



# East Lindsey

DISTRICT COUNCIL

**EAST LINDSEY DISTRICT COUNCIL**

**COUNCIL 4th MARCH 2020**

**REPORT OF RICHARD FRY, EXECUTIVE MEMBER FOR FINANCE**

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**BUDGET SETTING REPORT AND ASSOCIATED FINANCIAL STRATEGIES - 2020/21-2024/25**

## **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.

2020/21 is the first year after the four year grant settlement confirmed by Government in November 2016, therefore we are anticipating to have a new spending review and funding settlement thereafter. With uncertainties around Brexit this has been delayed and a one year funding settlement has been announced. Therefore the difficult decisions around funding levels have been moved a year further on and so the Council has a further year to develop its plans to increase its income to move towards financial sustainability.

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 currently happen 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 this has also been delayed. This coupled with the fact that the Spending Review, which encompasses the Fair Funding Review, is due in 2020 and aims to establish a new distribution formula by creating new baselines, means that there is significant uncertainty for the Council's budget from 2021/22 onwards.

Over the past year work to develop new income streams and adopt different ways of working has continued. This has included the establishment of a trading company based around commercial activities which will begin by delivering sales and lettings at Kingfisher Caravan Park and also the agreement by Council that East Lindsey's headquarters will be relocated, with other public sector services, to Horncastle.

In 2021/22 prudent estimates show that due to the ending of Revenue Support Grant and Rural Services Delivery Grant and a drop in Business Rates income retained, there could be a budget deficit which rises up to £1,507k in 2022/23. As a function of projects envisaged in our organisational development plans we will continue to review the potential for delivering greater levels of revenue, particularly from the Council's asset base.

Council has developed a capital resource base commensurate with our delivery ambitions and we fully expect to deploy these resources on projects such as a new leisure centre in Mablethorpe, a new and innovative regeneration of the Colonnade in Sutton

on Sea and development of holiday lodges in Skegness. These and other investment activities will mean that our capital reserves will be significantly reduced in the coming three years to a level where they can only cover core service needs. However this ambitious programme will meet our commitment to support growth.

The Council's revenue budget already provides for some annual contributions towards capital investment and we are working hard to increase these by operating in a more commercial and business-like way to increase our ability to generate significant future capital receipts. In the past year we have focussed on creating sufficient budgetary headroom to fund further 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 and I will keep you informed.

The Budget for 2020/21 proposes:

- A Council Tax increase of £4.95p per year (for Band D homes this is equivalent to 9.5p per week).
- The generation of additional income from commercial activities guided by our organisational development plans
- 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

	2019/20	2020/21 (estimate)
ELDC Precept	£6.278m	£6.601m
Council Tax Increase	3.62%	3.49%
Council Tax Band D	£141.84	£146.79
Revenue Support Grant	£0.915m	£0.930m
Retained Business Rates used to support budget	£10.099m	£10.028m
Reserves (as at 1 April)	£18.611m	£17.777m
Capital Programme (as at 1 April)	£9.748m	£9.515m

### 1. INTRODUCTION

- 1.1 This report outlines the 2020/21 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 2024/25, a five year Capital Programme and details various associated financial policies. The purpose of the report is to ask Council to approve the 2020/21 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	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Budgeted inflation <sup>1</sup>	0%	<b>0%</b>	0%	0%	0%	0%
Pay costs increase <sup>2</sup>	3%	<b>2%</b>	2%	2%	2%	2%
Full Time Equivalent Employees <sup>3</sup>	389.47	<b>398.55</b>	398.55	398.55	398.55	398.55
Staffing levels <sup>3</sup>	99%	<b>99%</b>	99%	99%	99%	99%
Pension contribution rate applied to staff budgeted in pension scheme <sup>4</sup>	16.6%	<b>17.5%</b>	17.5%	17.5%	17.5%	17.5%
Pension contribution cash amount to fund deficit on scheme <sup>4</sup>	£789,000	<b>£872,000</b>	£968,000	£1,067,000	£1,067,000	£1,067,000
Return on cash investments <sup>5</sup>	1.15%	<b>1.00%</b>	1.30%	1.50%	1.70%	1.95%
Return on property fund investments <sup>5</sup>	4.0%	<b>3.76%</b>	3.76%	3.76%	3.76%	3.76%
Utility cost rises - electricity <sup>6</sup>	0%	<b>0%</b>	0%	0%	0%	0%
Fuel cost rises <sup>7</sup>	5%	<b>0%</b>	0%	0%	0%	0%
Tax base increase <sup>8</sup>	1.83%	<b>1.6%</b>	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 agreed pay award ends on 31<sup>st</sup> March 2020 therefore a 2% increase has been assumed for 2020/21 onwards.
3. Staff employee numbers are estimated to increase by 9.08 FTE between the 2019/20 and 2020/21 budgets. The main increases being for a specialist procurement officer, management of the housing register and grant funded posts. An annual saving in staff costs (£100k) 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 rise to 17.5% in 2020/21 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 17.5% throughout the life of the MTFs. The lump sum towards the deficit is confirmed for 2020/21 and for three years.

5. These are the estimated returns on cash investments and the estimated yield on the current budgeted £28m property funds.
6. Electricity costs 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 stay the same due to a new fleet of vehicles being more efficient than the current fleet.
8. The tax base projections for 2020/21 has provided for a growth of 707 band D equivalent properties (1.60%). Future growth has been projected at 1.5% (see section 3.12 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 7** for details of the required link to these various factsheets and other key documents relating to Local Government funding and consultations.

#### **Business Rates Retention**

- 3.3 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 2019, the Government announced its intention that business rates will become 75% retained by councils by 2020, with proposals for a new funding system for Local Authorities that was 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. Due to the focus on Brexit the government has decided this will now be delayed for a year therefore there remains much uncertainty in funding beyond 2020/21.
- 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 has been put aside based on intelligence from the Council's advisors to hopefully cover any effects from this but there still remains a large amount of uncertainty in this area.

- 3.6 Table 2 provides details of the anticipated business rates figures for 2020/21 and provisional figures for 2021/22 through to 2024/25.
- 3.7 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.
- 3.8 It is important that members note that the changes to the retention of Business Rates from 2021/22 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 2021/22 onwards equal to the amount of RSG which the Council will no longer receive.

Table 2 – Business Rates

	2019/20 £'000	<b>Estimate 2020/21 £'000</b>	Draft 2021/22 £'000	Draft 2022/23 £'000	Draft 2023/24 £'000	Draft 2024/25 £'000
Retained Business Rates	(14,881)	<b>(15,467)</b>	(16,352)	(16,684)	(17,018)	(17,369)
S 31 Grants relating to Business Rates	(2,757)	<b>(2,981)</b>	(1,490)	(745)	(373)	(186)
Tariff	7,293	<b>7,412</b>	8,454	8,620	8,786	8,962
<b>Pre- levy income</b>	<b>(10,345)</b>	<b>(11,036)</b>	<b>(9,388)</b>	<b>(8,809)</b>	<b>(8,605)</b>	<b>(8,593)</b>
Levy payment to Lincolnshire Pool	581	<b>674</b>	215	107	54	27
Estimated (Surplus)/Deficit) on Collection Fund	(1,206)	<b>(677)</b>	-	-	-	-
<b>Net Retained Business Rates Income</b>	<b>(10,970)</b>	<b>(11,039)</b>	<b>(9,174)</b>	<b>(8,702)</b>	<b>(8,551)</b>	<b>(8,566)</b>
Net gain to ELDC from the Pool, and 100% business rates retention pilot in 18/19 contributed to the Economic Growth Reserve	871	<b>1,011</b>	322	161	80	40
<b>Business rates used to support the budget</b>	<b>(10,099)</b>	<b>(10,028)</b>	<b>(8,851)</b>	<b>(8,541)</b>	<b>(8,471)</b>	<b>(8,526)</b>

- 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 as mentioned at paragraph 3.5
- 3.10 In 2019/20 collection of business rates has been slightly above the amount estimated and coupled with the benefit from the pilot scheme in 2018/19 has meant there is a surplus on the Collection Fund which can be used in 2020/21. The Council has set up a Business Rates Volatility Reserve specifically to smooth out the ups and downs on business rates.

## Council Tax

3.11 The MTFs assumes a Council Tax increase in line with the maximum allowed under the Local Government Settlement. In the case of ELDC for 2020/21 this is a £4.95 (3.49%) per annum increase (for band D properties). 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

		2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
a	Council Tax Base (band D equivalents)	44,264.00	<b>44,971.00</b>	45,645.00	46,330.00	47,025.00	47,730.00
b	Council Tax band D (£.p)	141.84	<b>146.79</b>	151.74	156.69	161.64	166.59
	Annual Increase £	4.95	<b>4.95</b>	4.95	4.95	4.95	4.95
	Annual Increase %	3.62%	<b>3.49%</b>	3.37%	3.26%	3.16%	3.06%
c	Annual Council Tax collected(a x b) £	<b>(6,278,406)</b>	<b>(6,601,293)</b>	<b>(6,926,172)</b>	<b>(7,259,448)</b>	<b>(7,601,121)</b>	<b>(7,951,341)</b>
	Annual Increase in Council Tax collected £	(328,071)	<b>(322,887)</b>	(324,879)	(333,275)	(341,673)	(350,220)
d	Surplus on the Collection Fund £	(90,700)	<b>(96,782)</b>	0	0	0	0
	<b>Gross Council tax (c + d) £</b>	<b>(6,369,106)</b>	<b>(6,698,075)</b>	<b>(6,926,172)</b>	<b>(7,259,448)</b>	<b>(7,601,121)</b>	<b>(7,951,341)</b>

3.12 The tax base for 2020/21 has been increased by 1.6% 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.

3.13 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 2019/20 £	Increase over 2019/20 %
Lincolnshire County Council	£1,337.58	£45.18	3.50%
Police and Crime Commissioner	£251.37	£9.99	4.14%
East Lindsey DC	£146.79	£4.95	3.49%
Parishes (average)	£64.83	£4.92	8.21%

### 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) has been significantly reduced. It is anticipated that RSG will be phased out by 2021/22 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 2020/21 is proposed 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 2021/22.

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

	2019/20 £	2020/21 £	Draft 2021/22 £	Draft 2022/23 £	Draft 2023/24 £	Draft 2024/25 £
Revenue Support Grant	(914,944)	<b>(929,852)</b>				
Rural Services Delivery Grant	(664,349)	<b>(664,349)</b>				
Business Rates Levy Grant	(92,854)	-				
<b>Total Received</b>	<b>(1,672,147)</b>	<b>(1,594,201)</b>				
Annual Change in Resource £	(1,672,147)	77,946	1,594,201	-	-	-
Annual Change in Resource	100%	(5%)	(100%)			

(%)						
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## New Homes Bonus

- 3.15 The 2020/21 New Homes Bonus (NHB) allocations have been announced as part of the Local Government Finance Settlement. As previously announced, the 2020/21 “in year” allocations will not have future years legacy payments.
- 3.16 In 2020/21 the Council will receive the NHB awarded for the previous year plus legacy payments for 2017/18, 2018/19 and 2019/20. It is assumed within the medium term financial strategy that no new NHB will be awarded and only legacy payments will now be received with the last year being 2022/23.
- 3.17 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 2024/25 are indicative and subject to future consultation and changes to the scheme (plus the level of local growth).

Table 6 - New Homes Bonus

	2019/20 £	<b>2020/21</b> £	Draft 2021/22 £	Draft 2022/23 £	Draft 2023/24 £	Draft 2024/25 £
New Homes Bonus	(1,285,505)	<b>(1,185,531)</b>	(590,926)	(406,459)	-	-

### Fees and Charges

- 3.18 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.
- 3.19 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.



Table 7 - Fees, Charges and Rental Income

Budget Area	2019/20 £'000	<b>2020/21 £'000</b>	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Building Control Fees	(445)	<b>(445)</b>	(445)	(445)	(445)	(445)
Planning Fees (including pre-planning advice)	(1,508)	<b>(1,508)</b>	(1,508)	(1,508)	(1,508)	(1,508)
Car Parking Income	(3,073)	<b>(3,180)</b>	(3,180)	(3,180)	(3,180)	(3,180)
Market Stall Fees	(100)	<b>(100)</b>	(100)	(100)	(100)	(100)
Kingfisher Caravan Park	(2,079)	<b>(2,422)</b>	(2,663)	(2,674)	(2,684)	(2,684)
Waste Services	(1,322)	<b>(1,322)</b>	(1,322)	(1,322)	(1,322)	(1,322)
Commercial property rental income	(2,349)	<b>(2,333)</b>	(2,339)	(2,346)	(2,351)	(2,357)
Sales, Fees and other Direct Income (see note below)	(4,478)	<b>(4,220)</b>	(4,220)	(4,220)	(4,220)	(4,220)
<b>TOTAL</b>	<b>(15,354)</b>	<b>(15,530)</b>	<b>(15,777)</b>	<b>(15,795)</b>	<b>(15,810)</b>	<b>(15,816)</b>

## Other Income

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

Table 8 - Other Income

	2019/20 £'000	<b>2020/21 £'000</b>	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Interest on Investments	(1,341)	<b>(1,306)</b>	(1,361)	(1,401)	(1,451)	(1,511)
Use of Reserves	(8,463)	<b>(5,810)</b>	(6,335)	(615)	(752)	(657)
Housing Benefit Subsidy/ Universal Credit	(38,329)	<b>(31,780)</b>	(31,780)	(31,780)	(31,780)	(31,780)
Housing Benefit/Universal Credit Overpayments	(300)	<b>(300)</b>	(300)	(300)	(300)	(300)
Council Tax and Housing Benefit Administration Grant	(640)	<b>(636)</b>	(630)	(624)	(617)	(611)
Government Grant towards Police and Crime Panel	(64)	<b>(64)</b>	(64)	(64)	(64)	(64)
Court Income & Council Tax Penalties	(447)	<b>(447)</b>	(447)	(447)	(447)	(447)
Local Authority Grants including Disabled Facility Grants	(1,562)	<b>(1,562)</b>	(1,562)	(1,562)	(1,562)	(1,562)
Other Government Grants (including Register of Electors, Discretionary Housing Payments, Flexible Homelessness grant, Homelessness Reduction new burdens grant)	(528)	<b>(1,360)</b>	(1,313)	(554)	(556)	(558)
Other Grants and contributions	(324)	<b>(287)</b>	(283)	(283)	(283)	(283)
<b>TOTAL</b>	<b>(51,998)</b>	<b>(43,552)</b>	<b>(44,075)</b>	<b>(37,630)</b>	<b>(37,812)</b>	<b>(37,773)</b>

- 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.

## Summary

Table 9 – All sources of income

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Business Rates	(10,970)	<b>(11,039)</b>	(9,173)	(8,702)	(8,551)	(8,566)
Revenue Support Grant	(915)	<b>(930)</b>	-	-	-	-
Business Rates Levy Grant	(93)	-	-	-	-	-
Rural Services Delivery Grant	(664)	<b>(664)</b>	-	-	-	-
New Homes Bonus	(1,286)	<b>(1,186)</b>	(591)	(406)	-	-
Council Tax	(6,369)	<b>(6,698)</b>	(6,926)	(7,259)	(7,601)	(7,951)
<b>Funding subtotal</b>	<b>(20,297)</b>	<b>(20,517)</b>	<b>(16,690)</b>	<b>(16,367)</b>	<b>(16,152)</b>	<b>(16,517)</b>
Fees, Charges, Rents	(15,354)	<b>(15,530)</b>	(15,777)	(15,795)	(15,810)	(15,816)
Other Income	(51,998)	<b>(43,552)</b>	(44,075)	(37,630)	(37,812)	(37,773)
<b>Fees, Charges &amp; Other Income subtotal</b>	<b>(67,352)</b>	<b>(59,082)</b>	<b>(59,852)</b>	<b>(53,425)</b>	<b>(53,622)</b>	<b>(53,589)</b>
<b>Gross Budgeted Income</b>	<b>(87,649)</b>	<b>(79,599)</b>	<b>(76,542)</b>	<b>(69,792)</b>	<b>(69,774)</b>	<b>(70,106)</b>

- 3.20 The main changes in income between 2019/20 and 2020/21 are summarised at **Appendix 4**. The ongoing delivery of the Council's Organisational development plans may introduce further changes in the year ahead and over the Medium Term.
- 3.21 There is more uncertainty than ever with regard to the reliability of estimates from 2021/22 onwards.

#### 4. 2020/21 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 2019/20 and 2020/21. The ongoing delivery of the Council's organisational development plans may introduce further changes in the year ahead and over the Medium Term.

Table 10 – Spending Plans

Description	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Employees	12,837	<b>13,758</b>	14,229	14,679	15,017	15,319
Premises	2,485	<b>2,544</b>	2,447	2,451	2,457	2,461
Transport	1,391	<b>1,486</b>	1,487	1,487	1,488	1,488
Supplies & Services	3,737	<b>3,593</b>	3,578	3,577	3,576	3,574
Drainage Board Levies	3,559	<b>3,683</b>	3,756	3,833	3,909	3,987
Transfer Payments	41,031	<b>34,321</b>	34,220	34,220	34,220	34,221
Capital Charges	8,157	<b>6,453</b>	4,705	549	675	550
Third Party Payments	9,343	<b>9,031</b>	8,825	8,627	8,546	8,465
Interest on Borrowing	502	<b>495</b>	495	495	495	495
Contributions to Reserves	4,607	<b>4,235</b>	4,100	1,381	680	487
<b>Gross Expenditure</b>	<b>87,649</b>	<b>79,599</b>	<b>77,842</b>	<b>71,299</b>	<b>71,063</b>	<b>71,047</b>

4.3 Employee costs have been prepared in accordance with the Council's Pay Policy as detailed at **Appendix 5**. Pay generally has been increased by salary increments due to staff, and by an estimated national pay award of 2% per annum. Pension cost estimates have been prepared on the basis of current staff in the pension scheme in September 2019, and all vacant posts assumed to be within the pension scheme. There has been some staffing changes which have removed vacant posts and targeted priority areas such as climate change, housing development and the Council's commercial activities.

- 4.4 Premises budgets have remained at a similar level in 2019/20. The main increase being a one off increase in repairs and maintenance expenditure in 2020/21.
- 4.5 Transport costs have increased because of the increase cost of vehicle maintenance.
- 4.6 Supplies and Services budgets have shown some small reductions
- 4.7 Drainage Board levies – An increase of 3.85% has been levied. 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 levies of £3.683m in 2020/21 which represents 56% 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 as they funded from reserves.
- 4.10 Third party payments - These budgets reflect payments to Magna Vitae, Public Sector Partnership Services, 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 reductions between 2019/20 and 2020/21 mainly reflects the following changes:
- Magna Vitae – an overall £(200)k reduction - this reflects base contract reductions
  - PSPS base contract reduction of £(97)k. This reflects the savings as part of the PSPS transformation plan which aims to deliver a total saving of £(421)k each year by the end of the MTFS period.
- 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 £1.185m in 2020/21 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 2020/21 is £1.569m which is the benefit to the Council of Business Rate Pooling arrangements with other Lincolnshire authorities and payback into reserves from savings delivered by Magna Vitae after Capital investment by the Council.
- Insurance Reserve – an annual contribution of £100k to this reserve.
- Repairs and Replacements Reserve – Throughout the MTFS the council is making regular contributions to the Repairs and Replacement reserve in order to provide capacity to fund regular vehicle fleet replacements.
- Service Transformation Reserve – Payback into the reserves from savings delivered by Magna Vitae after Capital investment by the Council.
- Technology Reserve – Yearly contribution to reserves to fund IT investment, plus an additional amount in 2020/21 for upgrades to the Council's systems.

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:

- Asset transfers – The Council has and is considering transfers to Town Councils.
- 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 Public Sector Partnership 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.
- Creation of a Market Towns investment fund
- A focus on targeted deprivation intervention projects
- Participation in a government pilot project centered around the private rented housing sector. The project will look at addressing, through enforcement, private rented properties with energy performance certificates of F and G across the District.

## 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

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Income (table 9)	(67,352)	<b>(59,082)</b>	(59,852)	(53,425)	(53,622)	(53,589)
Gross Expenditure (table 10)	87,649	<b>79,599</b>	77,842	71,299	71,063	71,047
-Surplus/(New Savings to be found)	-	-	(1,300)	(1,507)	(1,289)	(941)
<b>Net Budget</b>	<b>20,297</b>	<b>20,517</b>	<b>16,690</b>	<b>16,367</b>	<b>16,152</b>	<b>16,517</b>
<u>Funded By</u>						
Retained Business rates	(9,764)	<b>(10,362)</b>	(9,173)	(8,702)	(8,551)	(8,566)
Business Rates Collection Fund (Surplus)	(1,206)	<b>(677)</b>	-	-	-	-
Revenue Support Grant	(915)	<b>(930)</b>	-	-	-	-
Specific Grants	(757)	<b>(664)</b>	-	-	-	-
New Homes Bonus	(1,286)	<b>(1,186)</b>	(591)	(406)	-	-
ELDC Council tax	(6,278)	<b>(6,601)</b>	(6,926)	(7,259)	(7,601)	(7,951)



Council Tax Collection Fund Surplus	(91)	(97)	-	-	-	-
<b>Total Funding</b>	<b>(20,297)</b>	<b>(20,517)</b>	<b>(16,690)</b>	<b>(16,367)</b>	<b>(16,152)</b>	<b>(16,517)</b>

- 5.3 Based on current assumptions the Council has a balanced budget for 2020/21. With uncertainty around Business Rates after 2020/21 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 2020/21 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 31.3.20 £'000	Balance 31.3.21 £'000	Balance 31.3.22 £'000	Balance 31.3.23 £'000	Balance 31.3.24 £'000	Balance 31.3.25 £'000	Notes
Housing Reserve	226	226	226	226	226	226	
Repair and Replacement Reserve	1,913	867	1,318	1,766	2,056	2,306	Funding replacement waste vehicle fleet.
Carbon Reduction Reserve	106	106	106	106	106	106	
Insurance Reserve	649	689	729	769	809	849	

	<b>Balance 31.3.20 £'000</b>	<b>Balance 31.3.21 £'000</b>	<b>Balance 31.3.22 £'000</b>	<b>Balance 31.3.23 £'000</b>	<b>Balance 31.3.24 £'000</b>	<b>Balance 31.3.25 £'000</b>	<b>Notes</b>
Capital Reserve	<b>2,621</b>	3,614	1,151	1,108	533	83	New Homes Bonus contributed to reserve until 2022/23. After this point, no NHB is budgeted.
Service Transformation Reserve	<b>713</b>	750	787	824	824	824	
Business Rates Volatility Reserve	<b>5,416</b>	5,416	5,416	5,416	5,416	5,416	Built up and used to smooth fluctuations in business rates income across future years.
Legal and Appeals Reserve	<b>445</b>	336	330	324	323	323	
Technology Reserve	<b>762</b>	1,067	1,035	1,003	971	939	To fund IT investment including capital schemes.
Economic Growth	<b>2,057</b>	261	0	321	528	550	Includes £1.8m gain arising from business rates pooling benefit. To fund implementation of Economic Action plan including capital schemes. Also holds Wellbeing project fund.
<b>Specific Reserve Total</b>	<b>14,908</b>	<b>13,332</b>	<b>11,098</b>	<b>11,863</b>	<b>11,792</b>	<b>11,622</b>	
General Fund	<b>2,869</b>	2,869	2,869	2,869	2,869	2,869	Council's S151 officer deems a prudent level
<b>Total</b>	<b>17,777</b>	<b>16,201</b>	<b>13,967</b>	<b>14,732</b>	<b>14,661</b>	<b>14,491</b>	

## 7. ORGANISATIONAL DEVELOPMENT PLANS

- 7.1. Over the term of the recent parliament the Council has lost the majority of its Revenue Support Grant. As we think of 2021/22 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 2020, Fairer Funding Review, Business Rates baseline reset and a review of the Business Rates retention scheme. It should therefore be noted the Councils assumptions on future budget gaps whilst prudent are most likely to be understated.
- 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. As we look forward into 2020/21 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 2020/21 include;
- Residential house building
  - Development of a Public Sector Hub providing a new office for the Council and a range of partners
  - 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
  - Addressing Deprivation in the district
  - Tackling Climate Change

## 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

<b>Risk</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Action</b>
Fluctuation in business rates	High	High	Growth plans and accurate monitoring
Uncertainty regarding Brexit impact	High	High	Growth plans and accurate monitoring, new OD 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 New Homes Bonus	High	High	Lobbying and service transformation
Failure to deliver the required organisational development plans	Medium	High	Effective programme and project management
Reduction in Investment Values	Medium	Medium	Regular Monitoring, allocation of specific Reserve
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 2021/22, the Comprehensive Spending Review 2020, 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 13 above, the Council will feed in to in the consultation and highlight local funding issues including the level of drainage board special levies currently funded by the Council. 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 from 2021/22 onwards the estimates of funding could well be significantly different than anticipated.

- 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.

## 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

<b>CAPITAL PROGRAMME £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>	<b>2022/23 £'000</b>	<b>2023/24 £'000</b>	<b>2024/25 £'000</b>	<b>Total £'000</b>
Capitalised Planned Enhancements	210	329	199	200	200	<b>1,138</b>
Car Park Resurfacing	332	357	250	250	250	<b>1,439</b>
Disabled Facilities Grants	1,562	1,562	1,562	1,562	1,562	<b>7,810</b>
Refuse Vehicles	1,500	0	0	0	0	<b>1,500</b>
IT Investment	100	100	100	100	100	<b>500</b>
PSPS Investment	134	42	0	125	0	<b>301</b>
Public Sector Hub	4,177	3,877	0	0	0	<b>8,054</b>
Car Park Machine Replacement	0	100	0	0	0	<b>100</b>
Sutton on Sea Collonade	1,500	0	0	0	0	<b>1,500</b>
<b>TOTAL APPROVED</b>	<b>9,515</b>	<b>6,367</b>	<b>2,111</b>	<b>2,237</b>	<b>2,112</b>	<b>22,342</b>
<b>FUNDED BY</b>						
External Grants	2,374	2,324	1,562	1,562	1,562	<b>9,384</b>
Other Reserves	4,965	3,215	100	100	100	<b>8,480</b>
Capital Receipts	1,500	100	0	0	0	<b>1,600</b>
Capital Reserve	676	728	449	575	450	<b>2,878</b>
<b>TOTAL</b>	<b>9,515</b>	<b>6,367</b>	<b>2,111</b>	<b>2,237</b>	<b>2,112</b>	<b>22,342</b>
<b>IMPACT ON CAPITAL RESOURCES*</b>						
Capital Resources* at Start of Year	5,729	4,839	2,376	2,433	1,958	
Additions	1,286	691	506	100	100	
Used	(2,176)	(828)	(449)	(575)	(450)	
Transferred to Economic Growth Reserve	0	(2,326)	0	0	0	
<b>Capital Resources* at end of year</b>	<b>4,839</b>	<b>2,376</b>	<b>2,433</b>	<b>1,958</b>	<b>1,608</b>	

\* 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 15 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

<b>Scheme name</b>	<b>Comments</b>
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	

- 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 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 are included at **Appendix 3**.

Table 16 – Treasury Assumptions

<b>Treasury Assumptions</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Average Investment Balances	£53.5m	£51.7m	£51.1m	£51.5m	£51.5m
Investment assumptions – cash investments return	1.00%	1.30%	1.50%	1.70%	1.95%
Investment assumptions – property fund return (revenue return only)	3.76%	3.76%	3.76%	3.76%	3.76%
External Borrowing	£20.0m	£20.0m	£20.0m	£20.0m	£20.0m
Average Borrowing Rate	2.465%	2.465%	2.465%	2.465%	2.465%

- 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.

## 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