

General Fund Budget 2015-16 and Financial Medium Term Plan 2015-16 to 2018-19.

This appendix is the combined budget estimates and Medium Term Plan 2015-19. 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 current and forecast future costs of the services 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 and business plan are dealt with under a separate report following scrutiny by Governance and Audit Committee.

1. Budget Summary

The following table shows the headline figures relating to the budget estimates for 2015-16 compared to the 2014-15 position:

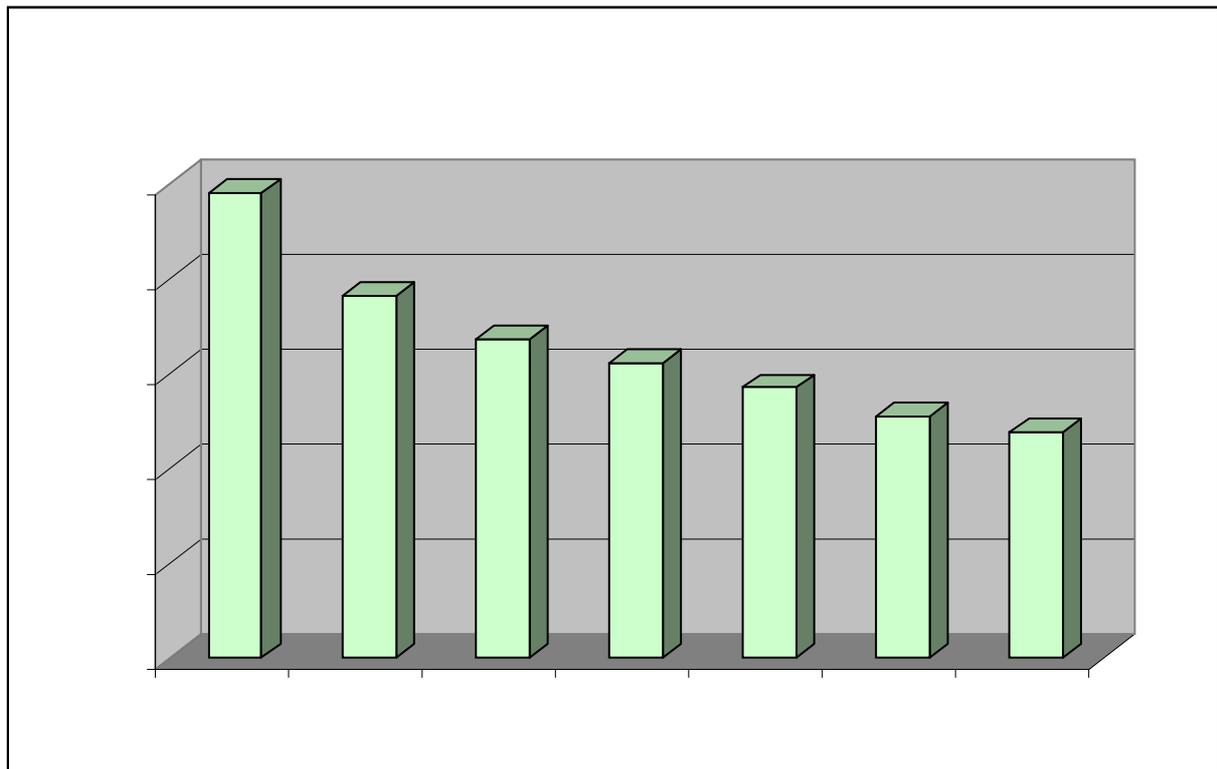
Description	2014-15 £'000	2015-16 £'000
South Holland precept requirement *	3,980	3,980
Local Government Settlement-RSG	3,392	2,381
Local Government NNDR baseline	2,980	3,037
Retained Business Rates (NNDR) Income and S31 Grant	764	720
Collection Fund (Deficit) NNDR	(95)	(299)
Community Right to Bid and Challenge	16	16
Council Tax Freeze Grant	39	47
New Homes Bonus applied	-	262
Special expenses account	193	195
Collection Fund Surplus C Tax	42	67
(Efficiency)/contingency requirement	-	-
Council Tax Band D	£155.61	£154.84
Tax Base	25,579	25,707
Band D cost per week	£2.99	£2.98

*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 £2.98 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%
2011-2	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%
2014-15	1,065.69	0.00%	193.86	1.99%	155.61	-0.35%	34.94	5.05%	1,450.10	0.34%

The following chart shows the Band D Council Tax levels (excluding parish precepts) for Lincolnshire Councils for 2014-15



2. 2015-16 Estimates

The table below shows the budget estimates for 2015-16 by type of expenditure/income split over the standard CIPFA classifications. Notes explaining the major variances between the two years are given below the table.

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

Description	2014-15 Estimate £'000	2015-16 Estimate £'000	Variance £'000
Employees	6,405	6,731	326
Premises	1,051	967	(84)
Transport	1,016	825	(191)
Supplies & Services	3,361	3,437	76
Drainage Board Levies	2,243	2,288	45
Parish Precepts	603	620	17
Grants to Parishes	58	29	(29)
Third Party Payments	2,722	2,682	(40)
Transfer Payments	19,784	21,922	2,138
Capital	973	627	(346)
Financing	(839)	287	1,126
Total Expenditure	37,377	40,415	3,038
Rents & Service Charges	(690)	(743)	(53)
Fees & Charges	(3,354)	(3,645)	(291)
Grants, Contributions and Reimbursemer	(20,695)	(22,480)	(1,785)
Investment Income	(95)	(123)	(28)
Recharges	(646)	(723)	(77)
Total Income	(25,480)	(27,714)	(2,234)
Net Expenditure	11,897	12,701	804
Transfers to/(from) Earmarked Reserves	1,131	(575)	(1,706)
Funding shortfall	0	0	0
Budget Requirement	13,028	12,126	(902)

Explanation of Variances

Employee Related Expenses

Increase is as a combined result of incremental pay progression, national pay award and changes in structure to support service delivery in Planning and Environmental Services. 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, Grants for Growth and Planning grant. The national pay settlement has now been agreed at approximately 2.2% from 1 January 2015 to 31 March 2016. Actual pension contributions are based on 17.5% of gross pay plus an increasing lump sum amount currently agreed to 2016-17.

Premises Related Expenses

The main variances are savings made in utilities, business rates (£18k), premises insurance (£12k) and responsive repairs (£40k). These savings are as a result of a comprehensive analyses of prior year's outturn and current year actual expenditure. There will also be a further assessment of the planned and response maintenance programme, of which the planned repairs is funded by the repairs and renewals reserve. A proportion of the footway lighting is now charged to the HRA £38k.

Transport

The Council has adopted a prudent policy of replacing previously leased commercial vehicles previously leased in Environmental Services with outright purchase of wholly owned new vehicles. Revenue savings arising from this are reflected within transport costs (£154k) alongside slightly increased maintenance costs of £4k. Fuel budgets have been reduced by £37k in line with 2013-14 outturn, with current fuel price reductions being monitored on an ongoing basis. Savings have been made where possible on leased car, mileage and lump sum budgets.

Supplies & Services

Main variances in supplies and services include additional expenditure all funded by income, Waste Incentive grant, Health promotion grant and Grants for Growth. Delegated members ward budgets have been maintained at £5k for each member. The funding mechanism has been adjusted slightly with £3k new revenue funding and the remaining £2k funded from the earmarked reserve once members have fully committed their initial £3k.

Impairment allowance for bad debts increases the supplies and services budgets by £86k which is partially offset by housing benefit overpayments and court income.

Course fees have been centralised into the Human Resources training expenses shown under employee expenses. This will enable better monitoring in year and ensure fair access to training for all, as opposed to smaller service area budgets.

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, in addition to a £50k non-recurring contract cost. Inflationary pressure of £20k for the Leisure Contract is offset by (£8k) savings estimated for Lincolnshire Legal services.

Transfer Payments

These budget variances include the payment of Rent allowances £597k and Rent Rebates £1.509m, reflecting current case loads. Additionally it covers grants and contributions paid where the Council does not benefit from the provision of a service (£134k), including the 'Grants for Growth' project. Housing benefit payments are funded through Government subsidy and are included under Grants, Contributions and Reimbursements.

Other variances are Grants for Growth expenditure offset by income, rent allowances and rent rebates. Budget savings have been made in areas where possible.

Transfer to and from earmarked reserves

Movements from reserves are higher than 2014-15 due to investment in the County wide Broadband capital scheme £607k and £299k for smoothing the business rates

collection fund deficit. Further details on reserve contributions are detailed in the reserve section below.

Rents Rental income has increased by (£53k) which is mainly due to additional third party properties being managed by the Council. Maintenance costs are shown in premises expenditure.

Fees & Charges

Fees and charges have been reviewed as increased where the market permits and in accordance with individual fees and charges policies. £262k has been estimated from the new housing growth initiative.

Recycling Credits

Recycling credit negotiations with LCC have now been finalised and recycling credits will cease 31st March 2015. The 5 year phased income reduction has an impact of £43k in 2015-16

	2015/16 Budget £	2016/17 Budget £	2017/18 Budget £	2018/19 Budget £
Recycling Credits previously budgeted	(324,600)	(324,600)	(324,600)	(324,600)
Agreed proposal	(281,952)	(218,981)	(156,009)	(86,054)
Loss (gain) of Income	42,648	105,619	168,591	238,546

Waste Supplementary services will continue as part of an arrangement with LCC for providing a Saturday morning service. Income has been budgeted at £40k.

Planning application fees have been estimated to increase from £475k in 2014-15 to £600k in 2015-16 providing additional income of £125k. Fixed term additional resources have recently been agreed to cover the extra demands of the service.

Court income and is expected to increase by £100k offset by increases in housing benefits overpayments of £50k and an estimate for the impairment allowance of bad debts shown under supplies and services.

Grants, Contributions & Reimbursements

This includes additional Government subsidy for rent allowance subsidy payments (£593k), rent allowances HRA (£1.5m) offsetting costs included in Transfer Payments above. Additionally this includes reprofiled Government grants reimbursements and contributions, such as the Grants for Growth project and Waste Incentive grant £712k. Housing Benefit Admin grant has impacted on the budgets by being an £85k cost pressure.

Recharges

Recharges will be reviewed as part of the final 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.

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 postage.
- The full effect of known pay awards is incorporated into the estimates and a provision 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.
- 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.
- Some service areas of high or unpredictable spend in previous years have been considered in detail others remain largely viable budgets and 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 2015-16 budget will be formally approved, future years are indicative only for both revenue and capital but form an important picture of our financial sustainability.

4. Grant Settlement Assumptions

On the 18 December 2014, the Secretary of State for Communities and Local Government announced the provisional 2015-16 settlement. This determines how much grant central government will give to each local authority. The Final Local Government Settlement for 2015-16 will be confirmed February 2015. Variations from the provisional settlement are expected to be relatively small, and therefore will any

adjustments required will be made through appropriations to or from the Council Tax Reserve.

Only a small amount of the Local Government Settlement is now received in the form of Revenue Support Grant (RSG). 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 this government policy 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.

As well as the potential for the authority to attract additional income through retained business rates there is also the risk of uncertainty through a reduction in the amount of business rates that it collects. One of the key areas of uncertainty relates to appeals against rateable values for business premises, with the potential for successful appeals being backdated for a number of years. The most significant risk to South Holland District Council relates to the two power stations, which are subject to a national valuation tribunal hearing that will affect all gas-fired power stations. The decision from the hearing (which took place in October) is expected to be announced in January 2015. This will determine whether the council will have to repay business rates collected from the power stations and how much we will be able to collect in the future. Any reduction in rateable value will also have an ongoing detrimental impact on the business rates that the council is able to retain.

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. Whilst in the first year we used the Government target figure for retained NDR, this year we have forecast collection amounts to set a budget for the amount the district council will retain. These forecasts are based on actual amounts collectable at October 2014 which are then adjusted for local knowledge (i.e. for appeals, charitable relief, etc) and uplifted by an inflationary increase to allow for the increase in NDR multiplier each year.

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.

Financing	2014-15 £'000	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Local Government Settlement RSG	(3,392)	(2,381)	(1,813)	(1,387)	(979)
Local Government Settlement NNDR Baseline	(2,980)	(3,037)	(3,160)	(3,273)	(3,391)
Retained NNDR income and S31 Grant	(764)	(720)	(720)	(720)	(720)
Community Right to bid and challenge	(16)	(16)	-	-	-
New Homes Bonus Grant	(1,114)	(1,362)	(1,640)	(1,563)	(1,343)
Council Tax Freeze Grant	(39)	(47)	-	-	-
Spalding Special Expenses	(193)	(195)	(196)	(197)	(198)
Share of Collection Fund Deficit/(Surplus)-NNDR	95	299	-	-	-
Share of Collection Fund Deficit/(Surplus)-C Tax	(42)	(67)	-	-	-
	(8,445)	(7,526)	(7,529)	(7,140)	(6,631)

A number of specific grants have been rolled into the Revenue Support Grant (RSG) and Business Rates Baseline Funding. The funding assumptions used in the medium term plan for future years beyond the Local Government Settlement are based on the Local Government Association's (LGA) modelling tool.

CLG has announced continuation of the council tax freeze grant. This funding provides authorities with the equivalent of a 1% council tax increase if council tax is not increased in 2015-16.

The New Homes Bonus scheme commenced in April 2011. For 2015-16, South Holland's allocation will be £1.362m. 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.

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 £299k and a £67k surplus for council tax and a zero balance in future years.

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. At this stage provisional figures have been used for the draft budget pending finalisation of the figures.

Council on 17 December 2014 confirmed the local council tax support scheme for 2015-16. This is a continuation of the 2014-15 scheme with up-rating for working age claimants, and limits the level of Council Tax Support award to 75% of entitlement for those who do not receive protection. Protection for pensioners and war widow(er)s continues.

In 2015-16 the Council will pay grants totalling £29k to parishes as part of the transitional arrangements for implementing the local Council Tax Reduction Scheme. This will be the final year for this payment.

The tax base for all parishes will be included in the Council Tax Setting report, to be approved at Full Council in February 2015.

7. Other Budget Assumptions

The budget estimates and Medium Term Plan cover the period 2015-16 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 (2014-15) 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 0.5% in 2015-16 and freeze the years after
- 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 four year financial plan are as follows:

	2014/15	2015-16	2016-17	2017/18	2018/19
RPI	2.5%	2.9%	2.5%	2.5%	2.5%
National pay increase	1%	2.2%	1.5%	2%	2%
Staffing Salary Level	98%	98%	98%	98%	98%
Pension contribution rate	25.8%	17.5% plus £297k	17.5% plus £326k	17.5% plus £326k	17.5% plus £326k
Tax base	25,579	25,707	25,861	26,016	26,173
Council Tax	155.61	154.84	154.84	154.84	154.84

8. Future Developments

The Universal Credit is due to be rolled out nationally between February 2015 and March 2016 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, or what the financial consequences will be. This implementation will

occur in 4 tranches. While it has been confirmed that South Holland will not be in the first tranche, it is not clear when the changes are likely to impact the district

Government is creating a centralised fraud service as part of preparations for Universal Credit, with staff being transferred from local authorities. As a result Housing Benefit (HB) admin grant is expected to reduce by 20% in 2016-17.

9. Strategy, Aspirations and Forward Projections

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

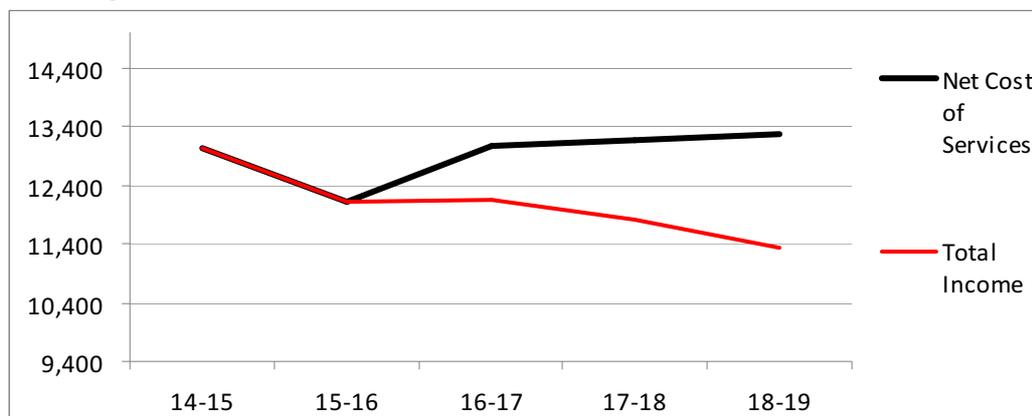
- 1) To manage a budget process that will make progress in re-directing and focusing the budget on corporate priorities and in so doing, recognise the intrinsic link between this strategy, the Capital Strategy, and the Treasury Management Strategy.
- 2) Adopt a corporate approach to budget preparation 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 was 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 2016-17 and beyond 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.



Full consideration of transformational efficiencies focussed on digitalisation alongside important income generation opportunities and alternative revenue funding sources will be given to address the authority's immediate funding needs to ensure that the Council has a balanced budget in 2015-16 and a sustainable position across the medium term

2014-15 Outturn

A proactive approach to ensure reliance can be placed on the quarter 3 forecast has been adopted. In line with good practice this early assessment of the 2014-2015 outturn will inform the reliance that can be placed on the baseline used for the 2015-16 estimates.

At September 2014 (Quarter Two) an estimated underspend of £588,000 was been forecast for 2014-15. 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 and estimate if these are ongoing into future financial years. In preparing the budgets for 2015-16, 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. In addition significant reductions in expenditure or increases in income will be required from 2016-17 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 income generation programme is currently being developed to reduce the funding gap which will in turn underpin a sustainable financial position.

A number of potential schemes to generate savings and increased income have been explored at officer level. However these ideas and others will be examined further 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
- Green Waste and further waste opportunities
- Housing Growth Company

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 2015-16 is estimated at £194,600 (2014-15 £193,100). The tax base used for 2015-16 is 8,423 (2014-15 8,316). A proportion of the Council Tax Support Grant Funding has been allocated to finance Spalding Special expenses in order to maintain the current Band D charge at, with a 0.52% reduction (2014-15 £23.22) £23.10.

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

The Council's 2015-16 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 2015-16 £2.288m (2014-15 £2.243m) has been included.

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.

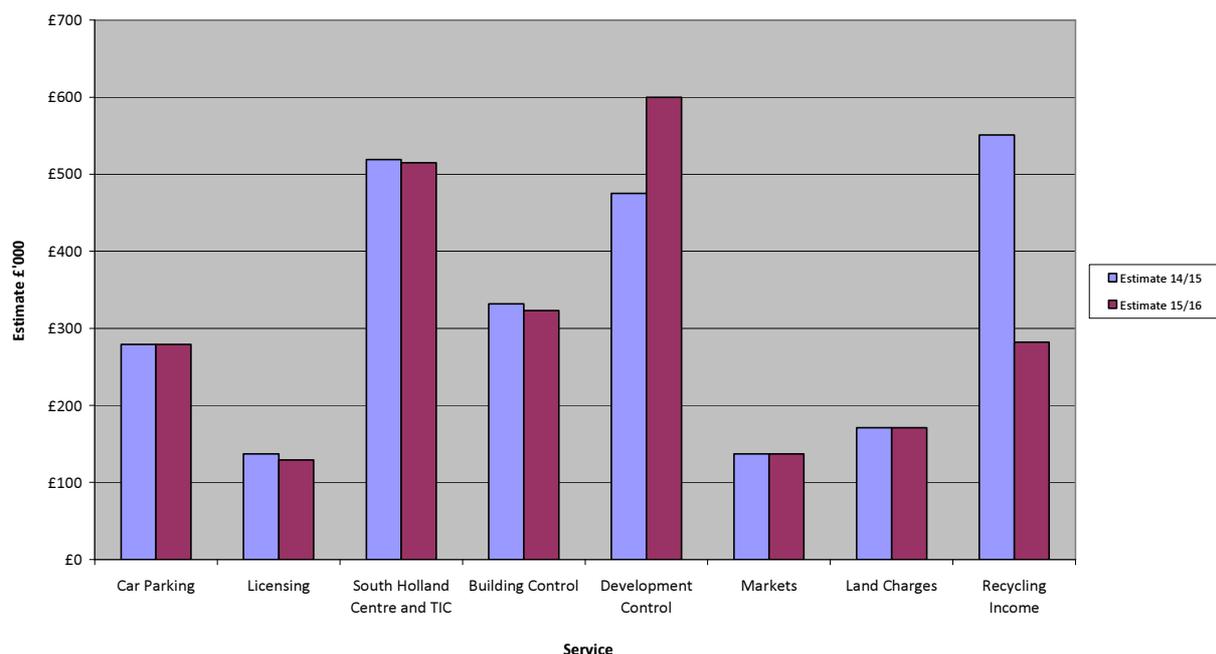
As part of our overall income strategy we will seek to:

- 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 £3.645m (2014-15 £3.354m) is due from fees and charges in the 2015-16 budget. The chart below shows the main categories of budgeted fee income in 2015-16 (and 2014-15 for comparison). £262k additional income has been budgeted from the new housing growth company from 2015-16 onwards.

Fees & Charges Comparisons 2014/15 & 2015/16



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 £4.609m at 31 March 2016, taking into account the New Homes Bonus for 2015-16 of £1.1m (£1.362m less a contribution of £262k to balance the budget). This is an important and relatively new revenue based funding source. The council has been prudent to date in seeking to strip out excessive costs in advance of applying any new funding, as a reserve it can be used to smooth out fluctuations and pressures on the General Fund. Continuation of this important source of funding policy is uncertain in the face of the forthcoming national election.

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

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			211	211	211	211	211	211
Year 4				298	298	298	298	298
Year 5					278	278	278	278
Year 6						278	278	278
Year 7							278	278
Estimated total	355	575	786	1,084	1,362	1,640	1,563	1,343
Property acquisition Reserve				(1,000)				
Contribution to GF	0	0	0	0	(262)	(262)	(262)	(262)
Reserve Balance	355	930	1,716	1,800	2,900	4,278	5,579	6,660

The tables below give a summary of reserve movements:

General Fund Working Balance	14-15 £'000	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000
Brought forward	2,034	2,034	2,034	2,034	2,034

In	-	-	-	-	-
Out	-	-	-	-	-
Carried forward	2,034	2,034	2,034	2,034	2,034

General Fund Specific Reserves	14-15 £'000	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000
Brought forward	7,882	8,527	7,952	9,133	10,408
In	2,906	1,236	1,514	1,437	1,217
Out	(2,261)	(1,811)	(333)	(162)	(155)
Carried forward	8,527	7,952	9,133	10,408	11,470

These are the observations from the review of reserves for the 2015-16 budget:

- The general fund balance at 1 April 2014 is £2.034m. This represents approximately 16.77% 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 2015-16 contributions from the repairs and renewals reserve stand at £223,900.
- The Planning Reserve is to be used to deliver the Local Development Framework and fund additional temporary posts.
- All New Homes Bonus Scheme grant excluding £262k per annum over the period of the Medium Term Financial Plan has been taken into the Council Tax Reserve.
- £241,400 is shown as a movement from the Organisational Development reserve, to cover expenditure from the Waste incentive grant, in accordance with the grant scheme plan. The final amount of £23,100 is also drawn down from the recycling contract compensation.
- An amount of £298,900 (2015-16) has been transferred from the council tax reserve to smooth the South Holland share of the collection fund nndr deficit.
- An amount of £75,000 has been transferred from the Council Tax reserve for the cost of the District elections.
- An amount of £607,000 has been drawn down from the Capital reserve for the Broadband County scheme which had previously been set aside for this purpose in an earlier 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.

Risk	Likeli- hood	Impact	Action
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
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	Close links with LCC pension fund Increased contributions following triennial review
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	Recycling credit income will cease as at 31.3.15. There will be increased pressures on the services once the parachute payments from LCC have depleted. It is thought the income will cease after 5 years.
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	High	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 will be put out to consultation on the website and commentary invited 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 July 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. 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.

Capital Programme by Department	14-15 Original Budget £'000	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000	19-20 £'000
Assets and Property	-	49	29	19	-	-
Community Development	49	-	-	-	-	-
Environmental Services	2,112	49	-	130	-	-
Environmental Health	-	-	-	-	-	-
Economic Development	-	607	-	-	-	-
Housing	442	1,001	451	451	451	451
ICT	80	-	-	-	-	-
Total	2,683	1,706	480	600	451	451

Financing	14-15 Original Budget £'000	15-16 £'000	16-17 £'000	17-18 £'000	18-19 £'000	19-20 £'000
Borrowing	1,512	-	-	130	-	-
Capital Receipts	-	4	-	-	-	-
Capital Grants and Contributions	902	1,001	451	451	451	451
Replacement and Refurbishment Reserve	30	-	-	-	-	-
Organisational Development Reserve	-	-	-	-	-	-
Direct Revenue Financing	239	701	29	19	-	-
Total	2,683	1,706	480	600	451	451

As part of the 2015-16 budget process Service Managers were asked to submit new bids 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 and will be being reviewed by Finance Board to then do a full review of the approved programme and proposed projects to co-ordinate resourcing requirements with the efficiency programme and deliverability.

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. The investment strategy may be updated in the light of the low returns on investments and the opportunities that may arise as a result of the proposed new housing development company. It is proposed that the temporary delegation for the property investment fund is absorbed as an integral element of the budget framework.