



East Lindsey

DISTRICT COUNCIL

EAST LINDSEY DISTRICT COUNCIL

EXECUTIVE BOARD 16 JANUARY 2019

REPORT OF RICHARD FRY, EXECUTIVE MEMBER FOR FINANCE

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BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2019/20-2023/24

FOREWORD TO THE BUDGET FROM COUNCILLOR RICHARD FRY – EXECUTIVE BOARD MEMBER FOR FINANCE

The Council's budget this year remains focused on the commitment made in 2016/17 to ensure it was financially able to deliver the services it has to by law, provide support to the District's most vulnerable residents and focus the remaining available resources on growing the economy of the area.

2019/20 is the fourth year of the four year grant settlement confirmed by Government in November 2016, therefore we have certainty regarding this, but with a declining level of budgetary support thereafter.

As you will be aware the Government's intention was for Councils to move towards a position where all Business Rates will be retained within the Local Government sector. The Bill to enact this legislation however was not included in the Queen's speech following the general election in 2017, therefore the move to 100% retention cannot happen currently even though the government has committed to this long term vision.

As part of the Local Government Finance Settlement 2018/19 the government announced that business rates retention would move from 50% to 75% in 2020/21, however although we were part of a bid to take part in a further Business Rates Pilot Scheme to retain 75% we were not successful and for this financial year we are constrained to 50% retention. This coupled with the Spending Review which is due in 2019 that encompasses the Fair Funding Review, which aims to establish a new distribution formula by creating new baselines, means there is significant uncertainty for the Council's budget from 2020/21 onwards.

Fortunately last year we budgeted for this eventuality and retained the extra income derived from participation in the 2018/19 100% Pilot in the Business Rates Volatility Reserve which has increased our resilience.

Over the past year work to finalise the Transformation Programme has continued and of the 41 projects contained within the programme 34 are complete and savings are running at 89% of those anticipated over the four years of the programme. However as reported in the 2018/19 Budget Report we may need to bridge a sizable budget gap after 2019/20 and savings of this magnitude were never seen as feasible and it is for this reason that during the course of 2018 Council has delivered its Financial Sustainability Strategy which envisages the delivery of new and upgraded income streams as a function of viable commercial initiatives.

Last year we reported a 2023 forecast loss of funding of £4.7m, however due to prudent management and investment, the impact on the MTFs models £3.7m of required savings. However in 2020/21 prudent estimates show that due to a drop in Business Rates income retained there could be a budget deficit which rises up to £1,307k in 2021/22. As a function of projects envisaged in our Financial Sustainability Strategy we will continue to review the potential for delivering greater levels of revenue, particularly from the Council's asset base.

We mustn't overlook the Council's capital resources. These resources have been significantly reduced in recent years and are at a level where they can only cover core service needs. There are therefore limited resources available to fund new initiatives, which is also a matter which will be addressed going forward.

And it is for this reason that the Council's revenue budget provides for some annual contributions towards capital investment but, with potentially limited capacity to generate significant future capital receipts, more work is needed to create sufficient budgetary headroom to fund future income generating capital investment. In line with Government announcements regarding support for facilitating Council borrowing to fund housing schemes, we will be evaluating our potential for taking advantage of this and a project to review this potential has been established of which I will keep you informed.

The Budget for 2019/20 proposes:

- A Council Tax increase of £4.95p per year (for Band D homes this is equivalent to 9.5p per week).
- Additional income from commercial activities guided by our adopted Financial Sustainability Strategy
- Increased capital investment in Council assets to help generate more income, reduce maintenance and other running costs and help deliver services more efficiently.
- Support for the Council's reserves and help protect against future volatility in Business Rates income.



Councillor Richard Fry, Portfolio Holder for Finance

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EXECUTIVE SUMMARY

	2018/19	2019/20 (estimate)
ELDC Precept	£5.950m	£6.278m
Council Tax Increase	3.75%	3.62%
Council Tax Band D	£136.89	£141.84
Revenue Support Grant	NIL (forms part of business rates below)	£0.915m
Retained Business Rates used to support budget	£9.214m	£8.245m
Reserves (as at 1 April)	£18.991m	£21.941m
Capital Programme (as at 1 April)	£29.247m	£3.684m

1. INTRODUCTION

- 1.1 This report outlines the 2019/20 revenue and capital position for the General Fund and any significant changes to discretionary fees and charges. The report also outlines the Council's Medium Term Financial Strategy (MTFS) through to 2023/24, a five year Capital Programme and details various associated financial policies. The purpose of the report is to ask Council to approve the 2019/20 estimates (along with the associated Policies and Strategies).
- 1.2 The Local Government Act 2003 introduced a requirement that the Chief Financial Officer reports on the robustness of the budget. The estimates have been prepared in a prudent manner, although it should be recognised that there are a number of elements outside of the Council's control. These risks have been identified in Section 8 of this report and will be mitigated through the budget monitoring and risk management processes of the Council.

2. BUDGET ASSUMPTIONS

2.1 Table 1 - assumptions which influence the 5 year financial strategy

Assumption	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Budgeted inflation ¹	0%	0%	0%	0%	0%	0%
Pay costs increase ²	2.7%	3%	2%	2%	2%	2%
Full Time Equivalent Employees ³	377.04	394.46	394.46	394.46	394.46	394.46
Staffing levels ³	99%	99%	99%	99%	99%	99%
Pension contribution rate applied to staff budgeted in pension scheme ⁴	16.3% (actual 16.6%)	16.6%	16.6%	16.6%	16.6%	16.6%
Pension contribution cash amount to fund deficit on scheme ⁴	£759,000 (actual £706,000)	£789,000	£789,000	£789,000	£789,000	£789,000
Return on cash investments ⁵	0.70%	1.15%	1.65%	1.90%	2.00%	2.15%
Return on property fund investments ⁵	3.70%	4.0%	4.0%	4.0%	4.0%	4.0%
Utility cost rises - electricity ⁶	5%	0%	0%	0%	0%	0%
Fuel cost rises ⁷	3%	5%	0%	0%	0%	0%
Tax base increase ⁸	1.56%	1.83%	1.5%	1.5%	1.5%	1.5%

Notes to Assumptions

These assumptions reflect, where known, future changes which may arise from the implementation of the council's organisational development plans (see Section 7).

1. Although inflation does affect the price of supplies and services that the Council procures, because services are given cash limited budgets they have to absorb the cost of inflation within the resources they have – as such the net impact of inflation is reduced to zero within the estimates. The only exceptions are those contracts which have an agreed inflationary arrangement built into them.
2. The nationally proposed pay award for 2019/20 is for a 2% increase with further increases for staff currently earning less than £18,700. This creates an effective rate of 3%. Future years increases of 2% are assumed for the later years within the MTFS.
3. Staff employee numbers are estimated to increase by 17 FTE between the 2018/19 and 2019/20 budgets. The main increases being 18 FTE which relate to additional posts within ELDC as part of the new Wellbeing contract with Lincolnshire County Council, which is a county-wide externally funded scheme – the FTE figure might increase as the final allocation of

staffing is agreed with district-wide partners. See **Appendix 7** for the detail of these changes. An annual saving in staff costs (£91k) is built into the budget (equivalent to 1% of the staff budget) due to anticipated staff vacancies during the year.

4. Based on the Pension Triennial Valuation the pension contribution rate will be 16.6% in 2019/20 with an additional lump sum amount payable towards the deficit on the pension scheme – this rate is applied only to those staff in the local government pension scheme. Any vacant posts are assumed to be within the pension scheme. The pension contribution rate is assumed to stay at 16.6% throughout the life of the MTFS. The lump sum towards the deficit is confirmed for 2019/20. Values from 2020/21 are not known and have not been increased.
5. These are the estimated returns on cash investments and the estimated yield on the current budgeted £28m property funds.
6. Electricity cost have not been inflated and current budgets are considered to be adequate. However, utility budgets in general will need to be kept under review, as it is an area that could be subject to future inflationary pressures.
7. Vehicle fuel costs are predicted to be higher than budget in 2018/19. For this reason a 5% inflationary pressure for fuel costs has been built in to 2019/20. The MTFS has assumed that future costs will be contained from service efficiencies.
8. The tax base projections for 2019/20 has provided for a growth of 796 band D equivalent properties (1.83%). Future growth has been projected at 1.5% (see section 3.9 and Table 3).

3. RESOURCES

- 3.1 The following section of the report outlines the resources that will be available to the Council under 6 headings, Business Rates, Council Tax, Revenue Support Grant and other Government Grants, New Homes Bonus, Fees and Charges and Other Income.
- 3.2 In March 2016 the Government offered Local Authorities a four year finance settlement offer. In order to accept this offer, authorities needed to demonstrate their commitment to reforms by the submission of an efficiency plan covering the four year period. East Lindsey submitted its approved Transformation Programme and the Government confirmed its acceptance of this. The four year finance offer covers:
- Revenue Support grant
 - Business rates tariff payments (excluding changes relating to revaluation, para 3.8 below)
 - Rural Services Delivery Grant.

See **Appendix 8** for details of the required link to these various factsheets and other key documents relating to Local Government funding and consultations. This will be completed at the final budget report stage.

Business Rates Retention

- 3.3 Under the current arrangements for retained Business Rates, where a Council collects rates above an assessed baseline level set by the Government, a 50% levy is applied that is paid to the Government. In order to avoid this 50% levy a business rates pool was adopted with the County Council and other districts within Lincolnshire.
- 3.4 Following the announcement of the finance settlement, the Government has announced its intention that business rates will become 75% retained by councils by 2020, with proposals for a new funding system for Local Authorities due to be in place from 2020/21. Three-yearly revaluation periods are set to be introduced from 2020, which will tend to smooth the peaks and troughs occasioned by the existing five-yearly revaluations.
- 3.5 A revaluation exercise for business rates took effect from 1 April 2017. This was a revenue neutral exercise nationally, however at a local level bills and income may rise or fall, dependent on the mix of businesses in an area. The Council is expecting a number of appeals against the revaluation however with the new system of lodging appeals these have so far

not materialised in the volumes anticipated. A provision was put aside in 2017/18 for these potential appeals which may now not come to fruition and so there may be a significant surplus on the Collection Fund in 2019/20 which will be used to increase the Business Rates Volatility Reserve if it is realised.

- 3.6 The Government announced in its Autumn Budget that it would provide a discount scheme for occupied retail properties with a rateable value of less than £51,000 in each of the financial years 2019/20 and 2020/21. The value of the discount to be one third of the bill, applied after all other reliefs have been applied. The Government will reimburse local authorities for this discount on business rates. The Government has provided guidance on the operation of this policy and it is recommended that Executive Board approves the arrangements for the administration of this scheme.
- 3.7 Table 2 provides details of the anticipated business rates figures for 2019/20 and provisional figures for 2020/21 through to 2023/24.
- 3.8 The benefit to the Council from the Business Rates Pilot has been used to build up the Business Rates volatility reserve to ensure that future fluctuations in Business Rates income can be managed.
- 3.9 It is important that members note that the changes to the retention of Business Rates from 2020/21 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 growth in retained business rates that the Council is experiencing could be significantly reduced under these new arrangements. The MTFS makes an assumption that the future baseline level will match business rates income generated, that there will be a declining benefit from S31 grant and only additional retained growth from 2020/21 onwards equal to the amount of RSG which the Council will no longer receive.

Table 2 – Business Rates

	2018/19 £'000	Estimate 2019/20 £'000	Draft 2020/21 £'000	Draft 2021/22 £'000	Draft 2022/23 £'000	Draft 2023/24 £'000
Retained Business Rates	21,598,894	15,025,193	15,231,713	15,545,437	15,866,412	16,193,574
S 31 Grants relating to Business Rates	3,121,530	2,088,000	1,044,000	522,000	261,000	130,500
Tariff	(11,389,224)	(7,293,262)	(7,434,000)	(7,582,000)	(7,734,000)	(7,892,000)
Pre- levy income	13,331,201	9,819,931	8,841,713	8,485,437	8,393,412	8,432,074
Levy payment to Lincolnshire Pool	0	(576,130)	(208,800)	(104,400)	(52,200)	(26,100)
Estimated Surplus (Deficit) on Collection Fund	(913,343)	(135,000)	0	0	0	0
Net Retained Business Rates Income	12,417,857	9,108,801	8,632,913	8,381,037	8,341,212	8,405,974
Net gain to ELDC from the Pool, and 100% business rates retention pilot in 18/19 contributed to the Economic Growth Reserve	(2,000,000)	(864,195)	0	0	0	0
Collection Fund Surplus 18/19 contributed to the Business Rates Volatility Reserve	(1,203,826)	0	0	0	0	0
Business rates used to support the budget	9,214,031	8,244,606	8,632,913	8,381,037	8,341,212	8,405,974

- 3.10 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 as mentioned at paragraph 3.5

- 3.11 In 2018/19 collection of business rates has been slightly below the amount estimated. Growth built in to the estimate has not fully materialised and so the Council is carrying a business rates collection deficit of around £135k depending on the level appeals which are received which has affected the 2019/20 estimates. The Council has set up a Business Rates Volatility Reserve specifically to smooth out the ups and downs on business rates.

Council Tax

- 3.12 The MTFs assumes a Council Tax increase in line with the maximum allowed under the Local Government Settlement. In the case of ELDC for 2019/20 this is a £4.95 (3.62%) per annum increase (for band D properties) which sits broadly in line with recent CPI and RPI increases of 2.4% and 3.4% respectively in October 2018. The increase is reflected through the life of the MTFs. See Table 3 below for the estimated changes in the tax base and council tax collected.

Table 3 – Council Tax

		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
a	Council Tax Base (band D equivalents)	43,468.00	44,264.00	44,927.96	45,601.88	46,285.91	46,980.20
b	Council Tax band D (£.p)	136.89	141.84	146.79	151.74	156.69	161.64
	Annual Increase £	4.95	4.95	4.95	4.95	4.95	4.95
	Annual Increase %	3.75%	3.62%	3.49%	3.37%	3.26%	3.16%
c	Annual Council Tax collected (a x b)	£5,950,335	£6,278,406	£6,594,834	£6,919,496	£7,252,397	£7,593,847
	Annual Increase in Council Tax collected	303,039	328,071	316,429	324,661	332,901	341,451
d	Surplus on the Collection Fund	76,922	90,700	0	0	0	0
	Gross Council tax (c + d)	£6,027,257	£6,369,106	£6,594,834	£6,919,496	£7,252,397	£7,593,847

- 3.13 The tax base for 2019/20 has been increased by 1.83% and by 1.5% per annum thereafter. This is based on the latest projected house building trajectory. The District's Council Tax remains one of the lowest in the country and the lowest in Lincolnshire. One of the largest costs to the Council is levies from the Drainage Board which for 2019/20 are budgeted at £3,515k.

3.14 Long Term Empty Dwellings - There are around 300 dwellings in the district that are empty and unfurnished for more than 2 years. These are presently subject to a 50% Council Tax premium. Provisions in legislation currently allow a 50% Council Tax premium to be charged on long-term empty dwellings that are empty and unoccupied for 2 years or more. It is proposed as part of the MTFS to increase the premium on long term empty dwellings as follows: -

- An additional 50% Council Tax premium on Long Term Empty properties, raising the Council Tax to 200%, from 1 April 2019
- An additional 100% Council Tax premium on Long Term Empty properties longer than 5 years, raising the Council Tax to 300%, from 1 April 2020.
- An additional 100% Council Tax premium on Long Term Empty properties longer than 10 years, raising the Council Tax to 400%, from 1 April 2021.

This will have a financial benefit for the Council of circa £16k in 2019/20 and a non-financial benefit to the district and communities as an incentive to encourage empty homes back into use.

3.15 Second Homes Discount - There are around 1,300 second /furnished empty dwellings in East Lindsey presently. Under provisions of the Local Government Finance Act 2012, and subsequent regulations, local authorities are able to remove the discount on second homes and other dwellings that are unoccupied but furnished. Presently East Lindsey allows a 10% discount. It is proposed that this discount is removed from 1 April 2019. Some cases will continue to require individual consideration, for example where the owner is required to live in another property as a condition of their job, such as serving in armed forces, and in qualifying cases discounts will continue to apply. This change could benefit the Council by up to £15k per year.

3.16 Table 4 details the proposed council tax information for precepting authorities in the East Lindsey Area.

Table 4 – Precepting Authority Band D charges

Authority	Proposed Band D amount (£.p)	Increase over 2018/19 £	Increase over 2018/19 %
Lincolnshire County Council	£1,292.43 (subject to approval by LCC 5th Feb 2019)	£60.96	4.95%
Police and Crime	£243.44 (subject to	£26.00	10.68%

Commissioner	final approval by PCC)		
East Lindsey DC	£141.84	£4.95	3.62%
Parishes (average)	TBC	TBC	TBC%

Revenue Support Grant and Other S31 Government Grants

- 3.17 In line with the agreement for a four year financial settlement the level of Revenue Support Grant (RSG) has been significantly reduced. It is anticipated that RSG will be phased out by 2020/21 with the funding being moved into the business rates collection, which will also be influenced by the Fairer Funding review. Other than S31 grants for Business Rates (see table 2) the other main non-specific S31 grant received by the Council relates to the Rural Services Delivery Grant (RSDG). RSDG for 2019/20 has been announced to be £664k. No RSG or RSDG were received in 2018/19 as a result of the Business Rates Pilot arrangements. It is assumed that in line with RSG, RSDG will cease in 2020/21.
- 3.18 The provisional 2019/20 settlement also confirmed a one-off £93k grant as a result of a surplus on the Levy Account.

Table 5 - Revenue Support Grant and other Non-Specific S31 Government Grants

	2018/19 £	2019/20 £	Draft 2020/21 £	Draft 2021/22 £	Draft 2022/23 £	Draft 2023/24
Revenue Support Grant	NIL	914,944	0	0	0	0
Rural Services Delivery Grant	NIL	664,349	0	0	0	0
Business Rates Levy Grant	NIL	92,854				
Total Received	NIL	1,672,147	0	0	0	0
Annual Change in Resource £	-2,745,747	1,672,147	-1,672,147			
Annual Change in Resource (%)	-100%	100%	-100%			

New Homes Bonus

- 3.19 The 2019/20 New Homes Bonus (NHB) allocations have been announced. The number of years that the annual payments are based on was reduced to 4 years from 2018/19 onwards. The scheme only rewards growth in homes above 0.4% of the tax base per annum.
- 3.20 These changes have allowed the Government to remove money from the national NHB scheme to be diverted to the new Adult Social Care Support Grant.
- 3.21 In 2019/20 the Council will receive the NHB awarded for 2016/17 to 2018/19 plus an amount for 2019/20. It is assumed within the medium term financial plan that NHB will only continue to be awarded until 2019/20 with its legacy running to 2022/23, and only for growth over 0.4%.
- 3.22 All the NHB received is allocated into the Council's Capital Reserve to help provide funding for the Council's future planned capital investments. The reducing level of NHB means that this capital funding is also reducing. The values in Table 6 for 2020/21 to 2022/23 are indicative and subject to future consultation and changes to the scheme (plus the level of local growth).

Table 6 - New Homes Bonus

	2018/19 £	2019/20 £	Draft 2020/21 £	Draft 2021/22 £	Draft 2022/23 £	Draft 2023/24 £
New Homes Bonus	1,524,662	1,285,505	790,140	590,928	406,459	0

Fees and Charges

- 3.23 The Council is dependent on direct payment for many of its services in the form of various fees, charges and rents. Fees and charges play an important role in the effective delivery of services; they not only raise income but can control access to services, help the council respond to competition, fund investment and guide client behaviour.
- 3.24 In some cases the levels of fees are set by the Government and the Council has no control over what is charged. Where the Council has had control it has not always increased these charges in line with inflation or other market conditions. Given future uncertainty around levels of government grant support and business rates income, the Council will have to develop policies for continually reviewing its fees and charges in order to maintain this income at current or higher levels.
- 3.25 A Fees and Charges Strategy is currently being developed which will set out the long term vision for setting fees and charges and any annual rises which Council may wish to consider.
- 3.26 In 2019/20 and future years there will be limited changes to fees and charges other than the following areas:
- Public Conveniences – charging 20p entry to 13 public conveniences within the district
 - Planning income – a national directive has allowed planning fees to increase by 20% with effect from 17 January 2018. Any additional income from this increase had to be used to support planning and development activity. Additional staffing posts were built into the 2018/19 budgets. There is no further growth in planning fees assumed in the MTFS.
- 3.27 The MTFS has been updated to reflect a new contract with Lincolnshire County Council to provide Wellbeing services across Lincolnshire from 1 April 2018. This contract replaces the district-wide grant funding that has been in place previously and will be delivered by district council partners across the county, with ELDC as the project lead. The value of the contract is over £3m per year for a minimum of five years.
- 3.26 Generally no growth in fees and charges has been assumed over the MTFS period. However when adopted the fees and charges strategy will set out if and when future rises will occur and this will often be aligned to an annual increase linked to rates of inflation.

Table 7 - Fees, Charges and Rental Income

Budget Area	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Building Control Fees	411	445	445	445	445	445
Planning Fees (including pre-planning advice)	1,501	1,508	1,508	1,508	1,508	1,508
Car Parking Income	3,096	3,096	3,096	3,096	3,096	3,096
Market Stall Fees	123	100	100	100	100	100
Kingfisher Caravan Park	2,029	2,079	2,079	2,079	2,079	2,079
Waste Services	1,322	1,322	1,322	1,322	1,322	1,322
Commercial property rental income	2,345	2,399	2,399	2,401	2,404	2,403
Sales, Fees and other Direct Income (see note below)	1,378	4,481	4,415	4,416	4,415	4,417
TOTAL	12,205	15,430	15,364	15,367	15,369	15,370

Sales, Fees and Other Direct Income – the change in value between years relates to a reclassification of £3.2m Wellbeing Income into this category from Other Income (see table 8 below).

Other Income

3.27 The Council also receives other forms of income, as shown in the following table.

Table 8 - Other Income

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Interest on Investments	482	1,401	1,541	1,606	1,631	1,676
Use of Reserves	2,532	2,377	2,311	852	1,196	162
Housing Benefit Subsidy/ Universal Credit	42,277	38,329	38,329	38,329	38,329	38,329
Housing Benefit/Universal Credit Overpayments	700	300	300	300	300	300
Council Tax and Housing Benefit Administration Grant	696	640	596	556	520	488
Government Grant towards Police and Crime Panel	64	64	64	64	64	64
Court Income & Council Tax Penalties	447	447	447	447	447	447
Health and Wellbeing - Grant in 2017/18 was replaced by Wellbeing contract with LCC in 2018/19 onwards referenced at 3.25 (see table 7 above)	3,229	0	0	0	0	0
Local Authority Grants including Disabled Facility Grants	1,570	1,562	1,562	1,562	1,562	1,562

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Other Government Grants (including Register of Electors, Discretionary Housing Payments, Flexible Homelessness grant, Homelessness Reduction new burdens grant)	430	478	478	478	478	478
Other Grants and contributions	326	320	320	321	321	321
TOTAL	52,753	45,918	45,948	44,515	44,848	43,827

- Increased Interest on Investments reflects the additional returns being received from the Property Funds that have been invested in during 2018/19. Note that the cost of borrowing from PWLB to fund this investment is included in expenditure.
- Change in use of reserves is mainly due to the projected Capital Programme. These values will change as and when new schemes are approved for inclusion within programme.
- Reductions in the Housing Benefit Subsidy income is due to a realignment of the budget to reflect current anticipated levels of activity – especially with the roll out of Universal Credit. There is a corresponding reduction in expenditure in section 4 below.
- As noted in Table 7 above the Wellbeing income is now included under Other Direct Income.

Summary

Table 9 – All sources of income

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Business Rates	12,419	9,109	8,634	8,381	8,341	8,407
Revenue Support Grant	NIL	915	-	-	-	-
Rural Services Delivery Grant	NIL	757	-	-	-	-
New Homes Bonus	1,525	1,286	790	591	407	-
Council Tax	6,027	6,369	6,595	6,919	7,252	7,594
Funding subtotal	19,971	18,436	16,019	15,891	16,000	16,001
Fees, Charges, Rents	12,205	15,430	15,364	15,367	15,369	15,370
Other Income	52,753	45,918	45,948	44,515	44,848	43,827
Fees, Charges & Other Income subtotal	64,958	61,348	61,312	59,882	60,217	59,197
Gross Budgeted Income	84,929	79,784	77,331	75,773	76,217	75,198

3.28 The main changes in income between 2018/19 and 2019/20 are summarised at **Appendix 4**.

3.29 There is more uncertainty than ever with regard to the reliability of estimates from 2020/21 onwards.

4. 2019/20 SPENDING PLANS

- 4.1 Table 10 below shows the estimated Council spending plans for the next 5 years. It shows expenditure analysed by the CIPFA Standard classification. The paragraphs below the table provide explanations for the main variances across the MTFS.
- 4.2 **Appendix 4** summarises the main changes in expenditure budgets between 2018/19 and 2019/20.

Table 10 – Spending Plans

Description	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Employees	-12,315	-12,821	-13,098	-13,374	-13,613	-13,855
Premises	-2,452	-2,485	-2,485	-2,485	-2,485	-2,485
Transport	-1,268	-1,391	-1,391	-1,390	-1,390	-1,390
Supplies & Services	-3,622	-3,565	-3,532	-3,533	-3,533	-3,533
Drainage Board Levies	-3,446	-3,515	-3,585	-3,657	-3,730	-3,805
Transfer Payments	-45,182	-41,032	-41,032	-41,032	-41,032	-41,032
Capital Charges	-2,128	-2,021	-2,092	-736	-499	-50
Third Party Payments	-8,572	-9,205	-9,005	-8,880	-8,764	-8,627
Interest on Borrowing	-2	-502	-502	-502	-502	-502
Contributions to Reserves	-5,938	-3,247	-1,695	-1,492	-1,307	-584
Gross Expenditure	-84,925	-79,784	-78,417	-77,081	-76,855	-75,863

- 4.3 Employee costs have been prepared in accordance with the Council's Pay Policy as detailed at **Appendix 6**. The largest increase in pay relates to 18 additional FTE being budgeted in relation to the new Wellbeing contract from 1 April 2019 at a cost of approximately £580k, which will be funded from the contract. Pay generally has been increased by salary increments due to staff, and by a national pay award of 2% per annum, with further increases for staff currently earning less than £18,700. Pension cost estimates have been prepared on the basis of current staff in the pension scheme in September 2018, and all vacant posts assumed to be within the pension scheme.
- 4.4 Premises budgets have remained at a similar level in 2019/20. The main increase being in levels of business rates for 2019/20.

- 4.5 Transport costs have increased because of the Wellbeing Contract.
- 4.6 Supplies and Services budgets have shown some small increases
- 4.7 Drainage Board levies – The values for 2019/20 need to be confirmed. An assumed 2% (£69k) increase is built in for 2019/20 and over the MTFs. At a time of significant cuts and the Council having to find savings over the medium term, the Internal Drainage Boards have levied more each year. This is becoming an increasing cost pressure to the council due to the funding mechanism used by Central Government. The IDB levy of £3.515m represents 58% of the total income raised from the ELDC Council Tax precept.
- 4.8 Transfer Payments – Partly due to the impact of the roll out of Universal Credit and also to reflect the current estimated expenditure on benefits, there is a reduction in the budget for rent allowance payments (with offsetting reduction in benefits income – see table 8 above)
- 4.9 Capital Charges – Changes in capital charges relate to revisions to the capital programme between years which do not affect the General Fund bottom line.
- 4.10 Third party payments - These budgets reflect payments to Magna Vitae, Compass Point, payments to other partner Local Authorities for their share of the Wellbeing Service, the contract for the Public Convenience service, Lincolnshire Legal Services and payments to Boston BC for the shared waste contract.
The increase between 2018/19 and 2019/20 mainly reflects the following changes:
- The new Public Convenience contract value (£525k)
 - Magna Vitae – an overall £47k reduction – this reflects base contract reductions (£412k), increases to reflect the funding of services transferred from CPBS, (£437k) and other services (£66k) and a further reduction (£138k) in the service fee to compensate the Council for rental income from the Embassy Units which will now be paid to MV.
 - The MTFs assumes that CPBS will continue with a new ten year contract, on this basis the CPBS base contract increases by £281k. This reflects additional costs for staff pay awards and increments, some agreed new posts and the cost of funding a project team to deliver CPBS's Transformation Programme. The 2019/20 budget will provide the base contract level against which future contract savings will be made from 2020/21 onwards. CPBS will also be absorbing the additional cost that arises from areas such as growth in the Wellbeing services and the cost of additional project work from the development of the Council's organisational development plans.
 - A £43k increase in payments to Boston BC as part of the waste contract arrangements.

- 4.11 Interest on Borrowing reflects the annual cost of the PWLB borrowing which has been taken out in 2018/19 to fund the investment in Property Funds. The cost of the borrowing was ultimately below the level anticipated as part of the business case for this investment thereby increasing the potential returns to the Council.
- 4.12 Contributions to Reserves comprise additions to the following reserves:
- Capital Reserve - New Homes Bonus contributions (total £1.286m in 2019/20 reducing to nil by 2023/24) to maintain adequate resources for future investment in capital spend
 - Economic Growth Reserve - The budgeted contribution into this reserve in 2019/20 is £864k which is the benefit to the Council of Business Rate Pooling arrangements with other Lincolnshire authorities.
 - Insurance Reserve – an annual contribution of £100k to this reserve
 - Repairs and Replacements Reserve – The Council will need to replace its refuse fleet from 2019/20. Throughout the MTFs the council is making regular contributions to the Repairs and Replacement reserve in order to provide capacity to fund this purchase.
- 4.13 The above paragraphs reflect some of the main changes in the Council's expenditure budgets. Despite the overall funding challenges, the Council is using its resources to undertake a number of new initiatives, alongside the ongoing delivery of its statutory and other maintained services. These include the following:
- Economic Development Grant Funding schemes – Shop front and manufacturing grants to local businesses.
 - Member Grants for community based projects have been maintained at £1,000 per Councillor.
 - Skegness Foreshore - additional painting work to support the capital enhancement scheme.
 - Housing Register – Options are being considered for how this register is maintained in order to improve the support the Council can give to those in housing need.
 - Asset transfers – The Council has and is considering transfers to Town Councils. The responsibility for some Public Conveniences has been transferred to a private operator. These changes will result in savings in staffing and running costs.
 - New Refuse Vehicles which will be more suited to the increased demand for the service which has arisen from an increased number of houses, also the new narrower vehicles will be able to access streets with high levels of on street parking.
 - Investments in new ICT systems – work to be undertaken in conjunction with Compass Point Business Services as part of its Transformation Programme with a view to delivering future service efficiencies.
 - Kingfisher Caravan Park – consideration of a more commercial approach to the operation of this asset.

- High Wires at Skegness – capital investment in leisure facilities such as this with a view to the generation of a commercial return and an improved tourist facility.
- Waste Enforcement – employment of two environmental crime officers who will be more proactively involved in enforcing requirements under the Public Space Prevention Orders (e.g. dog fouling and littering) and in the prevention of fly tipping.

5. BUDGET REQUIREMENT

- 5.1 The budget requirement is formed by comparing resource prediction and spending plans.
- 5.2 **Appendices 1a, 1b and 1c** bring together the budgeted expenditure and income and show the overall MTFS position analysed by income and expenditure type, service area and by portfolio budgets.

Table 11 – Budget Requirement

	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Income (table 9)	64,958	61,348	61,312	59,881	60,216	59,197
Gross Expenditure (table 10)	-84,925	-79,784	-78,417	-77,081	-76,855	-75,863
-Surplus/New Savings to be found	-4	0	1,088	1,307	638	665
Net Budget	-19,971	- 18,436	- 16,018	- 15,891	- 16,000	- 16,001
<u>Funded By</u>						
Retained Business rates	12,419	9,244	8,633	8,381	8,341	8,407
Business Rates Collection Fund Deficit	0	(135)	0	0	0	0
Revenue Support Grant	0	915	0	0	0	0
Specific Grants	0	757	0	0	0	0
New Homes Bonus	1,525	1,286	790	591	407	0
ELDC Council tax	5,950	6,278	6,595	6,919	7,252	7,594
Council Tax Collection Fund Surplus	77	91	0	0	0	0
Total Funding	19,971	18,436	16,018	15,891	16,000	16,001

- 5.3 Based on current assumptions the Council has a balanced budget for 2019/20. The Council is in the process of agreeing future contract values and savings with Compass Point and Magna Vitae which will inform the 2020/21 budget process. With

uncertainty around Business Rates after 2019/20 as mentioned earlier it is very unclear at this stage whether the current forecast budget gap will be realised.

- 5.4 The recent decision to invest in Property Funds has led to circa £500k additional income being put towards the savings programme.
- 5.5 **Appendices 1a, 1b and 1c** provides more detail on the Council's 5 year Medium Term Financial Strategy, and **Appendix 4** provides a detailed breakdown of the 2019/20 budget changes that have been made to date (for both pressures and savings).

6. RESERVES

6.1 In order to comply with the requirements of the Local Government Act 2003, the Authority must undertake a review of the level of reserves as part of annual budget preparation. A review of the reserves has been undertaken to make sure that they have a defined purpose, identified and approved values for additions to and usage of each reserve, and that they are set at an appropriate value which identifies the current and future requirements and risks the Council might face. This has included an assessment of risk registers, pressures upon services, inflation and interest rates and any underwriting arrangements. The proposed budget has been developed on the basis of not requiring any long term support from reserves for the revenue budget.

Table 12 – Specific and General Fund reserves over the MTFS

	Balance 31.3.19 £'000	Balance 31.3.20 £'000	Balance 31.3.21 £'000	Balance 31.3.22 £'000	Balance 31.3.23 £'000	Balance 31.3.24 £'000	Notes
Housing Reserve	145	145	145	145	145	145	
Repair and Replacement Reserve	3,122	2,381	1,353	1,719	2,158	2,437	Funding replacement waste vehicle fleet and other capital schemes
Insurance Reserve	580	620	660	700	740	780	
Capital Reserve	4,988	5,709	5,957	5,862	5,819	5,819	New Homes Bonus contributed to reserve until 2021/22. After this point, no NHB is budgeted
Service Transformation Reserve	611	648	685	722	759	759	
Business Rates Volatility Reserve	4,150	5,028	5,028	5,028	5,028	5,028	Built up and used to smooth fluctuations in business rates income across future years.
Legal and Appeals Reserve	341	335	226	220	214	213	
Technology Reserve	1,338	1,306	1,274	1,242	1,210	1,178	To fund IT investment including capital schemes
Economic Growth	3,797	4,651	4,880	5,111	4,764	4,877	Includes £2m gain arising

	Balance 31.3.19 £'000	Balance 31.3.20 £'000	Balance 31.3.21 £'000	Balance 31.3.22 £'000	Balance 31.3.23 £'000	Balance 31.3.24 £'000	Notes
							from 100% business rates pilot 2018/19. To fund implementation of Economic Action plan including capital schemes. Also holds Wellbeing project fund.
Specific Reserve Total	19,072	20,823	20,208	20,749	20,837	21,236	
General Fund	2,869	2,869	2,869	2,869	2,869	2,869	Council's S151 officer deems a prudent level
Total	21,941	23,692	23,077	23,618	23,706	24,105	

7. ORGANISATIONAL DEVELOPMENT PLANS

- 7.1. Over the term of the current parliament the Council has lost the majority of its Revenue Support Grant. As we think of 2020/21 there is great uncertainty with the central funding which could be allocated to East Lindsey. This uncertainty is driven by several financial matters which remain unresolved such as the Comprehensive Spending Review 19, Fairer Funding Review, Business Rates baseline reset and a review of the Business Rates retention scheme. It should therefore be noted the Council's assumptions on future budget gaps whilst prudent are most likely to be wrong.
- 7.2. The Council is however taking a positive response to this uncertainty by seeking to influence those matters raised above through both engagement and lobbying to ensure a fair deal is delivered for rural communities.
- 7.3. In addition to the above we now recognise the 4 year transformation plan, designed to remedy the effects of the current spending period, has now run its course. In September 2018 the Executive Board approved a series of feasibility and economic pilot studies to help shape a programme of work which will not only make a contribution to the Council's financial health but also deliver greater outcome for residents.
- 7.4. The Executive are keen to progress with projects which continue to see the economy grow and to ensure funding is in place to ensure key local services are available to those who need them most.
- 7.5. As we look forward into 2019/20 the Executive will be promoting projects which aim to drive commercial opportunities, place the customer at the centre of everything we do and achieve as much as is possible through greater collaboration with partners. Some of these key projects to be developed during 2019/20 include;
- Residential house building
 - Property Investment in Market towns
 - Investment in coastal infrastructure and facilities
 - A Council service modernisation programme
 - Building the case for investment in infrastructure
 - Empowering communities in the way services are provided
 - Commercialisation of services
- 7.6. The projects above will form the basis of a programme of work to be considered and hopefully supported by the next Council.

8. RISK AND SENSITIVITY

8.1 The following table shows the key risks and how we intend to treat them through our risk management practices

Table 13 - Key Risks

Risk	Likelihood	Impact	Action
Fluctuation in business rates	High	High	Growth plans and accurate monitoring
Uncertainty re: Brexit impact	High	High	Growth plans and accurate monitoring, new TP ideas
Lack of funding from partners	High	High	Engagement and realism
Inadequate capital resources	High	High	Proportionate spending and sale of surplus assets
Central Government policy changes	High	High	Engagement in consultation and policy creation
Reductions in NHB	High	High	Lobbying and service transformation
Failure to deliver the organisational development plans	Medium	High	Effective programme and project management
A poor settlement for rural councils	Medium	Medium	Lobbying as a special interest group
Fee income volatility	Medium	Medium	Early monitoring of deviations
Increased demand for services in general	Medium	Medium	A robust performance management framework
Increased demand for Homelessness Support Services – relating to Homelessness Reduction Act	Medium	Medium	Close monitoring of activity and cost, effective ICT system
Wellbeing contract cost increases	Medium	Medium	Close monitoring of activity and cost
VAT – partial exemption	Medium	Medium	Close forecasting VAT partial exemption position

8.2 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 2020/21, the Comprehensive Spending Review 2019, Fair Funding Review and Business Rates baseline reset will all contribute to the challenge faced by the Council. 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 Table 14 above, the Council will feed into the consultation and highlight local funding issues including the level of drainage board special levies currently funded by the Council. As noted at Section 7 reductions in 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. The one thing that is certain is that we will almost certainly be wrong in some aspects of our budget assumptions.

8.3 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.

8.4 A large area of uncertainty is around the UK existing the European Union which will take place on 29th March 2019. It is unclear at this stage what will happen after this date and what the country's future relationship with the European Union will look like. The MTFS has been prepared on the basis of there being a neutral impact on the operation of Council services and that any short term disruption will be managed within existing resources. Clearly this is an unprecedented event with a highly unclear outcome, however until the future relationship with the EU is agreed it is difficult to plan for every eventuality which presents a risk to the Council.

9. CAPITAL PROGRAMME AND TREASURY MANAGEMENT

- 9.1 The Council's proposed 5 year Capital Programme and its 5 year capital resource projections are shown in the table below:
The Capital Strategy is included at **Appendix 2**.

Table 14 – 5 year Capital Programme, funding and resource implications

CAPITAL PROGRAMME £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Capitalised Planned Enhancements	267	210	329	199	200	1,205
Car Park Resurfacing	298	332	357	250	250	1,487
Disabled Facilities Grants	1,562	1,562	1,562	1,562	1,562	7,810
Flood Alleviation Works	50	50	50	50	50	250
Refuse Vehicles	1,331	1,500	0	0	0	2,831
Vehicle Purchases	76	0	0	0	0	76
IT Investment	100	100	100	100	100	500
Car Park Machines	0	0	100	0	0	100
TOTAL APPROVED	3,684	3,754	2,498	2,161	2,162	14,259
TOTAL SUBJECT TO APPROVAL	0	0	0	0	0	0
GRAND TOTAL	3,684	3,754	2,498	2,161	2,162	14,259
FUNDED BY						
External Grants	1,562	1,562	1,562	1,562	1,562	7,810
Revenue	0	0	0	0	0	0
Other Reserves	1,507	1,600	100	100	100	3,407
Capital Reserve	565	542	686	449	450	2,692
Capital Receipts	50	50	150	50	50	350
TOTAL	3,684	3,754	2,498	2,161	2,162	14,259
IMPACT ON CAPITAL						

RESOURCES*						
Capital Resources* at Start of Year	7,372	8,142	8,440	8,295	8,302	
Additions	1,385	890	691	506	100	
Used	-615	-592	-836	-499	-500	
Capital Resources* at end of year	8,142	8,440	8,295	8,302	7,902	

* Capital Resources include capital receipts and the Capital Reserve only

- 9.2 The Capital Strategy, Asset Management Strategy and Economic Action Plan identify and will generate potential future capital investment requirements. Specific schemes and values will only be included in the recommended programme when the need and likely costs have been further established in detailed business cases, and the Council has ensured that it has sufficient capital and revenue resources to implement such schemes. Potential capital schemes that could be included in future Capital programmes are summarised in table 16 below. The Council's Economic Action Plan provides more detail and can be found on the ELDC web-site using the following link:
<https://www.e-lindsey.gov.uk/article/5177/Economic-Action-Plan>

Table 15 – Potential future capital schemes

Scheme name	Comments
Investment in IT system - used by Environmental Health and Enforcement teams	A review is being undertaken to replace the existing IT system used across a number of teams within the Council.
Investment Properties	The Council is reviewing its assets in line with its Asset Management Plan
Fairfield Industrial Estate Extension	As the existing site becomes fully developed new economic development opportunities are required
Energy Efficiency measures	In addition to the implementation of LED lighting the Council will review other opportunities to secure more energy efficient investment in its assets
Other Economic Development projects	These will come forward as part of the Economic Action Plan
Investment in House Building	Potential investment in house building on Council owned land
Alternative Office Accomodation	The Council occupies a number of buildings which are no longer 'fit for purpose'. The Council needs to consider both its options for alternative locations and the potential future use of its current office

Scheme name	Comments
	buildings

- 9.3 The Council has limited capital resources and must look to new ways of financing its capital expenditure. It must also seek to reduce the running costs of its assets and maximise capital receipts. The MTFs contributes all future New Homes Bonus (NHB) into the Capital Reserve. NHB is assumed to cease over the life of the MTFs and as such the Council will need to create additional future revenue capacity to maintain adequate contributions to the Capital Reserve.
- 9.4 Funding for Disabled Facility Grants (DFGs) comes from the Better Care Fund via Lincolnshire County Council's Health and Wellbeing Board. The value for 2019/20 and future years is assumed at £1.562m which is the same as the main grant awarded for 2018/19.
- 9.5 The Capital and Treasury Strategy pulls together the decisions of capital investment and our cash flow and revenue budgets. The key assumptions in the Treasury Strategy are summarised in the following table and the full Strategy Statement are included at **Appendix 3**.

Table 16 – Treasury Assumptions

Treasury Assumptions	2019/20	2020/21	2021/22	2022/23	2023/24
Average Investment Balances	£54.0m	£54.5m	£54.2m	£54.3m	£54.4m
Investment assumptions – cash investments return	1.15%	1.65%	1.90%	2.00%	2.15%
Investment assumptions – property fund return (revenue return only)	4.0%	4.0%	4.0%	4.0%	4.0%
External Borrowing	£20.0m	£20.0m	£20.0m	£20.0m	£20.0m
Average Borrowing Rate	2.5%	2.5%	2.5%	2.5%	2.5%

- 9.6 These assumptions include:
- The Council's available cash balances and investment returns will be influenced by the future development of the Council's Asset Management Plan and all decisions made regarding the use of the Council's Reserves for capital and revenue purposes.

- The above interest rate assumptions are an effective rate incorporating cash investments and Property Fund investments

10. OPTIONS

- 10.1 There are no alternative budget options presented, however if Council does not accept the proposed budget then any changes to income or expenditure which will produce a revised balanced budget must be presented and approved at the Council meeting

11. RECOMMENDATION

- 11.1 Reason for recommendation - To comply with the budgetary and policy framework.

- 11.2 Recommendation – That Executive Board approve

- The draft budget for consultation
- The increase in Council Tax premiums on Long Term Empty properties, to apply to the full extent of the provisions of The Rating (Property in Common Occupation) and Council Tax (Empty Dwellings) Act 2018: -
 - An additional 50% Council Tax premium on Long Term Empty properties, from 1 April 2019.
 - An additional 100% Council Tax premium on Long Term Empty properties longer than 5 years, from 1 April 2020.
 - An additional 100% Council Tax premium on Long Term Empty properties longer than 10 years, from 1 April 2021.

and that **the only** exceptions to apply to the premium will be in respect of those empty properties that are already exempt under Council Tax Legislation.

- Remove the current 10% Second Home discount from April 2019, increasing the Council Tax to 100% charge on furnished, unoccupied dwellings.
- The administration of the Retail Discount scheme in line with Government guidance, and that the Discretionary Rate Relief Policy is updated to reflect this scheme with final approval delegated to Section 151 Officer and Portfolio Holder.