, our cash flow and revenue budgets.

The Treasury Management Strategy covers two main areas:

- Capital plans and associated Capital Prudential Indicators
- Treasury management issues including borrowing and investment strategies and associated Treasury Prudential Indicators.

No major changes are proposed to the Treasury Management Policy and Investment Strategy which continues the prudent approach to investment in light of the current economic climate.