



East Lindsey

DISTRICT COUNCIL

EAST LINDSEY DISTRICT COUNCIL

EXECUTIVE BOARD 10 JANUARY 2018

REPORT OF RICHARD FRY, EXECUTIVE MEMBER FOR FINANCE

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BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2018/19-2022/23

Text in yellow- To be updated or confirmed

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

The Council's budget last year 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.

2018/19 is the third year of the four year grant settlement confirmed by Government in November 2016, therefore we have certainty regarding this known but declining level of budgetary support.

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, unfortunately the legislation which would have supported this initiative was not enacted due to the recent General Election.

The Council has, however, been successful in its joint Lincolnshire bid to the Department for Communities and Local Government to take part in a Business Rates pilot for the 2018/19 financial year. We have joined with eight other Councils in Greater Lincolnshire to take advantage of this opportunity which could result in retention of all Business Rates growth, bringing benefit locally.

Whilst this remains a largely positive step and one that is welcomed, the risks associated with it – such as large business failures and successful Business Rate appeals – must be considered by the Council when planning its finances. It is an unfortunate fact that currently this pilot has only a one year duration! The Government have announced that Councils will retain 75% of business rates by 2020 and are committed to introducing a revised funding regime from 2020/21. Details of the revised regime are not yet available, which means there are uncertainties on the impact on Councils at this point.

Over the past year teams across the Council have continued to work to deliver the Transformation Programme that provides the focus to the Council in achieving significant savings by 2019/20. Of 41 projects contained within the programme 32 are complete and savings are running at 44% of those anticipated over the four years of the programme, with 15 months still to run it is probable that we will achieve two thirds of the full potential savings and given that we elected to keep the lights on in the District it will be a commendable result upon which we can build as we review and update the program.

As a result of projects that have been implemented and delivered and other service efficiencies, £1m in expenditure savings and £2m in additional income are now reflected in the 2018/19 budget and each financial year of the Medium Term Financial Strategy.

At the end of the next five years the Council anticipates a further £4.7m loss of Government funding, and we will continue to review the programme to establish the potential for delivering greater levels of revenue, particularly from the Council's asset base. I'd like to thank those Councillors who have had an input into the Transformation Programme through the Overview and Scrutiny processes and also Officers who have worked to deliver the many projects.

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.

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 transformational capital investment. In line with the Chancellor's support for facilitating Council borrowing to fund housing schemes, we will be evaluating our potential for taking advantage of this and I will keep you informed.

The Budget for 2018/19 proposes:

- A Council Tax increase of £4.95p (for Band D homes this is equivalent to 9.5p per week).
- Additional income from commercial activities.
- Ongoing savings arising from reduced expenditure on supplies and services, staffing and vehicle costs.
- Increased capital investment in Council assets to help generate more income, reduce maintenance and other running costs and help deliver services more efficiently.
- To support 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

	2017/18	2018/19 (estimate)
ELDC Precept	£5.647m	£5.950m
Council Tax Increase	3.9%	3.75%
Council Tax Band D	£131.94	£136.89
Revenue Support Grant	£2.213m	£1.600m
Retained Business Rates used to support budget	£7.427m	£6.858m
Reserves (as at 1 April)	£19.867m	£19.037m
Capital Programme (as at 1 April)	£8.287m	£5.140m

1. INTRODUCTION

- 1.1 This report outlines the 2018/19 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 2022/23, a five year Capital Programme and details various associated financial policies. The purpose of the report is to ask Members to recommend the 2018/19 estimates (along with the associated Policies and Strategies) for consultation.
- 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	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Budgeted inflation ¹	0%	0%	0%	0%	0%	0%
Pay costs increase ²	2%	2.7%	3%	2%	2%	2%
Full Time Equivalent Employees ³	337.57	372.04	372.04	372.04	372.04	372.04
Staffing levels ³	99%	99%	99%	99%	99%	99%
Pension contribution rate applied to staff budgeted in pension scheme ⁴	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%
Pension contribution cash amount to fund deficit on scheme ⁴	£662,000	£759,000	£861,000	£900,000	£900,000	£900,000
Return on cash investments ⁵	0.49%	0.70%	1.05%	1.40%	1.55%	1.80%
Return on property fund investments ⁵	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%
Utility cost rises - electricity ⁶	0%	5%	1%	1%	1%	1%
Fuel cost rises ⁷	3%	3%	0%	0%	0%	0%
Tax base increase ⁸	1.04%	1.56%	1.2%	1.2%	1.2%	1.2%

Notes to Assumptions

These assumptions reflect, where known, future changes which may arise from the implementation of the council's financial Transformation Programme (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 2018/19 is for a 2% increase with further increases for staff currently earning less than £18,700. This creates an effective rate of 2.7%. There are further proposals for 2019/20 but for simplicity a 3% increase is assumed in 2019/20 with 2% for the later years within the MTFS.
3. Staff employee numbers are estimated to increase by 34 FTE between the 2017/18 and 2018/19 budgets. 20 FTE 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. A further 6 FTE have been budgeted to support work on homelessness reduction – in light of the new Homelessness Reduction Act from April 2018. See **Appendix 7** for the detail of these changes. An annual saving in staff costs (£105k) 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 16.3% in 2018/19 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 16.3% throughout the life of the MTFs. The lump sum towards the deficit is confirmed for 19/20, and thereafter we have assumed a rate of £900k per annum.
5. These are the estimated returns on cash investments, and the estimated yield on the current budgeted £8m property funds.
6. Inflationary increases have been made for electricity over the MTFs based on recent information regarding expected rate increases. The increase has not been applied to budgets which are expecting further savings such as the introduction of the LED footway lighting and at Tedder Hall. 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. Waste vehicle fuel costs were reduced in 2017/18 to reflect the new arrangements for green waste and other efficiencies. However, prices have been rising steadily in recent months and are projected to increase further over the medium term. For this reason a 3% inflationary pressure for fuel costs has been built in to 2018/19.
8. The tax base projections for 2018/19 has provided for a growth of 666 band D equivalent properties (1.56%). Future growth has been projected at 1.2% which is higher than previous assumptions (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.
- 3.3 The Council is part of a successful bid across the county to be a pilot for 100% localisation of business rates, enabling the retention of resources that would otherwise be lost.

See **Appendix 8** for details of the required link to these various factsheets and other key documents relating to Local Government funding and consultations.

Business Rates Retention

- 3.4 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.
- 3.5 The Council's tariff and baseline are currently showing the same as the draft figures provided last year, due to the government's four year settlement starting in 2016/17 (although the 2018/19 figures will be amended in the February budget report to reflect the successful 100% localisation pilot bid for Lincolnshire, once the required return to Government has been completed during January 2018).

- 3.5 Following the announcement of the provisional settlement, the Government has announced 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.
- 3.6 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 Settlement included a formula which aimed to adjust local authorities' income to ensure (as far as is practicable) that the retained income was the same after revaluation as immediately before. At the time of the revaluation of business rates future increases were linked to the level of RPI. The recent Autumn Budget has changed the basis for such increases linking them to the lower rate of CPI from 1 April 2018 (3.0% compared to 3.9%). The Government has said that it will compensate Local Authorities for this reduction in the amount of rates that will be collected; however for prudence the level of growth included within these estimates is included at 3.0%.
- 3.7 Table 2 provides details of the anticipated business rates figures for 2018/19 and provisional figures for 2019/20 through to 2022/23 – any changes made to these figures in line with the 100% business rates retention pilot will work on the basis of no detriment to the Council.
- 3.8 It is important that members note that the changes to the retention of Business Rates from 2020/21 present 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. An assessment has been made of the possible implications. This has been reflected in the figures below through the increased tariff payments in 2020/21 to 2022/23.

Table 2 – Business Rates

	2017/18 £'000	Estimate 2018/19* £'000	Draft 2019/20 £'000	Draft 2020/21 £'000	Draft 2021/22 £'000	Draft 2022/23 £'000
Retained Business Rates	14,256,961	14,282,041	14,690,006	15,110,211	15,543,022	15,988,817
S 31 Grants relating to Business Rates	1,393,237	1,546,844	1,593,249	1,641,047	1,690,278	1,740,987
Tariff	-7,130,284	-7,359,683	-7,621,469	-9,229,113	-9,505,986	-9,791,166
Pre- levy income	8,519,914	8,469,202	8,661,787	7,522,145	7,727,314	7,938,638
Levy payment to Lincolnshire Pool	-437,107	-358,447	-354,396	-365,028	-375,979	-387,258

Estimated Surplus (Deficit) on Collection Fund	881,833	-714,938				
Net Retained Business Rates Income	8,964,640	7,395,817	8,307,391	7,157,117	7,351,335	7,551,380
Net gain to ELDC from the Pool (contributed to the Economic Growth Reserve to 2019/20 only)	655,661	537,671	531,594	547,542	563,968	580,887
Collection Fund Surplus (contributed to the Business Rates Volatility Reserve in 17/18)	881,833					
Business rates used to support the budget	7,427,146	6,858,146	7,775,797	7,157,117	7,351,335	7,551,380

- 3.9 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.
- 3.10 In 2017/18 collection of business rates has been 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 £715k which has affected the 2018/19 estimates. The deficit has been funded from the Business Rates Volatility Reserve, which was set up specifically to smooth out the ups and downs on business rates.

Council Tax

- 3.11 The MTFs (in line with the agreed Transformation Programme) assumes a Council Tax increase in line with the maximum allowed under the Local Government Settlement. In the case of ELDC for 2018/19 this is a £4.95 per annum increase (for band D properties). This 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

		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
a	Council Tax Base (band D equivalents)	42,802.00	43,468.00	43,989.00	44,517.00	45,051.00	45,592.00
b	Council Tax band D (£.p)	131.94	136.89	141.84	146.79	151.74	156.69
	Annual Increase £	4.95	4.95	4.95	4.95	4.95	4.95
	Annual Increase %	3.90%	3.75%	3.62%	3.49%	3.37%	3.26%
c	Annual Council Tax collected (a x b)	£5,647,296	£5,950,335	£6,239,400	£6,534,650	£6,836,039	£7,143,810
	Annual Increase in Council Tax collected	268,634	303,039	289,065	295,251	301,388	307,772
d	Surplus on the Collection Fund	73,546	82,000	0	0	0	0
	Gross Council tax (c + d)	£5,720,842	£6,032,335	£6,239,400	£6,534,650	£6,836,039	£7,143,810

- 3.12 The tax base for 2018/19 has been increased by 1.56% and by 1.2% per annum thereafter. This is an increase in forecast growth from previous years budgets, due to the latest projected house building trajectory. The District's Council Tax remains one of the lowest in the country and the lowest in Lincolnshire.
- 3.13 Table 4 details the proposed council tax information for precepting authorities in the East Lindsey Area. **[These figures will be added when available]**

Table 4 – Precepting Authority Band D charges

Authority	Proposed Band D amount (£.p)	Increase over 2017/18 £	Increase over 2017/18 %
Lincolnshire County Council			
Police and Crime Commissioner			
East Lindsey DC	£136.89	£4.95	3.75%
Parishes (average)			

Revenue Support Grant and Other S31 Government Grants

- 3.14 In line with the agreement for a four year financial settlement the level of Revenue Support Grant (RSG) shows significant reductions over the MTFs. It is anticipated that RSG will be phased out by 2020/21. 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). The RSDG had been expected to reduce in 2018/19 but it has remained at the same level as 2017/18. The overall level of grants received from the Government has reduced by £613k (22.3%) between 2017/18 and 2018/19.
- 3.15 The figures in table 5 below are those provided as part of the provisional four year funding settlement. As part of the 100% Business Rates retention pilot scheme for Lincolnshire, these grants will be rolled in to the overall Business Rates income figure, and so will be presented differently when the impact of the pilot scheme is presented to Executive Board and Council in February 2018.

Table 5 - Revenue Support Grant and other non-specific s31 Government Grants

	2017/18 £	2018/19 £	Draft 2019/20 £	Draft 2020/21 £	Draft 2021/22 £	Draft 2022/23 £
Revenue Support Grant	2,212,628	1,599,610	914,944	0	0	0
Rural Services Delivery Grant	533,119	533,119	533,119	0	0	0
Total Received	2,745,747	2,132,729	1,448,063	0	0	0
Annual Reduction in Resource £	-1,065,138	-613,018	-684,666	-1,448,063		
Annual Reduction in Resource (%)	-27.94%	-22.32%	-32.10%	100%		

New Homes Bonus

- 3.16 The 2018/19 New Homes Bonus (NHB) allocations and details of consultation on the future of the scheme have been announced. The number of years that the annual payments are based on has reduced from 5 years in 2017/18 to 4 years from 2018/19 onwards. The scheme only rewards growth in homes above 0.4% of the tax base per annum. A previous proposal to reduce NHB for homes where planning was approved by appeal will now not be implemented.
- 3.17 The changes for 2018/19 have allowed the Government to remove money from the national scheme to be diverted to the new Adult Social Care Support Grant.
- 3.18 In 2018/19 the Council will receive the NHB awarded for 2015/16 to 2017/18 plus an amount for 2018/19 which includes the reduction noted above for all growth up to the 0.4% threshold. 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 2021/22, and only for growth over 0.4%.
- 3.19 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 2019/20 to 2021/22 are indicative and subject to future consultation and changes to the scheme (plus the level of local growth).

Table 6 - New Homes Bonus

	2017/18 £	2018/19 £	Draft 2019/20 £	Draft 2020/21 £	Draft 2021/22 £	Draft 2022/23 £
New Homes Bonus	1,926,932	1,524,662	1,063,515	568,150	368,938	0
Returned New Homes Bonus	13,926	0	0	0	0	

Fees and Charges

- 3.20 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.
- 3.21 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.
- 3.22 In 2018/19 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
 - Green Waste – the charge has not changed, but the take up of the service is higher than previously forecast, hence the income level has grown
 - Planning income – increase of planning fees by 20% has been announced with any additional income being used to support planning and development activity. The impact of this increase is currently being worked through and is not currently reflected within the figures. The budget presented to members in February 2018 will be updated for any proposed changes.

Table 7 - Fees, Charges and Rental Income

Budget Area	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Building Control Fees	411	411	411	411	411	411
Planning Fees (including pre-planning advice)	1,301	1,301	1,301	1,301	1,301	1,301
Car Parking Income	3,066	3,096	3,096	3,096	3,096	3,096
Market Stall Fees	123	123	123	123	123	123

Kingfisher Caravan Park	1,995	2,029	2,029	2,029	2,029	2,029
Waste Services	1,177	1,322	1,322	1,322	1,322	1,322
Commercial property rental income	2,280	2,315	2,332	2,334	2,337	2,336
Sales, Fees and other Direct Income	1,144	1,404	1,406	1,408	1,408	1,411
TOTAL	11,497	12,001	12,020	12,024	12,027	12,029

Other Income

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

3.24 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 over the past 4 years 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.

Table 8 - Other Income

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Interest on Investments	273	482	584	661	704	781
Use of Reserves	6,720	2,452	2,477	1,678	1,802	1,320
Housing Benefit Subsidy/ Universal Credit	42,077	42,277	42,277	42,277	42,277	42,277
Housing Benefit/Universal Credit Overpayments	846	700	700	700	700	700

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Council Tax and Housing Benefit Administration Grant	799	696	696	696	696	696
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 is replaced by Wellbeing contract with LCC in 2018/19 onwards referenced above	869	3,229	3,158	3,205	3,252	3,300
Local Authority Grants including Disabled Facility Grants	1,606	1,570	1,570	1,570	1,570	1,570
Other Government Grants (including Register of Electors, Discretionary Housing Payments, Flexible Homelessness grant, Homelessness Reduction new burdens grant)	245	430	303	247	247	247
Other Grants and contributions	367	328	328	328	328	328
TOTAL	54,313	52,675	52,604	51,873	52,087	51,730

- 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 in the capital programme.

Summary

Table 9 – All sources of income

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Business Rates	8,965	7,396	8,308	7,157	7,351	7,552
Revenue Support Grant	2,213	1,600	915	-	-	-
Rural Services Delivery Grant	533	533	533	-	-	-
New Homes Bonus	1,941	1,525	1,064	568	369	-
Council Tax	5,721	6,032	6,239	6,535	6,836	7,144
Funding subtotal	19,373	17,086	17,059	14,260	14,556	14,696
Fees, Charges, Rents	11,497	12,001	12,020	12,024	12,027	12,029
Other Income	54,313	52,675	52,604	51,873	52,087	51,730
Fees, Charges & Other Income subtotal	65,810	64,676	64,624	63,897	64,114	63,759
Gross Budgeted Income	85,183	81,762	81,683	78,157	78,670	78,455

3.25 The main changes in income between 2017/18 and 2018/19 are summarised at **Appendix 4**. The ongoing delivery of the Council's Transformation Programme may introduce further changes in the year ahead and over the Medium Term.

4. 2018/19 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 2017/18 and 2018/19. The ongoing delivery of the Council's Transformation Programme may introduce further changes in the year ahead and over the Medium Term.

Table 10 – Spending Plans

Description	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Employees	-10,551	-12,079	-12,479	-12,735	-12,953	-13,175
Premises	-2,432	-2,450	-2,450	-2,450	-2,550	-2,450
Transport	-1,446	-1,268	-1,255	-1,254	-1,250	-1,245
Supplies & Services	-3,466	-3,558	-3,764	-3,563	-3,569	-3,570
Drainage Board Levies	-3,368	-3,435	-3,504	-3,574	-3,645	-3,717
Transfer Payments	-47,555	-44,980	-44,999	-44,969	-44,969	-44,969
Capital Charges	-3,870	-2,165	-2,139	-1,460	-1,604	-617
Third Party Payments	-7,168	-8,571	-8,063	-7,881	-7,804	-8,266
Interest on Borrowing	-2	-2	-2	-2	-2	-2
Contributions to Reserves	-5,325	-3,254	-3,028	-1,501	-1,297	-925
Gross Expenditure	-85,183	-81,762	-81,683	-79,389	-79,643	-78,936

- 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 20 additional FTE being budgeted in relation to the new Wellbeing contract from 1 April 2018 at a cost of approximately £580k, which will be funded from the contract. A further 6 FTE have been included within the plans regarding anticipated increase in homelessness reduction work. This stems from the introduction of the Homelessness Reduction Act in April 2018. Pay generally has been increased by salary increments due to staff, and by a proposed pay award of 2% per annum, with further increases for staff currently earning less than £17,800. Pension cost estimates have been prepared on the basis of current staff in the pension scheme in September 2017, and all vacant posts assumed to be within the pension scheme. There are additional costs as a result of the increased pension contributions. Also transformation

savings in relation to employee terms and conditions have now moved to the Transport section of the budget (relating to savings on mileage and car allowance lump sum payments).

- 4.4 Premises budgets have remained at a similar level in 2018/19. Reductions in electricity following the installation of LED footway lighting and office lighting are offset by premises lease and business rates costs.
- 4.5 Transport costs have reduced by £180k; the majority of this is due to transformation savings in relation to employee terms and conditions changes - removal of car allowance lump sum payments to staff, and reduction in the mileage rate paid, plus savings due to the use of pool cars. These savings were previously budgeted within employee costs. Additional mileage costs have been budgeted for the Wellbeing contract.
- 4.6 Supplies and Services budgets have shown some decreases (IT software licence costs and maintenance costs have reduced, savings in postage and other areas) but there is an overall increase in costs relating to professional fees within car parking – used for cash collection (and offset against salary savings within the car parking area), a new budget for annual payment to RNLI which has transferred from Magna Vitae to ELDC, and a budgeted increase in insurance premiums.
- 4.7 Drainage Board levies – a 2% increase has been estimated for 2018/19 and a 2% annual increase is built in thereafter. At a time of significant cuts and despite the Council having to find significant savings over the medium term, the Internal Drainage Boards have continued to levy more each year and this is becoming an increasingly significant cost pressure to the council. The IDB levy of £3.435m represents 58% of the total income raised from the ELDC Council Tax precept.
- 4.8 Transfer Payments – the reduction arises from a reduction in capital grants made to third parties (note this also results in reduced use of reserves).
- 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 increase by £1.4m. The increase relates to payments to partners in the Wellbeing contract – out of the total contract income referenced in table 7 above. There are also substantial reductions in the annual base contract payments to Magna Vitae for 2018/19 and 2019/20 (£561k and £412k respectively), with indicative further savings for 2020/21 onwards from the Magna Vitae 5 year business plan. Compass Point Business Services costs have increased in 2018/19 in line with their agreed 2018/19 business plan.
- 4.11 Contributions to Reserves comprise additions to the Capital, Economic Growth, Insurance and the Repairs and Replacement Reserves.

- Capital Reserve - New Homes Bonus and other base revenue contributions (total £1.5m in 2018/19 reducing to nil by 2022/23) to maintain adequate resources for future investment in capital spend
- Economic Growth Reserve - The anticipated growth in business rates in 2018/19 and beyond will benefit East Lindsey as part of the Business Rates Pooling arrangement with other Lincolnshire authorities. The value of this benefit has been added to the Economic Growth reserve in 2018/19 and 2019/20 in order to develop resources to meet the Council's future priorities in this area.
- 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.

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

	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Income (table 9)	65,810	64,676	64,624	63,897	64,114	63,759
Gross Expenditure (table 10)	-85,183	-81,762	-81,683	-79,389	-79,643	-78,936
-Surplus/New Savings to be found	-	-	-	1,232	973	481
Net Budget	-19,373	- 17,086	- 17,059	-14,260	- 14,556	- 14,696
Funded By						
Retained Business rates	8,083	8,111	8,308	7,157	7,351	7,552
Business Rates Collection Fund	882	-715	-	-	-	-
Revenue Support Grant	2,213	1,600	915	-	-	-
Specific Grants	533	533	533	-	-	-
New Homes Bonus	1,941	1,525	1,064	568	369	-
ELDC Council tax	5,647	5,950	6,239	6,535	6,836	7,144
Council Tax Collection Fund Surplus	74	82	0	0	0	0
Total Funding	19,373	17,086	17,059	14,260	14,556	14,696

- 5.3 Based on current assumptions the Council has a balanced budget for 2018/19. Ongoing savings are required over the Medium Term. The Council has an agreed Transformation Programme to help deliver the savings required to support future balanced budgets. Some elements of the Programme have already been delivered or are being implemented and are included in the estimates presented in this report. Other elements of the Programme are still to be fully developed and confirmed savings agreed. New projects are also being developed for inclusion in the programme. The required value of the annual savings after 2018/19 will change depending upon the progress towards the delivery of the Transformation Programme and also ultimately on the outcome of the revised arrangements for local government funding. The Council must continue to progress its Transformation Programme in order to deliver the financial security that it will need when changes to local government funding are fully introduced.
- 5.4 Section 7 and **Appendix 5** details the progress to date on the delivery of the Transformation Programme and the potential for future savings still to be delivered.
- 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 2018/19 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 31.3.18 £'000	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	Notes
Housing Reserve	0	0	0	0	0	0	
Repair and Replacement Reserve	3,448	4,090	3,380	3,130	2,773	3,236	Funding replacement waste vehicle fleet funded and other capital schemes
Insurance Reserve	540	580	620	660	700	740	
Capital Reserve	5,207	5,762	6,160	6,087	5,669	5,120	New Homes Bonus contributed to reserve until 2021/22. After this point, no NHB is budgeted
Service Transformation Reserve	838	691	728	747	784	821	
Business Rates Volatility Reserve	3,079	2,890	3,199	3,199	3,199	3,199	Built up to smooth fluctuations in business rates income across years
Legal and Appeals Reserve	455	449	443	334	328	323	
Technology Reserve	1,645	1,466	1,433	1,401	1,368	1,336	To fund IT investment including capital schemes

	Balance 31.3.18 £'000	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	Notes
Economic Growth	1,956	2,042	2,560	2,789	3,019	2,672	To fund implementation of Economic Action plan including capital schemes. Also holds Wellbeing project fund
Specific Reserve Total	17,168	17,970	18,523	18,347	17,840	17,447	
General Fund	1,869	1,869	1,869	1,869	1,869	1,869	Council's S151 officer deems a prudent level
Total	19,037	19,839	20,392	20,216	19,709	19,316	

7. SAVINGS PLAN

- 7.1. Over the term of the current parliament (to the end of 2019/20), the Council expects to lose all Revenue Support Grant and other government grant funding (note New Homes Bonus has been assumed continue with legacy payments to 2021/22). Despite the growth that has been seen in business rates income there is no guarantee that this will be reflected in the assessed needs-based baseline position of the Council estimated to be in 2020/21. The Council anticipates losing £4.7m in funding over the MTFS period which creates a budget gap in future years that needs to be filled.
- 7.2. In order to address the significant reductions in Government funding and the projected budget gap over the MTFS, the Council approved a four year Transformation Programme at the start of 2016/17 which was submitted to the Government to allow access to the four year funding settlement. There is a requirement to monitor and report on the delivery of this programme and update the Government accordingly.
- 7.3. The latest Transformation Programme is shown at **Appendix 5** and forms part of the budget decisions for 2018/19. The balanced budget for 2018/19 assumes that all the Transformation savings for 2018/19 are delivered and sustained over the MTFS period. Beyond 2018/19 some elements of the Transformation Programme have also been included in the medium term financial estimates in this report (e.g. council tax increases), although these elements will still need to be formally approved as part of future year budgets.
- 7.4. Table 13 outlines the budget gap forecast following our assumptions on resources and spending plans. Given the significant uncertainties around future proposals for local government funding the further we go into the future the more subject to change these predictions about savings requirements will become.

Table 13 – Savings targets – arising from the estimated annual changes in expenditure and sources of income.

£k – Annual Changes		2018/19	2019/20	2020/21	2021/22	2022/23	Cumulative
Budget from previous year	A	19,372	17,086	17,059	14,261	14,556	
Changes in Funding							
Reduced Government Funding		-1,029	-1,146	-1,943	-199	-369	-4,687
Change in Business Rates		-1,569	912	-1,150	194	200	-1,413
Increased Council tax		311	207	295	301	308	1,423
Net (loss)/gain in funding	B	-2,287	-27	-2,798	295	139	-4,677
Savings/(Pressures) in direct Income & expenditure	C	2,287	27	1,567	-37	352	4,196
New savings Required/(Surplus)	B+C	0	0	1,232	-259	-492	481
Net Budget For the Year	A+B	17,086	17,059	14,261	14,556	14,695	
Cumulative (Surplus) or Savings Required		0	0	1,232	973	481	

9. 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 14 - 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 required transformation programme	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. As noted at Section 7 reductions in Government funding are 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.

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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 15 – 5 year capital programme, funding and resource implications

CAPITAL PROGRAMME £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Capitalised Planned Enhancement Work	572	665	642	786	549	3,214
Replacement Car Park Machines				100		100
Wheelie Bin Replacement	50	50	50	75	75	300
Pumping Works Skegness Foreshore	168					168
Disabled Facilities Grants	1,562	1,562	1,562	1,562	1,562	7,810
Annual General Provision for Flood Grants	50	50	50	50	50	250
IT Investment	100	100	100	100	100	500
Replacement Fleet Vehicles	75	76				151
Refuse Vehicles		1,331	750	750		2,831
Skegness Embassy Theatre	184					184
Skegness Leisure Investment	566					566
TOTAL APPROVED	3,327	3,834	3,154	3,423	2,336	16,074
Skegness Town Hall refurbishment – subject to approval	1,653					1,653
Council Chamber Audio Visual replacement	160					160
TOTAL SUBJECT TO APPROVAL	1,813	0	0	0	0	1,813
GRAND TOTAL	5,140	3,834	3,154	3,423	2,336	17,887
FUNDED BY						
External Grants	2,843	1,562	1,562	1,562	1,562	9,091
Revenue	50	50	50	75	75	300
Other Reserves	1,085	1,507	850	850	100	4,392
Capital Reserve	1,112	665	642	786	549	3,754
Capital Receipts	50	50	50	150	50	350
TOTAL	5,140	3,834	3,154	3,423	2,336	17,887

IMPACT ON CAPITAL RESOURCES*						
Capital Resources* at Start of Year	7,468	8,074	8,523	8,499	8,032	7,468
Additions	1,766	1,164	668	469	100	4,167
Used	-1,161	-715	-692	-936	-599	-4,103
Capital Resources* at end of year	8,074	8,523	8,499	8,032	7,533	7,533

* Capital Resources include capital receipts and the Capital Reserve only

9.2 New items to note on the Capital Programme for 2018/19 onwards are as follows:

1. Magna Vitae projects – Leisure investment projects have been added to the capital programme following approval of the Magna Vitae 5 year business plan by Council in October 2017
2. Subject to approval: A comprehensive refurbishment of Skegness Town Hall will be considered by Executive Board and Council in February 2018. Subject to approval the project will be added to the capital programme.
3. Council Chamber Audio Visual replacement – a capital bid will come forward shortly.

9.3 The Capital Strategy, Asset Management Strategy, Economic Action Plan and Transformation Programme 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 16 – Potential future capital schemes

Scheme name	Comments
Investment in Leisure Centres	The facilities run by Magna Vitae will need continued investment and redevelopment
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 and will be brought forward in 2018/19

Scheme name	Comments
Gypsy and Traveller Sites	Investment in line with the Local Development Plan
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

- 9.4 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.
- 9.5 Funding for Disabled Facility Grants (DFGs) comes from the Better Care Fund via Lincolnshire County Council's Health and Wellbeing Board. The value for 2018/19 and future years is assumed at £1.562m which is the same as the main grant awarded for 2017/18.
- 9.6 There is currently a review of the Prudential System which guides and regulates our capital and investment strategies. Once the outcomes of this are clear the Executive are open to making use of external borrowing to support the Council's Capital Strategy. This is likely to bring layered benefits such as yield, growth in future capital resources, statutory service resilience and cheap rate finance to the Council over the medium to long term. This will require further due diligence and be overseen by the Audit and Governance Committee.
- 9.7 Specifically on Investments, the Council has continued to develop its use of Institutional Property Funds as Non Specified Investment. The Security, Liquidity and Yield on these remains prudent and it is likely that alongside the revisions anticipated from the review of the Prudential system that the Council will seek to make greater use of such investments.
- 9.8 The Treasury Management Strategy Statement 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 will be included at **Appendix 3** in the February budget report.

Table 17 – Treasury Assumptions

Treasury Assumptions	2018/19	2019/20	2020/21	2021/22	2022/23
Average Investment Balances	£34.3m	£35.3m	£34.0m	£34.3m	£34.9m
Investment assumptions – cash investments return	0.70%	1.05%	1.40%	1.55%	1.80%
Investment assumptions – property fund return	3.70%	3.70%	3.70%	3.70%	3.70%
Borrowing Requirements	Tbc	Tbc	Tbc	Tbc	Tbc

9.9 These assumptions include:

- The Council's Treasury Strategy currently includes no plans for future borrowing but this is something that the Council will review – see table 16 above regarding potential future capital schemes.
- The above interest rate assumptions are an effective rate incorporating cash investments and Property Fund investments
- 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.

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.